Practical Politics No.75

We reproduce here a past issue of our journal.

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FIRST FRUITS

Last September in the devolution referendum Scots voted for a parliament in Edinburgh. It is now clear that their effort has endowed a small privileged group of landowners, with prospects of more where that came from. "Edinburgh is enjoying a boom as a result of the decision to locate the new Scottish parliament in the city. During 1997, the price of prime property increased by between 10 and 20 per cent." (Ross Clark, *Daily Telegraph*, 7th. January). It is like Strasbourg after the European parliament was set up there, or Berlin after the German decision to relocate from Bonn. Politicians, civil servants, journalists, lobbyists and their families, all make the trek, "and will be looking for places to lunch and to live in Edinburgh." Add to the pull of the parliament the attraction of the local education system, the closeness to real sporting country, the good communications, and the pleasing aspect of much of the city itself - and see that those with a beneficial interest in local land have much to be pleased about and the gracious smiles of their bank managers to look forward to. Most Scots have only local tax increases and an eventual 3p rise in income tax to contemplate. Before they are even nominated, Scotland's parliamentary candidates can see the justice and virtue of the taxation of land values.

DISTRESS SALES IN JAPAN

Goldman Sachs, the U.S. investment bank, "wants to spend $4 billion on buying loans from troubled Japanese banks in the first big bargain-hunting effort since the Asian financial market crisis erupted" (Oliver August and Janet Bush, *The Times*, 24th. December). "Japanese banks . . . are among the country's largest landowners and many are now being forced to sell loans at bargain prices to bail out broking operations. Many of the loans are secured against Tokyo real estate, which has seen price falls of 70 per cent". Evidently not even the highly protected, highly regulated Japanese economy can withstand land speculation for ever.

THE MENACE OF THE RISING TABLE

The table in question is London's water table. The London basin is underla • id by chalk and capped by clay. In between is an aquifer of soil and porous rock. From the industrial revolution onwards, water was drawn from the aquifer for commercial purposes, but over the last forty years London has ceased to be an industrial city, and the depleted water level is fast rising. If nothing is done, the swelling clay will threaten foundations, and groundwater will affect tunnels owned and maintained by such as the London Underground, BT, and the MoD.

Lobby groups, led by the landlords ’ body, the British Property Federation, are urging the government to action. "In the next ten years, commercial landlords in London could see their buildings destroyed and face a bill running into millions, if not billions, of pounds" (Jeremy Hunt, *Property Week*, 5th. September). "The plan is to sink bore holes in strategic locations around London and pump out the rising water, which could be used in agriculture or by industry". The initial cost is put rather broadly at "between £6m and £23m", with an annual maintenance cost of £1.5m. The BPF spokesman believes these costs "should be borne through central taxes"

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As Hunt notes, the landlords "have known this might happen for decades . . . The cause of this potential catastrophe lies in London’s geology, and the decline of its industrial base." It is a location problem, a function of a natural disadvantage of the London basin and a change in the economic activity of the community at large. These are the rough that go with the smooth. London is the historic political, administrative, commercial, and entertainment capital of the nation, and a huge tourist attraction. Its position is sustained by hundreds of thousands of people who work in it and in the dormitory towns of the Home Counties, and by the maintenance of a prodigious infrastructure of public and private services. All this, the owners of land take for granted as they exploit location value for their own benefit or charge others for right of access to it. As landowners they created none of it, and they deserve no sympathy if they soon get their feet a little wet.

Yet we do see a way in which we could support a plea for government to find those £23million. It is difficult for individual landlords in a place as extensive as the London area to come together, organise, and each pay euqitably for a scheme of this sort. It is far better to recognise that land values reflect perfectly the advantages - natural and social - of every site, and to use them as a basic source of public revenue.

Under a system os land value taxation, present taxes would be lifted, or at least be substantially cut. BPF members, and others, would contribute to public funds in accordance with the value of the site they occupy. Thus, when the likes of Thames barriers are constucted, or bore holes drilled to that annoying aquifer, they would pay a little more in recognition of the extra benefits bestowed on them. Regular revaluations would take account of movements in land values, up or down, and owners of any land adversely affected by various works or by changes in community activity would be compensated through a lower levy. It all seems perfectly fair. So, Mr. Chancellor, may we make a start, please?

ONE MAN'S PARKING PROBLEM

"The prices some people pay for property in trendy parts of London never ceases to amaze. Last week it was a single lock-up garage in Chelsea that hit the headlines when it was snapped up for £120,000", wrote Anthea Masey in *The Mail On Sunday* on 4th January. The rest of her article was a joyous contemplation of what the buyer could have got for his money elsewhere, including a five-bedroom Victorian mansion built for a shipbuilder in Greenock and a modern four-bedroom detached house at East Herrington, Sunderland. It can be taken for granted that the newspaper's readers would know why such fine dwellings could be had for no more than the price of a mere lock-up garage in Chelsea - comparative land values, of course, the magnet of London chic against post-industrial Clyde and Wear. Perhaps *The Mail On Sunday* will now set its property correspondent to inquire into location value, how it arises, what sustains it, and why it occasionally falls. Its conclusions should point to new directions in fiscal policy.

THE GAME SOME PEOPLE PLAY

"As agricultural land, an acre in the Home Counties typically sells for between £4,000 and £5,000. If it can be turned into a paddock or annexed to somebody's garden, the same acre may fetch double that. With full-scale planning permission for 12 houses its value will soar to between £600,000 and £1million." (Ross Clark, *Sunday Times*, 7th December). Isolated fields do occasionally come up for sale. "Land speculation is not just a game for the big players." Perhaps not, but land is still our collective birthright, and land deals are not a "game" for "players" of any stature. Land value is a collective value, to be distinguished from the private value that attaches to goods and services.

AN AIRPORT OF EARTHLY USE

The government confirmed its prededessor's rejection of expansion proposals for Liverpool's Speke airport. This was widely exepcted in view of the decision to proceed with a second runway at Manchester. Speke lost £800,000 last year. Despite that, British Aerospace was able to realise £20million when it sold its 76% stake in the business (the rest is owned by five local councils). The purchaser was Peel Holdings, which has not previously been involved in airport operations. Why would it want to buy its way in to a venuture like this?

Peel is a development company. "It has proved a canny buyer of land in the past. It is developing the . . . Trafford Centre shopping mall . . . on land gained through buying the Manchester Ship Canal Co." (Anita Howarth, *Estates Gazette*, 19th. July). The attraction of Speke seems to be less its future for aircraft than the earthly potential of the site. The deal brought Peel "350 acres of development land and options on more than 700 acres." (Andrea Carpenter, *Property Week*, 18th. July). So now we know.

We have no particular • quarrel with any of this. All we ask is that sites be assessed on their market rental value, assuming optimum use within the planning regulations and other similar constraints. We think developers are fully entitled to a return on the capital they invest in or on the land. So strongly do we hold this view, that we want to see those returns go to the people who do the work and provide the capital without deduction of tax from those earnings.

We want good development. We do not want land left derelict or poorly used. Land is a finite resource, and one that was not - in any sense that political economy uses the word - manufactured. Collecting the pure site value of land for public revenue prevents the making of private profit from what is a true public fund. Full operation of LVT rewards the active land user rather than the passive land holder. Payment of the annual land value duty confers enjoyment of all the benefits of the location and ensures security of tenure. That is as it should be.

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