

## 2. Reclaiming land value for public benefit – the case for a land value tax

It is true that, if starting from scratch, the state ownership of land could be a considerable advantage. People and businesses could be charged rent for the land that they occupy based on its value, and the revenue used to invest in public services and other productive activities for public benefit. This would ensure that society as a whole, rather than private landowners, would benefit from the increasing value of land arising from the social and economic activities of society.

However, state ownership by itself is no guarantee. Without measures taken to value land in relation to its location and quality, and collecting the rent accordingly, those occupying the land will benefit at the expense of the public at large. Moreover, land will tend to be used indiscriminately, irrespective of its value.

This happened, for example, in the former Soviet Union, where all land was state owned, and, moreover, treated as a free good (as was capital). Consequently, there were many instances of land being used inappropriately or inefficiently. In particular, it was common practice for enterprises (almost entirely state owned in the Soviet Union) to hold land vacant indefinitely in case they might need it later. This meant that the rest of society lost out from making the best use of what was often valuable land in a prime location for more beneficial purposes. This also distorted investment decisions, which meant that capital was not necessarily invested in productive activities that made the best use of the land that was available.

Nevertheless, since land use was under state control – as indeed it is in most countries, including Britain – it cannot be said that land use was entirely indiscriminate. The problem was that decisions were based not so much upon the economic value of particular sites, but more according to administrative convenience, and the relative effectiveness of lobbying by enterprise managers, local politicians and other vested interests, and the connections they had with planning authorities.

Meanwhile, in countries such as Britain, where the private ownership of land is thoroughly entrenched, would nationalisation, in which all private titles to land were abolished and land declared public property, be the most effective course for reclaiming land value for public benefit? Is it even necessary?

If a political party included in its manifesto land nationalisation without compensation, one needs little imagination to picture the propaganda war that would ensue – paid for by the wealthy 0.5 per cent of the population who own most of Britain's land. Britain's 17 million homeowners could easily be persuaded that the government was about to steal the land that they had bought in good faith along with their homes, even though the state ownership of land would make no difference at all to their right to the land.

Alternatively, if compensation were offered, and if based on market values – which inevitably would incorporate a speculative element – the amount of money involved would be astronomical. It would also be immoral. As Henry George pointed out, 125 years ago, in his book, *Progress and Poverty*:

‘...to buy up individual property rights would merely be to give landholders in another form a claim of the same kind and amount that their possession of land now gives them. It would be to raise for them by taxation the same proportion of the earnings of labour and capital that they are now enabled to appropriate in rent. Their unjust advantage would be preserved...’

In fact, the key issue is not the confiscation of land itself, but that landowners should pay for the land that they occupy according to its value, and the revenue used for public benefit. This would be fair, because it is not the landowners who created the land, or its value. The land was already there, and it is society as a whole that creates its value.

The most effective way of ensuring that the public as a whole benefits from the value of land would be for the state, acting on behalf of society, to collect an annual tax from all owners of land in proportion to its value.

It should be emphasised here that what is being proposed is not a tax that would be additional to the taxes that we already pay, but would be in their stead, and allow other taxes that have an adverse economic impact to be eliminated or reduced. In fact, a land value tax (LVT) is not really a tax at all in the normal sense.

Thus, in contrast to other taxes, LVT does not take anything away from landowners that they have been responsible for creating, since it is society as a whole that creates the value of land. In other words, LVT is in no way a penal tax, and it does not act as a disincentive as does taxation that falls on production or earnings. Rather, it would be a payment by the user of the land for the natural opportunities of climate, fertility or position that he or she exclusively enjoys, together with the opportunities associated with

particular sites that are created by the economic and social activities of all of society – which is why some commentators have suggested that LVT should be renamed ‘location benefit levy’.

Apart from the moral argument that such a tax would return to society the value of land that society itself had created, it would have a number of other economic benefits. First, it would make more efficient use of land. Landowners would have to pay the tax according to the value of their land even if they could not make the best use of the land in line with prevailing planning regulations – in which case, they would have every incentive to sell it on as quickly as possible to someone else who could make more economic use of the land. It would end the wastefulness of derelict land and decaying buildings standing empty for years on end that blight neighbourhoods. Furthermore, it would more or less end speculation on land, because it would become too costly.

By gradually raising the rate of LVT – and at the same time reducing other taxes – land ownership would begin to lose all significance. Then, the only point of owning land would be to use it. In other words, the income and profit from land would derive solely from the particular economic activity or buildings on the land. There would be no gain simply from owning land, as now, which, as explained above, is at the expense of the rest of society.

The many economic and social benefits of LVT – over and above its huge revenue raising potential for funding public services – is well illustrated by the US city of Harrisburg, which has put into practice a system of land value tax, as summarised in the next section.