Practical Politics No.90

We reproduce here a past issue of our journal.

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POSER

It is not so long ago that this country had to foot the losses of nationalised industry, had no revenue from offshore oil and gas, and could not call on lottery money to help out on the fringes of health, education, and welfare spending. In those same years we have enjoyed technological progress, higher productivity, and freer world markets. Where has all the benefit gone? Many in work are indeed rather better off, but the gap between them and those left behind is widening.

Partly, government has found new ways of spending our money, even though it seems unable to cut back on the old ones: the welfare bill stubbornly refuses to come down. This is far from the whole story, though. As ever, the rewards in an advancing society go disproportionately to Land. Month upon month, the pages of this bulletin are replete with examples. One general must suffice. In the 1970s, the value of the site component of a typical family home was 20% of the total. To-day that has risen to 40%, The beneficiaries are owners of land granted planning permission for housebuilding, and those already on the housing ladder. The losers are in public housing, in private rented accommodation, or homeless. By comparison, the gains absorbed by valuable commercial land are immense.

CONUNDRUM

Our piece in the last Issue, "*The Propriety of Property*", was followed, unexpectedly aptly, by an article by Thelma Thompson in the "*Financial Times*" of 26th. June, "Lives settled with title deeds and misdeeds", in which the writer "ponders mankind's decision that certain people shall be landowners - and the corollary that others will not". We commend the article - it is on the back page of the "Weekend" section. It will be recalled, however, that in our piece we did go further, and resolved the dilemma: exclusive occupancy of land and security of tenure may be attained by proper application of the fiscal system known historically in this country as land value taxation.

T5 AND M4: IT'S TAKE-OFF TIME FOR LANDOWNERS

Heathrow "attracts companies that are either airport-related or wish to benefit from its services" (Tom Puff, "*Estates Gazette*", 3rd. April). The planning inquiry procedure on the proposed new Terminal 5 is over, but a decision is not due for two more years. Completion could be delayed until 2006" but landowners are already slavering at the prospects. Both road and rail improvements are planned in the vicinity of the T5 site, which is close to where the M4 meets the M25. "The opportunities offered by an enhanced and integrated transport system all add to the attractiveness of the M4 corridor as a location . . . The implications for land values are that industrial sites around Heathrow are fetching in excess of £1m per acre and elsewhere in the Thames Valley "are fetching in the region of £750,000 per acre". Demand for office space offers the juiciest prospects: "the location's already established popularity can only enhance its image and draw more occupiers in" and "Staines, Egham and Slough . . . will become even more desirable locations as they are all within a 5-mile radius of the T5 site".

Landowners did not build Heathrow, nor do they make or fly aeroplanes. They do not construct roads; or build offices, factories, and depots; or put up houses, shops, leisure facilities, and public administration blocks to serve the swelling population. They just hold pieces of paper of no intrinsic worth.

WATCH CONCRETE POUR AND LAND VALUES SOAR

"Improved transport links" are boosting Harwich and environs ("*Estates Gazette*", 24th. April). The upgrading of the A120 and a bypass around Parkeston will benefit a business park, "making the site much more attractive". Another beneficiary owns 300 acres in the area, "a good site, bang next door to the port".

DUNEDIN DUFFERS

The retail price index records the price movements over time of a notional basket of goods. One thing it assuredly does not do is monitor land prices, yet in, of all places, Edinburgh - "a city in the throes of an unprecedented property boom" - the local NHS Trust sold three prime hospital sites at 1996 prices plus r.p.i. escalation (Ian Fraser, "*Sunday Herald*", 16th. May). "Had the sites been sold on the open market at 1999 prices . . . they would have fetched substantially more". The public sector really must get to grips with the economics of land.

JAPAN - A WRECKED ECONOMY

"Japan's outstanding central government debt hit a record Y437,554bn (£2,260bn) at the end of March . . . Government debt levels are increasing at an annualised rate of . . . 8 per cent of GDP" (Naoko Nakamac, "*Financial Times*", 26th. June). "The outstanding balance of government securities also hit a high, rising to Y310,740bn."

This is an economy wrecked by land speculation. Our Index has a melancholy string of references to the barely credible height of the boom, to the burst, to the collapse, and to the long, painful aftermath that is far from over yet. "Japanese banks are sifting on a huge pile of real estate portfolios as a result of their 1980s policy of making many loans backed by land and property collateral" (Nathan Lewis, "*Financial Times*", 21st. June). "In Japan the land market . . . easily dwarfs the value of the stock market", which suggests how overvalued it still must be. Part of the trouble is the tax system. There are taxes on land transactions as such, which discourage transfers. Then there is a capital gains tax set at 50 per cent or more on land, and not indexed to inflation, which gives holders every reason to defer disposal for as long as they can contrive to hang on.

With land still overpriced, economic activity remains stifled, and the slump is prolonged. Instead of wrongly conceived taxes on the capital value of land, and then only when owners volunteer to pay by making a disposal, Japan should levy an annual rental duty on all land in accordance with its site value, regardless of whether or how it is actually being used. This will knock the artificial, speculative value out of land, and stimulate its full productive use. Meanwhile, one of the greatest nations of the post-War era is trapped in futility.

CHURNING

Part of what the State disburses in welfare is promptly returned to the Treasury through value-added tax. The EU actually runs on its cut from v.a.t. receipts. This is classic "churning", taking tax out of an area only to feed cash back in again, to bolster the weakened economy. Not the least of the advantages of LVT is that it is proportionate to social and geographical advantage and disadvantage: those owning the most valuable land pay the most, whilst those in the depressed regions pay little. LVT thus creates tax havens where they are most needed, in disadvantaged areas - with no need for wasteful aftempts at redress by a complex, bureaucratic, arbitrary, fraud-prone system of grants and subsidies.

HOUSING POINTS

(i) In "*The Observer*" of 6th. June, Will Hutton drew attention to the "house price boom going on . . . at least for those living in the advantaged parts of the country". This is of course a land price boom, since the costs of building materials and the rates paid to builders are much the same everywhere.

(ii) Under the heading, "Lucky for some in the homes lottery", Simon London ("*Financial Times*", 26th- June) likewise writes of soaring prices in "hot spot" areas. He quotes John Muellbauer, an Oxford professor of economics, as favouring a "massive increase" in property tax "for owners of valuable houses". Ignoring land value as the sole basis for a property tax, leads to absurdities such as penalising high quality developments, discouraging good redevelopment of dilapidated properties, and condoning mis-use of prized sites.

(iii) In an article headed "Hot spots around the county" in "*The Times*" of 17th. April, Stephen Fletcher and Mark Moore recorded that Guildford has always been popular for house-hunters because of its proximity to London and the coast. The capital is half an hour away by train, and the M25 is a ten-minute drive away." In Greenwich, proximity to the City is an important factor, "The average two-bedroom terraced house further out in Woowich or Plumstead would generally fetch £60,000, where the same property in Greenwich or Blackheath could sell for £150,000. That is £90,000 location value on top or the site value at Woolwich or Plumstead! In Glasgow, "Prices in general can range from £30,000 for a three-bed semi in an unpopular area to £200,000 for the same property in the west or south."

(iv) The Church Commissioners have sold a site in City Road, London, E.C.1. The buyer seeks planning consent for 50 apartments and associated commercial development. The price was £6,000,000 (equivalent to £15,000,000 per acre) for the 0.4 acre plot, which is being used as a car park ("*Property Week*", 26th. March). What a waste! Prof. Muellbauer is invited to contrast his swingeing tax proposal for valuable apartments, against LVT on the location value of land.

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