Land Value Tax and the New Old Labour Party

Buried in the depths of Labour’s glorious 2017 manifesto was a phrase which echoes back to the beginning of the 20th century:

“We will initiate a review into reforming council tax and business rates and consider new options such as a land value tax, to ensure local government has sustainable funding for the long term.”

Land value tax (LVT) was in all the manifestos of the Labour Party from its conception as the Labour Representation Committee in 1900 until actually enacted as part of the Finance Act in 1931. The government fell shortly thereafter, the Act was repealed by the Tories and LVT was never implemented. The names of Chancellor Philip Snowden and his Prime Minister Ramsay MacDonald became anathema. For this reason perhaps, by the time the 1945 manifesto appeared, all references to taxing land values had been excised, never to be mentioned again – until 2017.

Going back further, land was the only certain source of revenue, primarily to fund wars, until the lawmakers – the landowners - thought of the great wheeze of taxing wages instead.

The late 19th century brought the revival of taxing land in the person of US journalist/economist Henry George and his great work *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth: The Remedy*. The Remedy was LVT. And this is what inspired the founders of the Labour Party.

LVT is, simply, a tax on all land according to its current value levied on the owner. The objective is to collect all land value for public benefit.

Land has no cost of production. It is what nature has provided for free. If an ample supply of land of equal desirability were available, there would be nothing to pay for its use. However, unlike labour and capital – the two other factors upon which the production and supply of all goods and services depend – the supply of land is fixed. We only have one home planet for the foreseeable future.

The value of a parcel of land derives not from anything that the owner can do, but from such things as its geological attributes (including usable resources such as water, minerals and natural flora and fauna), its position in relation to the built environment and public services, and – significantly - permitted use.

Moreover those factors may change over time, so even where land has been bought for a fair price its value changes. (Of course, most land was not bought by the current owners, otherwise more than 70 per cent of UK land would not be owned by less than 6 per cent of us!) Whilst natural resources may become depleted, where there are human settlements the value of land generally increases. The biggest rise in value comes with change of use from agricultural to residential.

So, one of the most important principles of taxing land is maintaining a system of frequent valuations. Fortunately using modern methods this is an easy task nowadays.

The Land Registry holds data on the ownership of more than 85 per cent of land in England and Wales and the rest is likely to be known to other agencies, such as DEFRA which distributes the EU CAP subsidy. So it would not be difficult to introduce LVT within, say, a year.

Although many countries have some form of land tax, few systems are comprehensive or collect more than a trivial amount of land value and they do not provide a template for implementing LVT in the UK. In any case the UK has probably the most extreme differences in land prices in the developed world. This is largely the result of current property taxes. In the case of Business Rates, by including in the assessment buildings and even plant and machinery, they are a drag on production. Council Tax is the most regressive tax we have, where the owner of a mansion in Mayfair can pay less than the tenant of a Weymouth bedsit.

Whilst Business Rates do collect about half of land value, albeit inefficiently, the Borough of Kensington and Chelsea collects a tiny fraction through Council Tax. This is the reason why residential land values are so much higher than commercial land: there is an inverse relationship between taxes and prices. It is common knowledge that ‘Location, Location, Location’ determines house prices. It’s the reason why we have a crisis of unaffordable housing, in London and the South East especially.

In order to collect as much land value as possible the rate of LVT should be the same for all land. However, it would be unfair, let alone politically feasible, to impose at first the same rate on the owner of a home, bought years ago in a now gentrified part of London, as for a local estate agent, say. There is a significant difference between land which can generate an income and land which does not (i.e. owner occupied homes).

One way in which this difficulty could be overcome is to introduce LVT by initially replacing Business Rates with LVT on a simple revenue neutral basis (one rate for all) and Council Tax on a revenue neutral basis for each local authority (rates varying as they do now for Council Tax). Average bills would then be not much different from those under the old system. The rates could be gradually converged and eventually raised to a higher level in order to collect the maximum amount of land value. This might take 20 years or more.

However, Business Rates are not paid by all ‘businesses’. All privately owned land, except that occupied by homeowners, has the potential to provide an income stream and should be covered by the higher initial rate of LVT. After all, the value of this land is directly related to its potential to generate profit. Agricultural land would be included, but since its value is low so would the tax. Farm values will become even lower if the CAP subsidy, based on acreage, is not replaced. There are more efficient ways of subsidising actual farming if necessary.

The most egregious non-payers who would be affected are landlords – the main beneficiaries of housing benefit.

Thus the initial revenue from LVT would be higher than from Business Rates and Council Tax. However, there are a few other property taxes which need to be scrapped, so the overall effect in the first year of implementation might be neutral. Stamp Duty Land Tax just hobbles necessary transactions. Section 106 Agreements and the Community Infrastructure Levy are frankly corrupt. LVT could finance all new infrastructure in a most efficient way, as it would lead to a virtuous cycle of public investment, leading to higher land values, leading to higher LVT revenue, leading to higher public investment.

It would not take long to increase the revenue from LVT, which has the potential to fund at least 30 per cent of all public expenditure. In fact it is essential to boost the revenues which fund local authority expenditure as all direct grant from central government is due to be withdrawn by 2020.

In addition, the introduction of LVT would have the beneficial effect of reducing land, and hence house, prices. It would reduce wealth inequality – most fortunes, especially those accrued through centuries of inheritance, are based on landownership. It would curb financial crises as land price bubbles, which affect the real economy, lie at the heart of financial instability.

What a shame that LVT wasn’t in that 1945 manifesto.

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For further information on LVT visit <http://www.labourland.org/labour-movement/>