# Practical Politics No.77

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

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## TAXATION

The case for central or local government revenue collection and spending for the public good, is founded on the premise that the individual cannot, or cannot reasonably, make provision for himself in all cases, and that some goods and services are either inevitably or most suitably delivered by government as agent of the community. Whilst it will be generally accepted that, for example, law and order and the administration of justice fall within this category, concensus begins to fray as other activities are added, until it builds up again against government involvement in, say, provision and allocation of video games.

Thrown across this picture is the proposition that the state intervene, not because it is necessarily the logical provider but because it can use taxation as a means of re-distributing wealth within the community. For some, the secondary argument has become paramount. Why wealth is unjustly distributed in the first place, is never explained, or even examined - an intellectual oversight that should, but nowadays does not, excite academics and commentators.

**Land and its value** If there were no shortage of prime land, everything made on it would go to those who did the work. Some man-made objects, however, would not go direct to the final consumer but would be used to assist in further wealth creation - tolls, factory buildings, and the like. Such items are called *capital*. Interest is at whatever level is necessary to induce people to defer consumption and allow some of their share of wealth to be diverted to capital formation.

Of course land is the opposite of infinite. It is fixed in quantity and not transportable. It is totally unlike consumer goods and capital goods. If sunglasses or bulldozers are wanted on the Riviera, rising prices lead to increased local production or to imports. All that happens when land is in demand is that the cost of acquiring it rises, and rises again, the again. Nor is all land equal. Topography and climate, soil quality and mineral deposits, and supremely, where communities have elected to come together to work, trade, live, and disport themselves, create demand and impart location value by discrimination between individual sites. Land thus commands a rent, paid form production of course, which reflects the comparative advantage of each site in relation to all the others in use. Land is the leveller. Land values skims off locational advantage. Wages, with allowance for skills and experience, are thus broadly equal everywhere, and so, with allowance for time and risk, is interest.

**Land Rent for public revenue** This great pool of land value is the obvious, logical, natural source of public revenue. Unlike wages or interest, it is not a private entitlement. It is a collective, communal value. To allow it to be privately appropriated is a social and economic crime. The felony is compounded when public finance has to be raised by taxes bearing on labour and capital and on the goods and services they produce.

It is, then, common sense to collect public Land Rent to fund the needs of the public exchequer. At the same time, taxes are taken off the rewards of labour and capital. There is no question of physically confiscating land or of seizing the title deeds. |Developments in and on land remain private property, and indeed are relieved of tax. The key change is that landholders pay a yearly sum rising (as nearly as practicable) to equal the full market rental value of their land, in recognition of benefits received. No one needs to own land outright - except of course to exploit others by appropriating the common rent fund. All one in fact needs is security in occupation. Annual payment of the site value guarantees that.

**Division of wealth** When thew public revenue is raised from site values, existing taxes come off. Wage earners are left with more to spend and the prices of goods and services are lower - a dual improvement. There is, however, a yet more significant benefit. Crucially, where land is privately appropriated, owners hold some out of use for speculative or other reasons, or under-use it. This forces labour and capital on to sites of inherently lower productivity. This is known as lowering the margin of production, and was explained in issue No. 21. A consequential effect is to raise the share of wealth going to land at the expense of wages. Public collection of Land Rent repairs this by countering mis-use of land, boosting productivity, and raising the general level of wages. Maldistribution of wealth is corrected at the primary phase of distribution, with no intervening bureaucracy.

When do we start?

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## MORE ON TAXES

(i) In an article in *"The Times"* on 26th February William Rees-Mogg again warns that the internet will erode the traditional power of the nation state to raise taxes in the conventional way. "The ability to choose, or even disguise, the location of a transaction means the internet will act as a tax haven". Furthermore, "encryption of internal messages . . . is likely to cover most tax-sensitive communications [which] will make cross-border taxes virtually impossible to collect except on a voluntary basis." Rees-Mogg allows that &quotGovernments will still be able to tax transactions or benefits which are local, transparent and concrete" (he calls these "the transactions of the poor") and adds that "it will be possible to tax physical goods or property, but not ideas, information, or momey." In a letter published on 11th March, Tony Vickers noted that one tax which cannot be avoided is "a tax on land" and stressed wider benefits "if we tax land values".

(ii)) An item in *"The Economist"* on 28th February referred to the single tax on land values, and agreed its practical virtues are striking: &quotis is simple and cheap to levy; evasion is all but impossible; and leaving land derelict becomes prohibitively expensive." Tambet Tiits, described as an Estonian expert on land use, is then quoted as believing that it "might drive land prices so low that the market would stop allocating land use efficiently". Because *"The Economist"* let this pass without comment, we offer our own. Price is based upon capitalisation of the amount of annual rental income a purchaser can retain for himself. If the land value duty is pitched at one third of the annual value, then price is set by capitalisation of the remaining two-thirds. With the duty at three-quarters, only one quarter remains to be capitalised in price. At 100% duty, land *per se* has no selling price at all. It does, however, bear an annual land value duty of 100%. How can Tiits pretend that this outgoing is not a stimulus to efficient use? Land value is assessed on optimum exploitation within planning and other constraints. How, then, can the holder of land pay the duty if he crassly under-uses it? He must use it properly to generate an income from which to meet his fiscal liability - or else make way for another who will. In short, low land prices derive from a high rate of land value duty, which in turn ensures a more efficient use of land.

(iii)) Pubs with rateable values up to £3,000 which are the only local in the village of not more than 3,000 inhabitants, may, if the council agrees, soon qualify for up to 100% UBR relief (Clive Smith, "*Licensee and Morning Advertiser*", 12th January). We think that rural pubs would gain from a switch to national collection of site values and lowering of beer, wine and spirit duties. So would the customers!

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## THAT CHANNEL TUNNEL RAIL LINK

The President of the Royal Town Planning Institute, Trevor Roberts, refers (letter, "*The Times*", 23rd February) to "the stimulus to economic and employment" resulting from the rail link. He notes too "the enhancement of underlying land values" but significantly fails to record that these values are pocketed by landowners who do nothing whatsoever to bring them about.

The chief executive of the London Chamber of Commerce and Industry, Simon Sperryn, extols even more effusively (letter, "*Financial Times*", 6th February) "the environmental, economic and social benefits the link presents" but makes no comment at all about the effect on land. Fortunately a neighbouring letter from Henry Law is on the target: "The problem with such infrastructure schemes is that most of the value created is external and turns up in the form of enhanced land values which do not appear in the revenue streams of those who finance the construction of the project . . . a state of affairs which prevents many worthwhile schemes from happening, and we are all the poorer as a consequence."

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## REALLY BIG PROFITS

"The really big profits in Britain are in land and property". They can be made without putting up any capital or incurring financial risk. "The field opposite [the] office - worth about £56,000 as agricultural land - generated multi-million pound profits overnight when permission was obtained to build over 100 houses on it. Less than a mile from their office, there was a garden large enough to make it worthwhile to demolish a bungalow in the middle of it and sell the land off as building plots. (The bungalow and garden were together worth about £170,000. The plots were sold for over £800,000 and executive houses were built on them)." So it goes on, relentlessly, for 12 pages, in a prospectus obtained by one of our executive committee members. The promoters will be industrious, clever, and within the law - but why, oh! Party hierarchs, does the system allow public land values to be thus privatised?

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