

Location Matters More Than Most People Realise

Dave Wetzel book review for “The Valuer”,
Magazine of the Institute for Rating, Revenues and Valuation (IRRV):
“Location Matters – Recycling Britain’s Wealth” by Tony Vickers
£8.95 Shephard-Walwyn Publishers (Tel 020 8241 5927)

With a foreword by Chris Huhne MP this book provides a timely reminder that land, the surface of our planet, is essential for mankind’s survival.

Far too many economists closely examine labour, capital, inflation, money supply, credit and trade etc. without giving any thought to the fact that we all have to access land and natural resources in order to survive.

We grow our crops on land; we mine land for our raw materials; we erect our buildings on land and we use land for transport and our leisure activities.

Tony Vickers gives a clear description of the essential role that land, (“not just the rolling acres” - but both rural and urban land), plays in the production of wealth. He draws attention to the approach of the classical economists from Adam Smith to the present day who not only described the role of economic rent in the economy but questioned why landowners should benefit from a free gift of nature that requires no capital or labour for its production, that should rightly benefit everyone and is therefore an ideal subject for taxation.

Our usual taxes like income tax on wages, corporation tax on profits and vat on trade - all distort human behaviour and consequently also distort the economy, reducing GDP and creating unemployment and poverty - whereas an annual Land Value Tax (LVT) levied on the economic rent of all sites has no distortionary effect on the wider economy.

This is because land rent is a surplus after the other costs of production have been met. Higher land prices do not produce more land but simply add to the financial benefit of landowners. Taxing this surplus actually encourages landowners to abandon speculation on unused sites and to put their idle land to practical use in order to provide an income with which to pay the land tax. Hence, business premises and homes become more affordable and the expensive trend for urban sprawl into the countryside is reversed.

This book describes the history of LVT that was introduced in Chile, New Zealand and Hong Kong even before the 19th Century economist, Henry George wrote his seminal work “Progress and Poverty” in 1879* in which he advocated annual land value tax as a moral issue (sharing the benefits that mother nature provides), a way for a country to improve its economic performance and also redistributing wealth from inactive landowners to the producers in society (both entrepreneurs and workers).

Tony Vickers shows how this theory has been successfully implemented in various countries around the world. Japan, Hong Kong and Taiwan owe much of their economic success since the Second World War to their implementation of policies that collect surplus land wealth. Australia,

New Zealand and Denmark are cited as modern economies benefiting from land value capture as are the West Indies, the Baltic Countries and parts of Africa and the United States. He also examines the reasons why some jurisdictions have dropped LVT and this usually relates to unfair valuations and politicians bending to special interest groups, like farmers and householders who use personal pleading for preferential land tax rates which distort the whole process and bring it into disrepute.

This book gives an outline of the unsuccessful struggle to introduce LVT to the United Kingdom. How Lloyd George and the 1909 Liberal government introduced "The People's Budget" to tackle the land question with LVT but how these efforts fell in the face of entrenched opposition from the wealthy landowners and then interrupted by the start of the First World War. Later Labour Governments advocated LVT but failed to implement it successfully and since the Second World War, the Labour Party has preferred to introduce disastrous development land taxes (akin to the unpopular Planning Gain Supplement recently dropped by the current government). Taxing the one-off event of development can easily be avoided by not developing and thus deterring the very action that society requires if we are to build more homes in sensible urban environments, whereas an annual LVT has the opposite effect and can not be avoided.

Tony Vickers is quite upbeat on the current prospects for LVT to be introduced into the UK. He examines the effect on the LVT debate of devolution to Scotland, Wales, Northern Ireland and London, Government and other reports including the favourable references to LVT in the Barker, Lyons and Burt reports (although none of them included LVT in their recommendations), the position of the political parties (including the Green Party who advocate full LVT), EU enlargement and Globalisation. He explains how LVT will address many outstanding problems including the need for sustainability, affordable housing, improved transport, jobs, regeneration, health services, education and agriculture.

My only reservation would be on the time-scale that Tony Vickers gives for implementation. In this book he suggests it could be as late as 2020 before a British Government is collecting only £50bn a year from LVT out of the £550bn it currently raises by taxation. When one considers that it took Ken Livingstone less than three years to introduce the complexity of a Central London Congestion Charge, then thirteen years from now for LVT sounds far too long. A determined Government would find that the valuation of every site will be much facilitated by modern computer GIS systems and the record of land ownership in the UK is already being slowly compiled and could easily be completed by giving landowners a period of a few months to register their claim of ownership.

Annual Land Value Tax is gradually appearing on the political agenda. The Financial Times, The Guardian, Shelter the housing charity, the Institute of Economic Affairs, the Labour Housing Group, the Labour Representation Committee and others have recently published articles advocating LVT. John McDonnell MP, the Labour challenger to Gordon Brown, made LVT a part of his election campaign. The Liberal Democrats continue to support Site Value Rating to replace business rates and many transport experts are beginning to realise that the Government's recent horse-trading for business contributions to help pay for CrossRail would have been totally unnecessary if the current and increased land values on all sites (developed and undeveloped) which the line will create were collected by means of LVT.

It is generally accepted that LVT would be cheaper to collect than most other taxes. In the USA valuers describe how much easier it is to value land and even in the UK there have been two valuation exercises in Whitstable and Tony Vickers has been involved in facilitating land valuations in Liverpool and Oxford as demonstration projects.

In Harrisburg, the capital of Pennsylvania in the United States, the Mayor has increased the poundage on his land tax to six times that on the City's buildings. The results have been dramatic. In an area which has lost heavy industry and coal production, described as the "rust-belt" of the USA, Harrisburg almost uniquely has seen empty sites developed, new businesses attracted to the city, new homes built, unemployment fall and even crime reduced by 58%! Stephen Reed, the Mayor, does not claim that LVT is the only reason for these improvements, but he does describe it as the catalyst, the key to the changes that have occurred.

It is surely time that all UK property professionals gave this subject a proper study and added their voice to those who are already suggesting this very modest but very beneficial change.

Let's remember, it is the whole of society – including commercial and residential tenants – that create land values - not landowners!

* A New condensed edition of Progress and Poverty available from Shephard-Walwyn (Tel 020 8241 5927)