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# Practical Politics No.86

We reproduce here a past issue of our journal.

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THE PROPERTY BUSINESS is a catch-all expression, lumping together at least four groups of participants. Landowners sell or lease out the site. Financiers organise the funds to support the land acquisition and construction costs. Constructors bring men and equipment to the site and organise and direct the building work. The professionals are those who actually carry out the work - the architects, surveyors, engineers, skilled craftsmen and general labourers.

The financiers, constructors, and professionals all perform work, by hand or brain. In the terms of political economy, they provide Labour. Some, from the plumber with his own specialised tool kit to the great civil engineering company with its cranes and bulldozers, will also provide Capital, which is to say goods previously manufactured not for direct consumption but for use in further Wealth creation. Finance comes from private savings via banks and from the resources of such as trusts and pension funds. The money thus supplied is a Wealth token, representing its owners' temporary denial of gratification through consumption so that it may be used in investment, in the business of making and furnishing a building. Labour is work. Capital is a form of stored and re-circulated Labour. For all their differences and their internal divisions, financiers, constructors, and professionals represent current and past Labour.

What of the landowner? Land was not man-made. It was provided free by dear old Mother Nature. If we disallow the ownership of Labour (chattel slavery), the crucial distinction in economics is that between Land and Capital. If Land is withheld, Capital, as well as Labour, is locked out, and can produce nothing.

Property and property values are imprecise terms, misleading in economic analysis. The Land interest is mostly at odds with Labour and Capital, and has most to gain from the confusion. Capital and its value are private, and so too are the rewards of Labour. The value of Land comes from the economic attraction of the location, which in turn stems from the general presence and activity of people. Land value is public. Landowners do not want that to be noticed.

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## WHEELING AND DEALING

(i) A developer working in the London Bridge area told a recent meeting, at which your editor was present, that he makes more money out of land than from building work. He also said that the local tax system was encouraging

conversion of offices to residential use where possible, because the council tax has a lower impact on dwellings than the Uniform Business Rate has on non-domestic properties.

(ii) "Anagen, an unlisted shell company . . . has agreed capital tax losses of more than £27m with the tax authorities" ("*Financial Times*", 2nd. January). Gander Holdings, the residential property investment business, has profits from property disposals. Gander has therefore arranged to be bought by Anagen "in a one-for-one share swap", so that Gander gains may be offset against Anagen losses. It is smart and legal. There would be no point in doing this if government financed itself from the collection of land values. Good company brains would not be wasted on tax wheezes, and LVT would be a sure source of exchequer revenue.

(iii) "I know a man who is incredibly wealthy because of what his father did on the home front during the second world war (Kevin Goldstein-Jackson, "*Financial Times*", 6th. February). As German bombs rained down on London, the father would turn up at recently bombed sites in prime areas and buy them" from victims depressed by the damage. "Whichever side won, the sites would be redeveloped eventually . . . His son inherited a fortune - the sites were worth thousands of times more than the sums paid for them."

(iv) "ICI Estates has completed the sale of four landholdings to Redrow Group, the housebuilder" ("*The Times*", 12th. January). The price is £14.5million "with additional payments of up to £20million dependent on planning consents".

(v) Berkeley has been involved in some interesting land deals. In June 1998 it bought a site near Aldershot "from the MoD for just £2m" (Edward Simpkins, "*Estates Gazette*", 9th. January). It has now sold the better part of the site to CSC Computer Sciences for £20m - a tenfold increase in seven months, with still 15 acres of amenity land left. "The existing building will be demolished" to make way for a new one, so the payment is for pure land value. We now learn ("*Financial Times*", 20th. January) that "Berkeley the housebuilder is buying a 2.2 acre residential development site in Kensington for £18m cash from Marylebone Warwick Salfour." MWB "acquired the site in July 1997 for about £11m" - a two-thirds mark-up in eighteen months. Flats will be built on this "8,200,000 per acre land.

(vi) St Modwen, the Midlands developer, two years ago "paid £450,000 for 61 sites above disused coalmines" ("*Property Week*", 15th. January). These include 54 residential sites. All but four have now been sold for "1.5m. 180 homes will be built on them. "Houses had already been built on most of them, but a number had been damaged by subsidence, caused by coalmining." St Modwen had to prove that new houses could successfully be built using modern techniques and heavy-raft foundations. With LVT in operation, it is likely that the valuation would be based on low-quality land liable to subsidence. In recognition of the input of labour and capital and the resultant "intellectual property", the increase in value after it was shown that viable development could take place, would not be subject to duty for a given

number of years (dependent on the legislation) until it was deemed to have "merged in the land", or (as here) until the knowledge was capitalised in a selling price.

(vii) Contrast the previous case with redundant scrap metal yards in the west country. Many of these yards "occupy prominent and valuable locations within town and village development boundaries, providing significant development potential" ("*Bath Chronicle*", 13th. January). Doing nothing and waiting for prices to rise is pure land speculation, as George Ticehurst noted in a letter published by the newspaper the following week: the situation requires taxation based on the site value "such that its owner cannot afford to leave it under or unused" but must use it himself or pass it to others who can do so.

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## THE DETR\* - LADLING LARGESSE TO LANDOWNERS

(i) "The new, eight-lane A1(M), which opened in October should increase Peterborough's popularity with industrial occupiers" ("*Estates Gazette*", 23rd. January, quoting an agent). "It's dramatically improved connections to the south. Huntingdon is now 15 minutes' drive away, and there are quicker connections to Cambridge and the A14". Landholders will take their effortless cut, raising rents and prices. Land users will be made to pay if they wish to enjoy these benefits.

(ii) "The importance of location in the warehouse/industrial market is reinforced when transactions and activity are examined" (Bruce Strachan, "*Property Week*", 12th. February). "A notable factor in many deals is the proximity of the scheme to motonatay junctions." Examples quoted, all from Yorkshire, are at junctions 26, 27, 28, and 31 of the M62, and junctions 40 and 41 of the M1. These roads were built with public money. Why does government make presents to landowners on this scale? Is it corruption, ignorance, or incompetence? It has to be one of the three,

(\*DETR = (UK Govt) Department for the Environment, Transport and the Regions)

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## LAND THE DETERMINANT

Kingston-upon-Thames illustrates the interplay of tax and planning policy and land values; and shows that it is land value which reflects public policy decisions and ultimately shapes, or in this case re-shapes, a community. In a report in the "*Estates Gazette*" of 6th. February, Stacey Meadwell cites the observation of an agent that "The local authorities have allowed a lot of industrial land to be lost to residential development". This confirms our contention that this trend is the market's response to the fact that the council tax has a lower impact on housing than the uniform business rate has on non-domestic properties, and that landlords can consequently retain a greater proportion of the income from dwellings than they can from factories. Another agent believes that offices are being badly hit by planning restrictions on car

parking. Consequently, "all new development is retail or residential". Because more people are moving in at a time when there are proportionally fewer offices and less industry, the community lacks work opportunities and Kingston is becoming more and more a commuter town. That may be what people want, or it may not; but it is current taxation and prescriptive planning which are calling the tune. Empowering the people means first and foremost slashing taxes and collecting the people's land value instead. Thereafter see what people actually want by studying the contours of the land value maps!

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## SCOTLAND - THE FIRST FORMAL COMMITMENT

"Your correspondent . . . omits the party with the most radical land-reform programme, namely the Scottish Green Party; radical because it alone proposes the fiscal measure of Land Value Tax as a discouragement to the ownership of large tracts of land and an encouragement to appropriate development" (Dr. Eleanor Scoff, Press Officer, letter in "*The Herald*", 11th. January). With the caveat that LVT will not discourage large landholdings *per se*, but only if they are being worked uneconomically, we warmly welcome this endorsement of our views. We think the policy should commend itself to the other parties too.

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