

Land tax: options for reform

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1. Introduction

The research project of which this seminar is a part aims “to explore how the Child Trust Fund might be developed in future, and, more generally, how a new, more egalitarian politics of ownership might be advanced.” I shall assume that policy-makers would like to progress beyond the modest Child Trust Fund introduced in the UK 2004 Budget to a more radical policy of giving each citizen a substantial endowment as proposed by various thinkers such as Ackerman and Le Grand. Some writers believe that funding citizen endowments via inheritance tax (IHT) is not politically feasible, on the grounds that IHT is amongst the least acceptable of taxes. This is an empirical question on which I take no view. Another paper to this conference will report whether the deliberative groups assembled for this project held, or sustained, that view. This paper explores whether a form of land taxation could substitute for IHT in this role.

The structure of the paper is as follows. The next section, *Classical arguments: Paine, Ricardo, the two Georges* traces the classical arguments for land tax in the hands of its most persuasive proponents since Tom Paine. It shows how some of the classical arguments for inheritance tax also work as arguments for a land tax. Section 3, *Could a land tax work?* and section 4, *Could it fund a Citizen’s Stake?* address those two questions. I answer *Yes* to both.

2. Classical arguments: Paine, Ricardo, the two Georges.

2.1 Tom Paine

Tom Paine produced the first clear proposal for a citizen’s stake in 1797. The first part of the subtitle of his *Agrarian Justice* (1797) indicates that he had precisely the same idea as this research project, although he also wished to endow an old age pension entitlement. The title page reads:

AGRARIAN JUSTICE,/OPPOSED TO/AGRARIAN LAW/AND TO/AGRARIAN
MONOPOLY/BEING A PLAN FOR MELIORATING THE CONDITION OF
MAN, BY CREATING IN EVERY NATION A NATIONAL FUND,

To pay to every Person, when arrived at the Age of TWENTY-ONE YEARS, the
Sum of FIFTEEN POUNDS Sterling, to enable HIM or HER to begin the World!

And also,

Ten pounds Sterling per Annum during life to every Person now living of the Age of
FIFTY YEARS, and to all others when they shall arrive at that Age, to enable them to
live in Old Age without Wretchedness, and go decently out of the World (Paine
1797/1995, p. 409).

Paine's political thought is equally rooted in the American and the French Enlightenments
and reflects his friendship with the stellar figures of each, viz., Thomas Jefferson and the
Marquis de Condorcet. On the French side, Paine's thought derives from the Physiocrats,
whose work he may have encountered through Condorcet or directly.

Agrarian Justice is a short manifesto addressed to the Directory which then governed France.
Paine takes from John Locke the basic idea that in the state of nature all property is held in
common. But:

Man, in a natural state, subsisting by hunting, requires ten times the quantity of land
to range over, to procure himself sustenance, than would support him in a civilized
state, where the earth is cultivated.... [B]ut it is nevertheless true, that it is the value
of the improvement only, and not the earth itself, that is individual property. Every
proprietor therefore of cultivated land, owes to the community a *ground-rent*... and it

is from this ground rent that the fund proposed in this plan is to issue (Paine 1797/1995, pp. 417-8).

Paine goes on to calculate national wealth and mortality rates, using UK data from Prime Minister Pitt the Younger's budget of 1796, plus some (heroic) actuarial assumptions about life expectancy. He assumes life expectancy of 30 at age 21, the age at which people are treated as entitled to receive settlements and therefore the age at which each would get his or her £15 citizen's stake to begin the world. He notes that fewer than half the babies born reach that age. He therefore assumes that 1/30 of those over 21 die in any one year, and that 1/30 of the (privately-held) assets in the economy change hands each year. The same proportion of national wealth is therefore available annually for redistribution, which Paine proposes to do by a 10% inheritance tax. He calculates that this would suffice both for his £15 endowment and his old age pensions.

Thus the Paine scheme begins by being a land tax based on Lockean ideas, but ends up as an inheritance tax on all assets, real and personal. It is worth disentangling Paine's arguments, spending a moment on their Enlightenment forebears, and highlighting the parts which remain relevant to modern debate. There are three components to the argument.

1. *Land was originally an unowned common-pool resource. It is therefore legitimate for the community to tax it.* This argument itself comes in two varieties. One comes direct from Locke's *Second Treatise of Government*, Chapter V on property. Paine's argument that hunter-gatherers, lacking private property, remain poor echoes Locke ('And a King of a large and fruitful Territory there [among the Native Americans] feeds, lodges, and is clad worse than a day Labourer in England' – 2nd *Treatise* § 41). It was also used, perhaps independently, by Condorcet, whose *Esquisse* ('Sketch of a history of the progress of the human mind' – Condorcet 1795/1988) had been published posthumously shortly before *Agrarian Justice*. The *Esquisse* contains a

sketch of a future social security system which is quite like Paine's and is likewise (more securely than Paine's) grounded on actuarial calculations of life chances.

The second justification of land tax came from the French Physiocrats. The orotund Victorian definition of their programme from the Oxford English Dictionary cannot be bettered: *they maintained that society should be governed according to an inherent natural order, that the soil is the sole source of wealth and the only proper object of taxation, and that security of property and freedom of industry and exchange are essential (OED Online s.v. physiocrat)*. The physiocrats influenced the reforming minister Turgot (1774-6), who tried to introduce internal free trade to France.

Turgot's disciple Condorcet, who collected his nickname of *le mouton enragé* (literally, "the rabid sheep", although it doesn't sound quite so rude in French) at this time, published furious pamphlets on free trade in corn based on the Physiocrats' ideas. Thus these ideas were in the air and Paine certainly absorbed them.

2. *There is no natural right to bequeath, nor to inherit. Inheritance tax is therefore morally justified.* Land reform was a common theme of the French and American Enlightenments. Reformers in both countries tried to sweep away the old rules of inheritance after their respective revolutions. The most eloquent of these reformers was Thomas Jefferson. In a famous letter to James Madison, written from Paris in 1789 as Jefferson was completing his term as American Minister in France, Jefferson wrote:

The question Whether one generation of men has a right to bind another, seems never to have been started either on this or our side of the water.... I set out on this ground which I suppose to be self evident, "*that the earth belongs in usufruct to the living*"; that the dead have neither powers nor rights over it.... Then no man can by *natural right* oblige the lands he

occupied, or the persons who succeed him in that occupation, to the payment of debts contracted by him. For if he could, he might during his own life, eat up the usufruct of the lands for several generations to come, and then the lands would belong to the dead, and not to the living, which would be the reverse of our principle. What is true of every member of the society individually, is true of them all collectively, since the rights of the whole can be no more than the sum of the rights of individuals. (TJ to James Madison, 06.09.1789, in Jefferson 1999, p. 593).

Jefferson calculated that the probability that one of any pair of contractors has died reaches 0.5 somewhere between 19 and 20 years after the date of the contract. As the dead cannot bind the living, all contracts should be void after 19 years. We have explored the Condorcetian origins of this idea elsewhere (McLean and Hewitt 1994, pp. 58-9). Like other ideas floating around the Condorcet-Jefferson-Paine connection, it was grounded in the new science of applied probability and the new data from actuarial life tables, that fascinated all three thinkers. (For completeness it must be added that Jefferson's idea would have been very beneficial to Thomas Jefferson. He never escaped the crippling debts he inherited from his father-in-law, and in the end he died bankrupt. His executors had to sell Monticello and his prime slaves to relieve some of the debts of his estate. Sloan 1995).

3. *It is legitimate to levy capital taxes on personal as well as real property.* This is Paine's really original move – perhaps his only original move.

Personal property is the *effect of Society*; and it is as impossible for an individual to acquire personal property without the aid of Society, as it is for him to make land originally. Separate an individual from society, and give

him an island or a continent to possess, and he cannot acquire personal property (Paine 1797/1995, p. 428).

In other words, personal property can only exist because of the norms and conventions of law and exchange. These are social constructs. Therefore the society which makes them possible has a right to tax them. We shall see below how this argument was most forcibly used in the UK between 1909 and 1914. It is time to revisit it.

2.2 David Ricardo

David Ricardo (1772-1823) refined and formalised the ideas of the Physiocrats. In *On the Principles of Political Economy and Taxation* (1817), Ricardo expounded his conception of rent with wonderful clarity.

Rent is that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil. It is often, however, confounded with the interest and profit of capital, and, in popular language, the term is applied to whatever is annually paid by a farmer to his landlord. If, of two adjoining farms of the same extent, and of the same natural fertility, one had all the conveniences of farming buildings, and, besides, were properly drained and manured, and advantageously divided by hedges, fences and walls, while the other had none of these advantages, more remuneration would naturally be paid for the use of one, than for the use of the other; yet in both cases this remuneration would be called rent. But it is evident, that a portion only of the money annually to be paid for the improved farm, would be given for the original and indestructible powers of the soil; the other portion would be paid for the use of the capital which had been employed in ameliorating the quality of the land, and in erecting such buildings as were necessary

to secure and preserve the produce. (Ricardo, *Principles*, ch. 2, cited from <http://www.econlib.org/library/Ricardo/ricP.html>).

Ricardo was the founder of classical economics. But he was also the godfather of its illegitimate children, Marxian and Georgeite economics. *Rent invariably proceeds from the employment of an additional quantity of labour with a proportionally less return*, argues Ricardo later in the same chapter:

The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. It is a symptom, but it is never a cause of wealth; for wealth often increases most rapidly while rent is either stationary, or even falling. Rent increases most rapidly, as the disposable land decreases in its productive powers. Wealth increases most rapidly in those countries where the disposable land is most fertile, where importation is least restricted, and where through agricultural improvements, productions can be multiplied without any increase in the proportional quantity of labour, and where consequently the progress of rent is slow (*ibid.*)

Therefore, for Ricardo, as later for Henry George, land rents were inherently monopolistic. Landowners *as landowners* contributed nothing, unlike suppliers of capital and of labour, to the productive economy, and their rents rose inversely with prosperity. An abundant factor of production commands a zero rent. Under perfect competition, rents from capital and labour will tend to zero. Ricardian rents from land will not.

2.3 Henry George and David Lloyd George.

Ricardo's theory of rent helped to mobilise the Anti-Corn Law League and the Repeal of the Corn Laws in the 1840s. But what seem to be the logical implications of Ricardian rent theory for taxation were not drawn until two generations after Ricardo.

In 1871, Henry George (1839-97) was a journalist in a San Francisco which was growing with astonishing speed thanks to the Gold Rush. Land and railroad owners were making conspicuous monopoly profits. The Central Pacific Rail Road in particular controlled all overland traffic from the East, and its proprietors (including sometime Governor Leland Stanford) had extracted monopoly rents from the US people, via the US Congress, in the legislation empowering them to build the western end of the intercontinental railroad. (It is fair to add that they were less straightforwardly crooked than their Midwest partners the Union Pacific, who bought up Congress with UP stock). George started to write what became *Progress and Poverty* (George 1879/[1911]).

As a self-taught Ricardian shaped by his experiences in California, George (1879/[1911], p. 234) argued for the abolition of private property in land. However, his interim measure brought him far more fame than his fundamental policy. For *Progress and Poverty* does not proceed with a programme of land *nationalization*, but rather of land *taxation*. In a chapter headed “The proposition tried by the canons of taxation”, George observes

The best tax by which the public revenues can be raised is evidently that which will closest conform to the following conditions:

1. That it bear as lightly as possible upon production – so as least to check the increase of the general fund from which taxes must be paid and the community maintained.
2. That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers – so as to take from the people as little as possible in addition to what it yields the government.
3. That it be certain – so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to law-breaking and evasion on the part of the taxpayers.

4. That it bear equally – so as to give no citizen an advantage or put any at a disadvantage, as compared to others (George 1879/[1911], p.290).

Note that these Georgeite principles of efficient and equitable taxation go beyond, and are detachable from, the Ricardian theory of rent. They are obviously compatible with Ricardo, but one could support George's principles of optimal taxation (as for instance do Kay and King 1990, ch. 12 passim, esp. at p. 179) without being committed to full-dress Ricardianism.

In the last decade of his life George became closely identified with what his followers have always called "the single tax" (Barker 1955, p. 509). They argued, not just that land should be taxed, but that *only* land should be taxed. This was to regress from Ricardo to the Physiocrats, and has unfortunately given the followers of Henry George a cranky reputation which has prevented their ideas from being taken as seriously as they deserve to be.

Henry George had far more influence on the British and American left than did Karl Marx (see, .e.g., Pelling 1965, p. 10). He visited Ireland and Britain during the Irish land campaign and British agricultural depression in 1881-2 and 1884-5. His ideas spread throughout the British left: to the Liberal and Irish parties, and later in the Labour Party. They reached their apogee in Lloyd George's two budgets of 1909 and 1914. In the 1909 budget, Lloyd George introduced taxation of land values, to be implemented when a land valuation register was ready. It was this aspect of the budget that most inflamed the dukes and that provoked Lloyd George's finest oratory:

[A] fully-equipped Duke costs as much to keep as two Dreadnoughts - and they are just as great a terror - and they last longer.

Anticipating (and helping to provoke) the House of Lords' rejection of the budget, Lloyd George went on

The question will be asked “Should 500 men, ordinary men chosen accidentally from among the unemployed, override the judgment – the deliberate judgment – of millions of people who are engaged in the industry which makes the wealth of the country?” That is one question. Another will be, who ordained that a few should have the land of Britain as a perquisite; who made 10,000 people owners of the soil, and the rest of us trespassers in the land of our birth[?]... These are the questions that will be asked. The answers are charged with peril for the order of things the Peers represent; but they are fraught with rare and refreshing fruit for the parched lips of the multitude... (At Newcastle upon Tyne, October 10, 1909, quoted by Jenkins 1968, p. 94).

These were perhaps the most memorable speeches ever made by a Chancellor of the Exchequer. They are in direct line of descent from Paine, Ricardo, and Henry George. And not only Lloyd George took up the message in that administration. In reading the quotation below, note not only who first said it in 1909, but who revived it in 2003.

Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains — and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived. (Winston Churchill, 1909, quoted by Barker 2003, p. 116).

In 1909 Winston Churchill was a Liberal minister. His Georgeite speech was made in the Commons in defence of his colleague Lloyd George's budget. In 2003 Kate Barker, a business economist and member of the Monetary Policy Committee of the Bank of England, was commissioned by Chancellor Gordon Brown to report on the stickiness of the housing market in the UK and to propose remedies. The analytical chapter from which the quotation comes carries all the implications of an argument in favour of land tax, although in her recommendations Barker rejects land tax on the grounds that betterment taxes have always failed. So they have; but betterment taxes are not the same as land taxes. The next section of this paper argues that land tax could work. It goes on to explore its suitability as a base for funding a Citizen's Stake.

The land tax campaign of 1909-14 failed. By 1914 the register of land holdings was still not ready. Lloyd George returned to land taxation in his 1914 Budget, relying on his capacity for brilliant improvisation to work out the details. That had worked when he introduced National Insurance in 1911. This time, on a very complicated subject with powerful vested interests in opposition and no support from his own Treasury officials, Lloyd George failed. The outbreak of World War I put paid to land tax in the UK. Discussion has only restarted in a serious way since 2003. As a sort of echo of the Big Bang of 1909-14, the Liberal Party retained a commitment to "site value rating", but in 2004 its successors, the Liberal Democrats, severely watered down that commitment in favour of replacing Council Tax by local income tax (they nominally remain in favour of site value rating for business premises, but we are not hearing about that in the 2004 local election campaign). That may turn out to be a perverse move in just the wrong direction at just the wrong time.

3. *Could land tax work?*

Since Lloyd George, there have been several abortive attempts to tax the windfall gains from planning permission. Perhaps because it is so old, land value taxation has a cranky image – an obsession of bearded Liberals in sandals? However, the standard text on the UK tax system,

one of whose authors is now the Governor of the Bank of England, insists that ‘the underlying intellectual argument for seeking to tax economic rent retains its force’ (Kay and King 1990, p. 179). Since 1947, land use in the UK has depended on its planning status. If a field is zoned for agriculture, it is worth a few thousand pounds per hectare. If it is zoned for business, it may be worth millions of pounds per hectare. Land value taxation is efficient (because it does not distort the incentives to develop land) and equitable (because it returns some of the economic rent to the people who created it, namely the local authority and its electors). Henry George (see quotation above) recognised both of these properties. Tom Paine recognised the second. As Kay and King explain (p.181):

Suppose the award of planning permission increases the value of a plot of land from £5000 to £1 million. Then even if the resulting gain were taxed at 90%, the developer would still be better off by almost £100,000 using the land for housing than retaining it for agricultural purposes. Substantial incentives to bring projects forward would remain.

There are two main objections: the expectation that the tax would not be permanent, and the costs of assessment. Property interests have always seen off past attempts at land taxation. This happened not only in 1909 and 1914, but also, as Barker (2003, Box 7.3) notes, in 1947, 1967, 1974, and 1985. On each occasion property owners had an incentive to delay transactions in the hope that their lobbying against the legislation would succeed. On each occasion, they did succeed. The inference to draw is not Barker’s inference that land taxation is unfeasible. It is that any tax should be a tax on capital value, not a tax on transactions. That also argues for land tax over inheritance tax as a more truly Paineite basis for a citizen’s stake, to which I return in the last section of this paper.

The second objection to land value taxation is the difficulty of assessment. This is less of a problem than it seems. The same difficulty faces both business rates and council tax, the two

taxes that land value tax would replace (in whole or in part). Both of these taxes are linked to valuations that rapidly go out of date. Council tax bands are determined by houses' value in 1991. The next Council Tax revaluation is not due until 2007. The base for Uniform Business Rate is revalued only every five years. The more time that elapses between valuations, the more those whose assets have risen in relative value have an incentive to block revaluation. It was just such a revolt against rating revaluation in the 1980s that led to the poll tax disaster.

Enough houses change hands every year that the capital value of every house in the land could be calculated annually. Estate agents do it all the time, in their ordinary business. Therefore there is no reason why a public sector valuer (the existing Valuation service or a successor) could not do the same. Commercial and industrial property changes hands less often, so that annual valuation of every parcel of land may not be feasible. But this is not an insuperable objection. At worst a government could stick with the existing five-yearly revaluation, which could be updated whenever a sale took place. A good deal of detailed work would be required in order to calculate the correct taxation basis when land is leased rather than sold (and any prospect of a land value tax would give owners an incentive to sell leases rather than freeholds). So land value taxation is not an option for tomorrow. But it could be an attractive option for 2009, the centenary year of the People's Budget. A National Land and Property Gazetteer is already being constructed, by uniting databases from the Ordnance Survey, the Royal Mail, and local and central government. In principle it can identify every taxable hereditament in the UK. And it is not a snooper's charter, because it contains information only about places, not about people.

A third objection, currently politically salient, is that any property tax including land tax penalises the "asset-rich but cash-poor" – who in current debate are characterised as "Devon pensioners". The first, robust, answer, is that Devon pensioners should face the real opportunity cost of continuing to live in large houses, and they have the options of taking in lodgers or trading down to smaller houses. A softer answer is that the tax liability on a

freehold house could be deferred if the householder cannot pay, and become a charge on the estate when the house is sold. Local authorities would be able to borrow against this debt owed to them, and would therefore not be deprived of a cash flow.

Land tax would be a tax on land value, or more strictly on the economic rent deriving from land value. Therefore it should be levied at a zero rate at land that has no value above baseline agricultural use – a zero rate band up to £10,000/hectare has been proposed. Above that, it would not depend on whether land had a planning permission, but on whether the market believed that it would get planning permission – thus it would catch speculative appreciation in land values on urban fringes. A fourth objection is therefore that if it is partly a local tax (which on balance I think it should be), land tax gives cash-strapped councillors an incentive to permit sprawling developments and US-like malls from which the 1947 system protects the UK. The answer to that objection is that councils, like Devon pensioners, should face the true opportunity cost of their decisions. And so should the people they represent. Refusing development comes at a cost which at present local citizens do not bear. They should face the open choice: *Permit development and face lower local tax rates, or refuse it and face higher local tax rates.* The ballot box should decide.

This argument works both ways. If an authority proposes a development that reduces land values – say an incinerator or a tannery next to a housing estate – it is right that those who take the decision should face the true costs in a reduced land tax income flow.

Finally, as a land tax would tax Ricardian rents, it must be a tax on *that portion of the produce of the earth, which is paid to the landlord for the use of the original and indestructible powers of the soil*, to repeat Ricardo's words. Therefore it is a tax on land, not on the structures that sit on the land. This means that a future valuation regime would have to separate those two. In the case of houses, that is both fair and uncomplicated. Every Sunday the papers tell you what

improvements add value to your house and what do not. In the case of commercial and industrial premises, it is admittedly more complicated.

4. *Could it fund a Citizen's Stake?*

To get a feeling for the magnitudes involved, Table 1 reproduces the latest (Budget 2004) UK official estimates of the current yield of each tax.

Table 1: UK government: Current receipts

£ billion

	Outturn 2002-03	Estimate 2003-04	Projection 2004-05
<i>Inland Revenue</i>			
Income tax (gross of tax credits)	112.6	119.1	127.8
Social security contributions	64.6	72.2	77.7
Corporation tax	29.5	28.7	34.8
Tax credits	-3.4	-4.8	-4.1
Petroleum revenue tax	1.0	1.2	1.0
Capital gains tax	1.6	1.2	1.5
Inheritance tax	2.4	2.5	2.8
Stamp duties	7.5	7.5	9.4
Total Inland Revenue (net of tax credits)	215.8	227.6	251.0
<i>Customs and Excise</i>			
Value added tax	63.5	69.7	73.1
Fuel duties	22.1	22.8	24.4
Tobacco duties	8.1	8.1	8.1
Spirits duties	2.3	2.4	2.4
Wine duties	1.9	2.0	2.0
Beer and cider duties	3.1	3.2	3.3
Betting and gaming duties	1.3	1.3	1.3
Air passenger duty	0.8	0.8	0.9
Insurance tax premium	2.1	2.3	2.4
Landfill tax	0.5	0.6	0.6
Climate change levy	0.8	0.8	0.8
Aggregates levy	0.2	0.3	0.3
Customs duties and levies	1.9	1.9	1.9
Total Customs and Excise	108.7	116.4	121.6
Vehicle excise duties	4.6	4.7	4.9
Oil royalties	0.4	0.0	0.0
Business rates	18.5	18.7	19.1
Council tax	16.7	18.6	19.7

	Outturn 2002-03	Estimate 2003-04	Projection 2004-05
Other taxes and royalties	10.9	12.3	13.2
Net taxes and social security contributions	375.6	398.2	429.4
Accruals adjustments on taxes	-0.3	3.0	0.8
Less own resources contribution to European Communities (EC) budget	-4.4	-4.5	-3.7
Less PC corporation tax payments	-0.1	-0.1	-0.1
Tax credits adjustment	1.1	0.5	0.6
Interest and dividends	4.5	4.1	4.9
Other receipts	19.8	20.3	22.7
Current receipts	396.2	421.5	454.7

Source for Table 1: Budget 2004, Financial Statement & Budget Report (London: HM

Treasury 2004), Table C8

Table 1 shows that tax proceeds on capital transactions are low, whereas even under the existing regime tax proceeds on (purported) land values are much higher. In the former class, IHT, Capital Gains Tax, and Stamp Duty jointly yielded £11.5 bn (3% of receipts) in 2002-03. In the latter class, business rates and council tax jointly yielded £35.2 bn (9% of receipts). On the expenditure side, the Child Trust Fund is estimated to cost £350 m (i.e., £0.35 bn) in 2003-4, and slightly less in each of the next two years (Budget 2004, Table 1.2).

Secondly, neither class of taxation comes anywhere near capturing the windfall gains of which Winston Churchill spoke in 1909, nor anywhere near recouping any of them for the public sector. Consider the case of transport improvements, for example. The Jubilee Line Extension, from Green Park to Stratford, was commissioned in the early 1990s for completion in time for the opening of the Millennium Dome, at its North Greenwich station. Because it was common knowledge that government credibility depended on its opening by 1 January 2000, suppliers of both capital and labour to the project extracted huge rents, and its costs overran hugely (for that and other reasons). Nevertheless, studies by Transport for London show that, even at the bloated costs incurred, the Jubilee Line Extension could very easily

have been financed by a land tax. Property values adjacent to its stations rose hugely – by £2.8 bn at Southwark and Canary Wharf alone. Even at stations not on the Extension, property values rose by more than the general rate. People living near Stanmore station at the other end of the line had a new means of getting conveniently to other parts of London – not only to the Dome, but also to useful places such as Southwark and Canary Wharf. However, the UK government not only failed to extract any tax revenues from the uplift at Canary Wharf, it actually offered the area an undeserved and instantly capitalised tax break in the shape of stamp duty exemption for sales of commercial properties in “deprived wards”.

Transport improvements cost money. The commonest source of land value gain, however, costs nothing except staff wages: namely, planning permissions for changes from a low-rent land use (such as agriculture) to a high-rent use (such as an out of town shopping centre). Here, the economic rent is created because planning law, for basically benign reasons, deliberately creates a scarcity. Left to themselves, market forces might produce a suburban Britain that looks like suburban America. Almost nobody at any point of the political spectrum wants that. Therefore, since 1947, there have been tight zoning restrictions on land-use planning in the UK. However, there has been too much sentiment and too little hard-headedness about the economic and social issues involved in the 1947 regime, which is still in place. The 1947 regime is very indulgent to farmers, which was appropriate after the blockades and food shortages of both World Wars, but no longer is. It produced socially desirable policies such as Green Belts by command-and-control, not by price signals¹. And, although nobody wants an unregulated market in land use, a regulated market would so far outperform the present command-and-control regime that an expanded Citizen’s Stake could be financed as an almost incidental benefit, out of the small change.

¹ Another telling citation from Barker refers to the late 1940s and early 1950s, when the Green Belt proposed by the 1943 Abercrombie Plan for green space in and round London had been implemented, but Abercrombie’s idea of inner-urban parks on cleared bomb sites had succumbed to development pressures: “Children playing in London’s increasingly busy streets, and without most of the new local parks that [Abercrombie] had promised, could console themselves with the thought that 10 or 15 miles away there was a belt of agricultural land that they would never be able to spoil” (S. Inwood quoted by Barker 2003, p. 36).

At present the UK has a raft of bad land taxes. They include Council Tax; business rates; Stamp Duty; IHT and CGT to the extent that they catch increases in land values (which is not much, as those who benefit can pay for sophisticated tax advice); and, probably worst of all, Section 106 Agreements. The last are agreements between a developer and a locally authority whereby the developer agrees to contribute to some socially desired outcome (such as subsidising social housing or urban transport) in return for the grant of planning permission. S.106 agreements are the worst sort of disguised taxation. They are extremely costly to both developers and local authorities; and the gains they produce are in no way commensurate to the cost. A simple auction of planning permissions would do far better. A tax levied on land value (and *not* on transactions, as IHT, CGT, Stamp Duty, and the abortive 1947, 1967, and 1974 land taxes all were) would be better yet.

5. Conclusion: Implementing Paine

Tom Paine's argument is sound. Landowners accrue monopoly rents, which society has a right to tax for two reasons: first, that Ricardian rents should be taxed even if they arise without policy intervention; second, that policy interventions confer windfall gains, which it is appropriate for the community to tax. Paine assumed that the right tax was inheritance tax, but this can be queried. It is unpopular; it is a tax on transactions, not on wealth; it is easy to evade. Death is an involuntary transaction, unlike those that trigger liability to CGT and Stamp Duty – but a taxpayer with foresight can give away assets before death in order to mitigate IHT liability.

Nothing in Paine's argument implies that IHT is the only appropriate tax, and Henry George succinctly gives the reasons why land tax is both the most efficient and the most equitable. It is efficient because it is hard to evade and because it minimally distorts economic activity. It would have beneficial effects on UK housing supply, as Barker's evidence shows, even though she shies away from that conclusion herself.

Admittedly, its transaction costs are high, but these have to be incurred already for the existing tax regime of council tax and business rates. Also, the formal incidence of land tax lies on landowners, whereas the formal incidence of business rates lies on occupiers. In economic theory, this difference matters not at all, for the reasons given by Kay and King (ch. 1 *passim*). In practice it would create considerable problems of transition, because UK business premises are typically let on long leases with upward-only rent reviews. A tax change that transferred liability from occupiers to freeholders would in the long run be neutral because rent agreements would change to accommodate it. But there would have to be some (perhaps messy) transitional arrangements.

The clinching argument for land tax, however, is that its net benefits are so great that it could fund a Citizen's Stake almost on the side. The official numbers given in Table 1 show that the costs of the Child Trust Fund are low, whereas the yield of the existing (bad) land taxes is high. Better taxes, which stimulated real economic activity where the present tax regime suppresses economic activity (in the case of S.106 agreements) and encourages bubbles (in the case of Council Tax), could yield more while costing less (as a percentage of economic activity involving land). Policymakers have an opportunity to implement Tom Paine's dream. Which is also the dream of David Ricardo, Henry George, and Lloyd George. What better way than that could there be to mark the centenary of the People's Budget in 2009?

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