Practical Politics No.70

We reproduce here a past issue of our journal.

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ELECTION '97

We have looked back at Issue No. 26 of March 1992, written for the General Election on 9th April of that year, and we find ft in no need of change. Let it stand therefore as our manifesto this time too. Instead, this Issue for the Election on 1st May will content itself with a broad statement of aims and claims, and with quoting some specific examples from far and near of how the land question impinges on our daily activities.

It is not just the level of taxation that matters. It is also the revenue base. Taxes on goods, on services, on trade, on spending, on saving, penalise and inhibit the process of wealth production. Taxes on earnings from work and from investment penalise effort and initiative. Existing taxation involves juggling a balance of evils to come up with the least damaging and least unacceptable mixture.

The alternative is to move to the collection of the economic rent of land (the policy known as land value taxation, or simply LVT). This is much more powerful and important a measure than a mere shift of tax base, though it is that too. LVT is not a tax on production. It is a charge on the value of land. It is not made contingent on what use, if any, the owner chooses to make of his land. The owner cannot hide it or remove it to an overseas tax haven, so the levy has to be paid. Its value is its annual rental worth, based on optimum use within the constraints of planning and other relevant regulations - ignoring therefore the value of all improvements on the site itself but with all neighbouring sites taken as being in their existing condition. LVT is perhaps best viewed as a perpetually renewable annual lease on land at revised current values. It is a stimulus to maintain land at, or bring it in to, appropriate use. The revenue raised would enable present taxes to be withdrawn or reduced, to the evident advantage of the wealth producers.

Impose a tax of so much per gallon on petrol or such and such a per cent (as with VAT) on restaurant food, and the cost of driving cars and eating out will inevitably go up. Impose a duty on the site rent of land, however, and the cost of land to the user will be unchanged or in all probability will fall, as the speculative and monopoly elements are knocked out of consideration. As can easily be demonstrated, LVT, unlike existing taxes, does not enter in to the unit price of manufactured wealth: LVT could not be passed on to consumers in the form of higher prices for goods, any more than differential site rents are passed on now.

THE CONDITION PRECEDENT

In this Election there should be only one basic economic issue. Land (the material universe apart from man and his products) is indispensable. Land is the condition precedent. No system is proper that disregards the primary role of land. Land came free, God-given, Nature's bounty. Its value is being constantly created and re-created, depending on where people congregate and the economic activity they generate. It is truly a people value.

The present distortion of the natural order has to be corrected. There will be no disruption to the formality of land holding. There will be no confiscation of either land itself or paper title. Equity will be achieved by requiring those with a beneficial interest in land to pay an annual rental charge to the Crown equivalent to the current location (site) value of the land held.

Who needs arbitrary windfall taxes? The fundamental economic Law of Rent presents an annually recurring source of revenue. Not only is it just to collect this for public use, it is wholly unjust to let it fall in private hands. Nothing will be taken in the name of the Crown that is not the public's due. The consequence will be the abolition or abatement of taxes on manufactured wealth - privatising, as it were, the returns to labour and to the provision of genuine capital.

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- The "*Financial Times*" on 22nd. March contained a great deal of information of interest to the super-rich in search of that umpteenth abode. Good homes, though, are frequently built on some very expensive land. "in the last seven years, since the bubble burst in Tokyo, property prices have fallen by up to 50 per cent ... œ5m now buys a good piece of building land in one of the good districts", writes Anne Spackman. "A 10,000 sq ft site, without a building on it," has sold for Y-1bn. "The value is in the land", we are told. The speculator who paid Y-2bn in 1990 may not be so sure, of course. This is an economy still deep in trouble.
- In the U.K., Gerald Cadogan has advice for those who worry that "tax breaks associated with reinvestment and rollover relief on capital gains, which have been a big force in the farm market" may be under threat. "if you have to sell fields, do it now, while ... neighbouring farmers remain eager for more acreage." Subsidies and favourable tax treatment really do find their way in to land values. The writer might have added that in 1984 New Zealand decided to end farm subsidies. Public money was saved, and land prices fell as the capitalised value of those subsidies was knocked out - but it was far from the end for agriculture! Being a farmer and being an owner of farm land are not at all the same thing.
- In London, confirming what our readers already know, Peter Brown reported in "*The Times*" on 12th March that a survey had found that "flats within ten minutes walk of a Tube are worth 15-20 percent more

than others". Again, he might have added that there are places in the U.K. where houses can be bought for the equivalent of a year's rent in parts of the capital which enjoy proximity to good public transport. It has all to do with location, work and people.

- James Kynge reported from Malaysia in the "*Financial Times*" of 29th March that the governor of the central bank was making a move against property speculation [i.e. land speculation - Ed]. Lending to developments apart from infrastructure projects, industrial buildings and lower-cost housing "is to be capped at 20 per cent of total bank lending", slightly under last year's figure. Whilst we are sure that keen lenders and keen borrowers will find ways round the new regulation, we applaud an official who shows some understanding of what fuels the boom before the slump (*see our Issue No. 29, "Landing In Trouble"*). The values those speculators are after, however, belong to all the people of Malaysia. The right policy is LVT.
- Two advertisements for residential land which appeared in the "*Estates Gazette*" of 1st March are instructive. A site in Lytham St. Anne's, Lancashire, has planning permission for five houses and is on offer for £550,000, which is no small outlay before a trench is dug or a brick laid. At Barnt Green, Worcestershire, near the M42 south of Birmingham, prime land comprising three plots comes at no less than £480,000. The individual plot sizes in the two cases are virtually the same, so why does land for housing cost half as much again south of Birmingham as south of Blackpool? Why does land vary in value at all? The answer, simple in itself but profound in its implications, suggests an entirely new fiscal policy.
- "Agents are predicting that demand for industrial space around Greater Manchester will rocket when the M60 orbital motorway opens in 1999" (Lawrence Higgins, "*Estates Gazette*", 22nd March). This applies particularly to the east, where apparently landlords with old and dilapidated buildings do not wish to spend the sums required in refurbishment, doubtless because there is no site value duty to spur them on. Worse, there are "developers who are buying land and holding it until the infrastructure improvements come closer to fruition, allowing them to gain higher paces." In the past 18 months, land prices in north Manchester have more than doubled, and land is said to be scarce in the south. "Developers are both the victims and the instigators of a hyped-up market." Developers, and others, need to learn basic economics, and distinguish land from wealth. As it is, the gainers are those with an interest in land. Society at large loses hugely.
- Shortly before the prorogation of Parliament, the U.K. government was contemplating collecting land value for public revenue purposes. Perhaps the President of the Board of Trade was not aware of it, but the radio spectrum (currently used by companies such as Cellnet, Orange, and Vodaphone, and by the MoD) is classed as land in economic analysis, the air being part of the natural order outside of man and his products. The scheme to auction the air waves "is compelling ... Few means of cash-raising, after all, can be so easily defended on economic grounds" (Lex Column, "*Financial Times*", 22nd March). A government source believes that "charging for the

resource [sic] will result in more efficient use, with parcels of spectrum being freed up for new competitors" (Michael Prescott, "*Sunday Times*', 16th March). Can full LVT be far behind?

- "Wind turbines at sea do not need planning permission from local councils" but a project "will have to get other government permissions to avoid any threat to shipping or fishing. And it will have to reach agreement with the Crown Estate Commissioners to rent the sea-bed which, up to 12 miles offshore, belongs to the Queen" (Nicholas Schoon, "*Independent*", 12th February). "The money will go to the state." Truly, can full LVT be far behind? All land is held of the Crown.