# Practical Politics No.91

**We reproduce here a past issue of our journal.**

**Issue No.91, November 1999**

## UNFLAGGING INTEREST

"Interest rates may go up a quarter of a percent.!" "No, they will stay the same." "They could come down a quarter of a percent." The clamour is repeated monthly. The Bank of England is supposedly setting interest rates to control wickedly rising house prices in a few hot spots in the south-east of England. If mortgages are made dearer, buyers will be put off. Unfortunately, businesses wishing to borrow for productive purposes have to pay those same high interest rates too - and, understandably, they do not like it.

Interest rates are a crude mechanism for the purpose, but it is the only means the Bank of England has. Government has the rest. Houses are manufactured objects. They dilapidate and decay unless they are kept in constant repair. Eventually they become uneconomic to maintain, and are pulled down and replaced. Except when debasement of the currency is practised, causing general inflation, house prices do not rise.

The real appreciation, of course, is not in the house itself, but in the plot of land it stands on. Banks and building societies in the south-east do not so much make loans against the worth of the house, as against its location value. Collection of the site rental value of land (or land value taxation, as it has been called historically) has many advantages over other forms of raising public revenue. If Government were to introduce that, with intent to its full and proper implementation, land speculation would be killed stone dead. Mr. Eddie George and his circle could then be left to set Bank of England lending rates on purely monetary criteria, and we could all heave a sigh of relief.

## THE TAXMAN'S WORLD IS FALLING APART

(i) "The Institute of Directors is quite right to warn that the government could lose £1Obn a year in VAT revenues as a result of the expected swing towards trading on the Internet. . . The government needs to have a strategy to deal with an almost inevitable loss of revenue as electronic trading takes off. . . It is not just VAT that is at risk because it will also be difficult to tax the incomes of people who are (say) working in the UK on a software product and sending the finished product electronically to the US or Australia. Who even knows they exist?" ("*Guardian*", 2nd. September). Apparently there is a technologically possible way of taxing transmitted data, but "it would only work if every country signed up" and is in practice therefore a non-starter. The easier solution "is to shift the burden of taxation towards taxes that cannot be shrugged off (like land value taxation)."

(ii) "Yesterday, Ladbroke, Britain's biggest bookmaker, made its break for the border, following the trail blazed to Gibraltar by bookie Victor Chandler" (City Comment, "Daily Telegraph", 27th. August). There is at present a 9% deduction in this country from the amount staked, of which 6.75% is tax. Last year's tax take was £479m. If the EU calls this harmful tax competition and tries to press Gibraltar to bring in its own tax, it "would merely send the business somewhere else, beyond the power of EU blackmail."

(iii) "So much economic activity is becoming harder to pin down to one location. And when the world is growing increasingly borderless, maintaining borders for tax purposes becomes harder or even impossible" (David Smith, "*Sunday Times*", 22nd. August). "Even a decade ago, betting would have been regarded as immobile. . . Now, thanks to telephone betting, it is a mobile activity. Retailing is also becoming increasingly mobile . . . from the rise in e-commerce. . . Taxing a transaction, or even knowing it has occurred, becomes almost impossible when it is done electronically, and when it does not even involve the physical transport of a product - such as buying securities or insurance abroad."

(iv) The City of London is worried about grave tax disadvantages, one threatened and the other here already. The threat comes from the EU proposal to impose a withholding tax, demanded by Germany to plug leaks in its tax system through neighbouring Luxembourg. Making tax deductions on interest payments on bonds, whether at 20% or the suggested 10% compromise rate, would drive business out of London (and out of the EU). The City already endures a stamp duty in the U.K. of 0.5% on share trading, one of the highest in the world. In the U.S. the rate is only 0.003%. Japan has no stamp duty, and Germany recently axed its duty in order to attract trading from London. The tax "raises £2 billion for the Treasury", but "the arrival of the internet means it is easy for investors to trade shares round the world at the touch of a button" (George Trefgame, "*Daily Telegraph*", 15th. October). Angela Knight, chief executive or the Association of Private Client Stockbrokers, is quoted, "The combination of tax and technology is a potent one. . . Next to go [after the gambling business] could be share trading."

---

## TAX HAVENS

Suddenly, tax havens are under attack. Separate "initiatives" have come from H.M. Treasury ,the EU, the O.E.C.D., and the Financial Stability Forum (a grouping of finance ministries, central banks, and regulators). Unsurprisingiy, Jersey, Guernsey, and Gibraltar are up in arms, not least because, as U.K. dependent territories, they expected the government to defend their interests. "Taxation experts said the UK rule change had to be viewed in the context of international attempts to root out alleged unfair or distorting taxation" (Michael Peel, "*Financial Times*", 9th. October).

These "international aftempts" all stem from high-tax regimes which presumably do not consider their taxes on production, trade, and wages to be "unfair or distorting". The Channel Islands do not belong to the third world, do they? It is not the fault of such low-tax territories that they manage their affairs better than the high-tax huffers and puffers. A little tax competition is no bad thing.

What government and its advisers should really be lamenting is that so much expertise is devoted to avoiding bad taxes instead of going to a truly productive use. The correct response to the "threat" from the Channel is to shift taxes off production, saving, and spending, and collect instead the rental value of land. Once properly set up and "bedded in", this will prove sufficient for all basic needs, especially as many social problems which now call for attention from the welfare state will rapidly abate. As the "*Guardian*" has recommended in a not significantly different context (see page above (i) ), the solution is to adopt LVT.

---

## A ROOF, FOUR WALLS - AND SOME LAND

"Land can account for between 20% and 50% of the price of a new house - the proportion mainly reflects the location and any abnormal development costs" (first sentence of article "mainIy for students", "*Estates Gazette*", 24th. July). The treatment for LVT purposes of improvements made in or to land by use of labour and capital (levelling, infilling, cleaning after contamination, for example) where these eventually merge indistinguishably into the land and require no further maintenance, has been covered a number oftimes in previous Issues, No. 38 being acase in point. That opening sentence may confidently be re-read without the last five words. Here are some illustrations of the significance of land in relation to the provision of housing.

(i) "There are twice as many empty homes in the UK as [there are] houses in Birmingham" (building society chief executive, quoted by Clare Gascoigne, "*Financial Times*", 16th. October). Many of these will doubtless be rundown or even derelict, but something is wrong if there is no incentive to redevelop and no penalty attached to mis-use of land on this scale. LVT is both stick and carrot. It is a payment based on the annual site value of the land, regardless of whether or how well it is used. Withholding land from use or seriously under-using it, does not save the landholder from having to meet the full LVT bill, so in effect he is obliged to make good use of the site. LVT, though, is a replacement for existing taxes, so that the returns to labour and capital are progressively untaxed and the rewards of redevelopment correspondingly greater. Of course if there really is no demand for housing of any sort, and no alternative use for the site, then the duty payable will be nil, for this will be marginal or sub-marginal land.

(ii) The giant Bluewater shopping centre at the southern end of the Thames crossing is Kent's answer to Essex's Lakeside. Next to Bluewater is an old chalk pit, now marked for housing development. "It might be a windblown bank of the Thames in northeast Kent, but look at the ease of access to the M2, M25, rail links into London and closeness to the Kent coast and Eurotunnel. It's only a matter of time (estate agent, quoted by Jeremy Gates, "*The Express*", 7th. May).

(iii) "Anglia Polytechnic has put its Brentwood campus on the market for more than £5 million. The 7.6 acre site on Sawyers Hall Lane has gained planning permission for residential development" ("*Estates Gazette*", 24th. July).

(iv) On Argyll and Bute, "Small cottages can easily be worth £100,000, but like everything else it comes down to location" (estate agent, quoted by Nick BevenaT "*The Scotsman*", 17th. June). Skye "might be considered a little too remote for those not wanting to lose touch with their friends in the central belt and so prices are very much more reasonable" whilst over on the Isle of Lewis a "typical idyllic cottage, with the kinds of spectacular views demanding huge prices on Mull, can be snapped up for a fraction of what you might pay elsewhere" (Bevens, op cit.).

(v) "Housebuilders planning to capitalise on the move towards city-centre living are to transform a rundown canal-side area in Birmingham", known as the Brindley Loop ("*Estates Gazette*", 24th. July). Crosby Homes, one of three builders involved, "is believed to have paid over £2m per acre to secure a former factory and public house" for a scheme of "residential units. . . and associated licensed and leisure uses." All three sites "benefited from having frontages on the canal", but of course - as the report did not say - it was the former landowners who took the benefit in the prices paid by the developers.

(vi) A builder bought a 12-acre site on Corstorphine Hill in Edinburgh in 1956, and has had planning permission since 1976 to build homes on it. He has finally put forward specific proposals, and had them approved. Objectors would like to stop the development. A lengthy report of the story by Chris Holme in "*The Herald*" on 8th. September, considers past, present, and future planning issues, and quotes the views of spokesmen for the builder, Edinburgh Council, and various community groups. Nowhere is there any criticism of a fiscal system which allows someone to hold land idle in west central Edinburgh for 43 years, making no contribution to the community, and all the while rising effortlessly in value.

(vii) "There is fierce competition for residential sites of all sizes, pushing up land values. Prime sites in the prime areas around the M25 are most in demand. . . sales of serviced land in Dartford, for example, being agreed in the region of "3/4 million an acre. . . Our team are always looking out for land (a builder, quoted in "*News Shopper*", Bexleyheath, Kent, 21st. July).

(viii) "Housing roulette: Fenton, Stoke-on-Trent, registered a rise of nearly 57 per cent following the building of a road which relieved traffic congestion in the area" (Sean Poulter, "*Daily Mail*", 22nd. June).

---

## ASTRIDE THE BORDER

The state line which divides Texas and Arkansas runs right through the middle of the town of Texarkana. In the "*Financial Times*" on 28th. August, Patti Waldmeir writes an amusing account of life in this Siamese twin of a town, with different legal systems, police departments, liquor regimes, and the like. Tax, though, was no laughing matter. "Texarkana, Arkansas, in common with every other part of the state, used to levy state income tax on all those who lived there. Texas has no such tax. However, the tax difference risked provoking a large-scale westward migration of Arkansans. So the Arkansas state legislature helpfully decided to exempt Texarkana, Arkansas, from state income tax. Now the two Texarkanas are joined where it matters most: at the wallet."

---

## PEARL OF THE ADRIATIC

"Tourists visiting Venice next year could face a new tax to help meet the city's costs which officials say have become unbearable" (Bruce Johnston, "*Daily Telegraph*", 26th. August). The tax would be levied on hotel, restaurant, and other bills. Venice has to serve 12 million tourists each year, and the brunt of the costs is being borne by the 300,000 mainland and island residents. The proposed tax is ill conceived. Venice attracts tourists. Without them, almost all to-day's bustling businesses would fail, and land values (masquerading as property values) would collapse. Those 12 million tourists bring more than enough land value with them to sustain the requisite services. Venice needs only to assess it and collect it. A few undeserving private interests now have the pearl, and the rest of the 300,000 have only the oyster's empty shell.

---

## BEARING GIFTS TO GREEKS

Land prices on Mykonos have risen tenfold in ten years. "In that short time the island has expanded its airport and its tourist business to bring in 100,000 visitors in the peak summer weeks" (Anne Spackman, "*Financial Times*", l9th. June). That is simply wonderful news for landowners. As soon as the bills for clearing up behind the tourists come in, they will presumably lead the clamour for a tourist tax. Doubtless the Greeks have a word for it, but in English we say LVT.

---

## ROADS MATTER

Restrictions on motorway development in England, hurt Scotland. "The biggest bottleneck standing between Scotland's goods and the European market is the M25, closely followed by the M6 and the Ml" (Stewart McIntosh, "*Property Week*"", 9th. April). "Not surprisingly, road congestion is having an impact on location. . . Located in an isolated position on the north-west fringe of Europe, Scotland needs world-class links with world markets. Failure to address the problems will have a direct impact on property."

Successfully addressing them will have a direct impact on property too, of course, and therein lies the solution. Property here means land - the cost of a building is not ordinarily much affected by where it is erected. Roads (railways too, for that matter) are usually highly profitable, but the value they create is beyond the reach of the authorities that build them: land in the areas they serve goes up in value, commanding higher rents and prices which are duly trousered by fortunate landholders. Collect land values, and those roads pay handsomely for themselves.

---

## PORT OF BELFAST - A NEW DEPARTURE?

We have written critically on past port privatisations, notably in Issues Nos. 17, 39, and 71. Belfast may be different. The Belfast Harbour CoWe have written critically on past port privatisations, notably mmissioners own the port "through a trust formed by a 1789 Act of Parliament" (Alistair Osborne, "*Daily Telegraph*", 12th. July). An all-party assembly committee has told the government that it would "only approve the float if the entire port estate [which includes a 2,000 acre land bank] remained in public ownership. Under its proposals, the 855 acres used for port operations would be leased to any private port operator. The plan would ensure that all property profits remained in public hands. The assembly is adamant that the port will not suffer a similar fate to Belfast airport, which was sold to management in 1994 for £34.75m and resold two years later to airports group TBI for about £lOOm."

Sc The Belfast Harbour Commissioners must now present a Transfer heme. Powers have not been devolved to the Assembly as yet, so the decision lies with H.M. Government still. Is there to be a beacon judgement, or shall we see a cop-out?

## EARLY LESSON

"Outside London, the biggest building booms are in Edinburgh, where commercial construction work has beer boosted by the launch of the Scottish Parliament, and in Wales, where the Welsh assembly has had a similar impact" (Anne Segall, reviewing a survey by the R.l.C.S., "*Daily Telegraph*", 23rd. July). The very coming into existence of a new national body has made a gift of public land value to a few lucky landholders!

---

## JUBILE, MUTED

"A good starting point for anybody wanting to get down to fundamentals concerning our social problems is that one cannot do anything without land" (from a letter by Ben Rae, "*Hackney Gazette*", 14th. October).

"Impiously violating the benevoent intentions of their Creator, men have made land private property, and thus given into exclusive ownership of the few the provision that a bountiful Father has made for all" (Henry George, "The Condition Of Labour").

"And ye shall hallow the fiftieth year, and proclaim liberty throughout all the land unto all the inhabitants thereof: it shall be a jubile unto you; and ye shall return every man unto his possession, and ye shall return every man unto his family. . . The land shall not be sold for ever: for the land is mine; for ye are strangers and sojourners with me" (Leviticus, XXV, 10 and 23).

**Published by the Land Value Taxation Campaign, 54, Woodway, Hutton, Brentwood, Essex, and distributed free to selected members of both Houses of Parliament, of the Scottish Parliament, of the National Assembly for Wales, and of the Northern Ireland Assembly.**