Redistributing wealth through free market forces: Land Value Taxation

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Executive Summary

- Most Treasury revenue currently comes from taxes on production, trade, investment and enterprise which distort market forces.
- Taxation systems in Britain, devised and introduced by landowners, have avoided land value taxation which is recognised to be the **only** form of taxation that leaves market forces intact.
- Replacing any of our economically inefficient taxes with a revenue-neutral ‘Community Contribution’ levied on the value of land irrespective of any improvements on it would:
  - enhance general economic prosperity, productivity and competitiveness;
  - shift the tax burden off the less well-off and small businesses;
  - capture returns on public sector investment for reinvestment, creating a virtuous cycle in which state spending drives increasing land value which is in turn harvested to fund further public sector investment to improve the quality of life of citizens, especially the less privileged.
- Compared to other taxes, Community Contribution:
  - is **fair** (the wealthiest pay most and those who benefit most from public sector investment pay most towards it);
  - is **easy to collect** (via office-based assessment systems), **cheap to administer** and **impossible to avoid** (land cannot be hidden);
  - promotes **investment**, **improvement** and **regeneration**.
- Politically expedient transitional arrangements would be necessary to ease implementation for ‘hard’ cases.

Rule Number One of Taxation (TMSIT, TLOIWGD)

Taxes distort market forces: The More Something Is Taxed, The Less Of It Will Get Done:

- taxes on work make it less worthwhile working; if Income Tax were at 100%, not many people would bother going out every day[1];
- taxes on trade raise prices; the higher the rates of Value Added Tax and tariffs, the less domestic consumers buy and the lower the competitiveness of exporters;
- taxes on property discourage improvement; I will be less likely to employ a builder to build my extension or invest in my business premises to enhance productivity if doing so will put my Council Tax bill or Business Rates up;
- taxes on enterprise impede investment; Corporation Tax eats into profits and abolishes potentially wealth-creating economic activity at the margin.

In short, taxes on production, trade, investment and enterprise distort market forces and eliminate activity at the margin (see Box 1): what the Treasury refers to as “deadweight losses”. Such taxes—Income Tax, National Insurance Contributions, VAT, Council Tax, Business Rates and Corporation Tax—account for 77% of UK Treasury revenue[2].

And yet, “taxes are the price we pay for civilised society[3]”: to defend us from foreign aggression and domestic crime; to build and maintain the infrastructure that is essential to modern life; to protect the most vulnerable in society … Nobody, not even the most fundamentalist libertarian would advocate the abolition of all taxes. Does this necessarily mean that we are obliged to accept the rock of market distortion if we are to avoid the hard place of anarchy?

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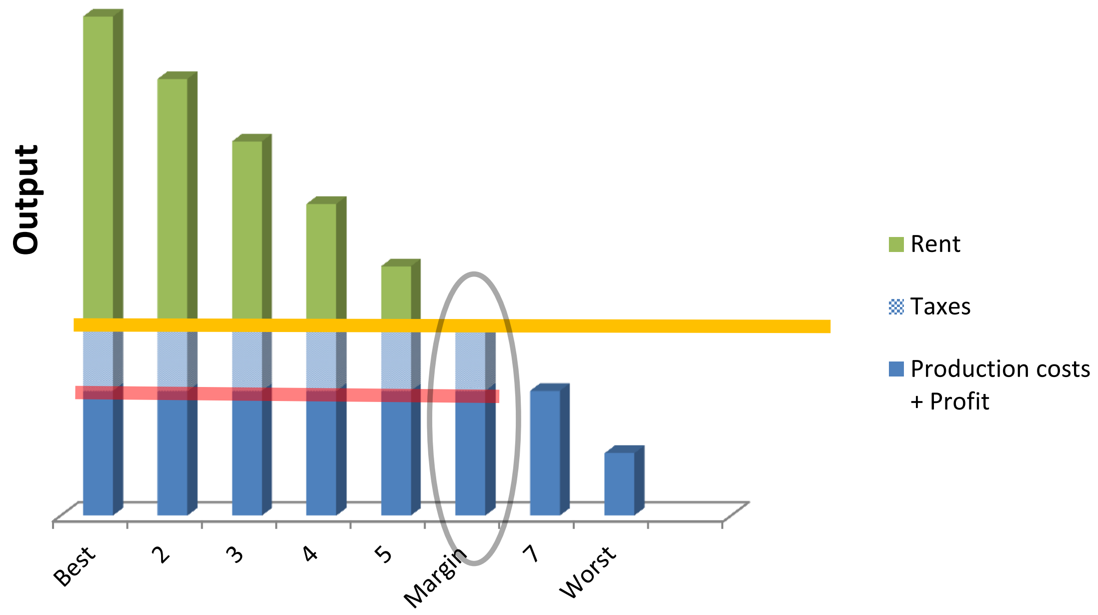
[1] Currently, some 40% of an average British worker’s salary is collected by Treasury payroll taxes, i.e. Income Tax and Employee’s and Employer’s National Insurance Contributions

[2] www.gov.uk/government/publications/summer-budget-2015/summer-budget-2015. Last consulted on 05/01/2017

[3] Oliver Wendell Holmes, Justice of the Supreme Court of the United States, 1904

Box 1. **Law of Rent and taxation: taxes on production and profit**



For any given economic activity, some circumstances will be better than others, notably some locations, e.g. a busker is likely to make more money in Leicester Square Tube station than up a mountain in Scotland; this is nothing to do with quality of output—it could be [*insert name of your favourite singer*] up on the mountain, he/she ain't going to make as much as me [*don't ask*] at Leicester Square. Somewhere near Haringey, our busker will make just enough to make busking worthwhile: this is the margin. Above the margin, output is greater and the producer there gets a higher return because she is in possession of—has a monopoly on—a particular location. Economists call this producer surplus or economic rent; tenants call it rent. In the figure, the margin—where all the action happens—is at Site 6, the point at which production is just worthwhile (yellow line); by Site 7, output is insufficient to meet production costs with enough profit to bother. However, the introduction of taxes on production costs or profits (red line) abolishes the viability of the producer at site 6 who goes out of business and the nation's economy shrinks.

A brief history of taxation in Britain

Until the early 19th Century, government in Britain was essentially funded by adaptation of the Anglo-Saxon "hide" system, a hide being a taxable unit of land based on its potential for agricultural production, i.e. its economic value. Thus one hide of the best land in the figure in Box 1 might be one-tenth the area of one hide of the worst land. In the intervening centuries, landowners and increasingly powerful property-owning merchants steadily eroded their obligations by rejecting revaluation[4] and an income tax was first introduced in 1798 to pay for the coming Napoleonic Wars. From 1842 on, income tax became a fixture despite many promises to repeal it, even after the last property-owning restrictions were lifted on sitting in Parliament and voting in elections (in 1918 for men and 1928 for women). With massive expansion of the role of government in the 20th Century, taxes on work inexorably rose and a whole raft of other taxes (including some relatively mild property taxes) were introduced, but none based on land value. Indeed, systems like the Common Agricultural Policy of the European Union carry negative land taxes[5], subsidies that pay landowners for holding their asset, no matter what they do with it. This has caused an escalation in the price of agricultural land and put it beyond the reach of regular—notably young, entry-level—farmers.

The fiscal bible in Britain (and pretty much everywhere else) has been written—and voted in—by the owners of land.

Land value taxation

A Land Value Tax (LVT) is an annual levy on the unimproved value of land, ignoring any buildings or amenities added to it by the landowner's work and investment, past and present. LVT is not a property tax which is really two distinct taxes on two entirely different types of asset, namely one on the land and another on what is on it. Buildings and other improvements are products of individual effort and taxing them discourages building and improvement. In contrast, land is God-given (or more accurately if one goes back far enough, seized through violence or the threat of violence) and no matter how much you tax it, it is not diminished ("Buy land, they're not making it any more[6]"). LVT—a tax on economic rent or the unearned income that

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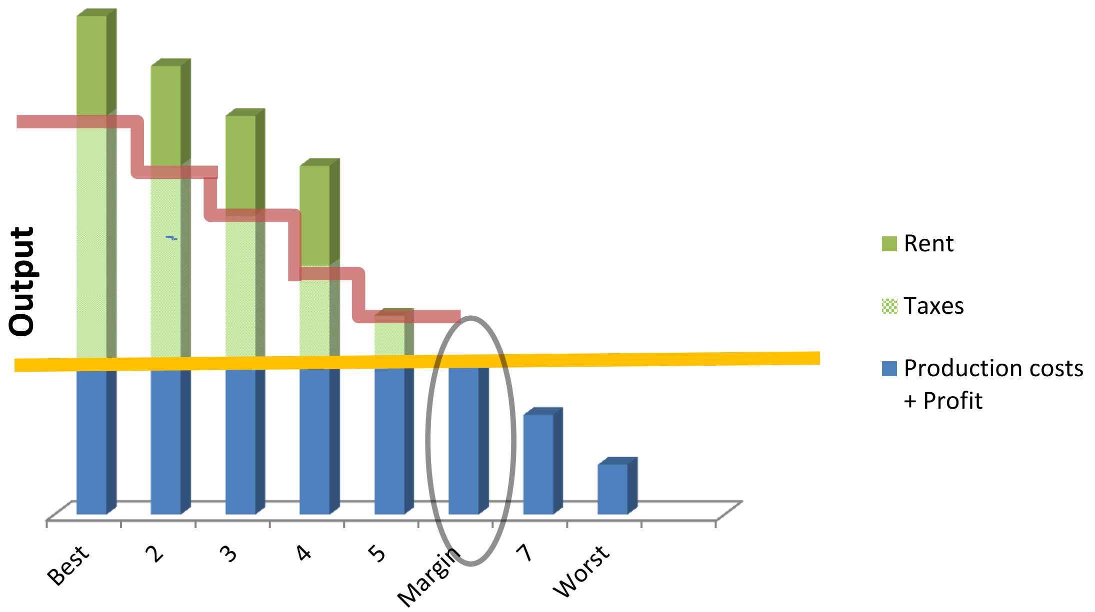
[4] While the Magna Carta is generally thought of as a kind of Declaration of Human Rights, its main concern is "scutage" and "aids" (what we call taxes), forcing Bad King John to promise that "*No scutage nor aid shall be imposed on our kingdom, unless by common counsel of our kingdom, except for ransoming our person, for making our eldest son a knight, and for once marrying our eldest daughter; and for these there shall not be levied more than a reasonable aid. In like manner it shall be done concerning aids from the city of London.*"

[5] Duncan Pickard: The Lie of the Land (Shepheard-Walwyn, 2004)

[6] Mark Twain

accrues from monopolistic possession of a fixed-supply asset**—is the exception to Rule Number One of Taxation because it does not distort market forces[7] (Box 2).

Box 2. **Law of Rent and taxation: taxes on economic rent**



In Box 1, taxing production costs and profit wiped out production at Site 6 and the nation's economy shrank in consequence. If instead, taxes are shifted on to economic rent, Site 6 is kept viable. In the particular embodiment of a tax on economic rent as shown here, not only is revenue to the Treasury significantly increased but also most monopoly holders still benefit from much of their unearned income.

The value of any parcel of land is conditioned by three factors:

- size;
- location (e.g. fertility or, more relevantly to most of us, proximity to jobs and access to amenities such as transport links, sewerage systems, good schools,

[7] *"All taxes do not affect growth in the same way. For example, taxes on mobile capital and high marginal rates of tax on income affect growth disproportionately. Taxes on land, consumption and on economic activities that lead to harmful 'spillover' effects reduce growth to a lesser extent and can even improve economic welfare."* In: Taxation, Government Spending & Economic Growth, Philip Booth, ed., published by the Institute for Economic Affairs

leisure facilities, parks, rubbish collection, policemen, fire engines, the BBC, interpretative dance classes, etc.);

- permitted use (e.g. planning permission).

None of these often have much to do with the owner's industry or investment. As Winston Churchill put it:

"Land monopoly is … the mother of all other forms of monopoly. Unearned increments in land are not the only form of unearned or undeserved profit, but they are the principal form … and they are derived from processes which are not merely not beneficial, but positively detrimental to the general public."

In fact, most investments that drive land value up come out of the public purse (Box 3).

Box 3. **Typical return to the private sector from public sector investment: the Jubilee line extension project**

When the Jubilee underground line was extended in the 1990's, it cost 3.5 billion pounds of public money. In a two-year period around the opening of the line in 1999, an independent assessment[8] was conducted of the increase in land value around one of the stations, Canary Wharf. Within 500 metres of the station, the overall increase in land value specifically attributable to the extension project amounted to £2 billion, A conservative estimate for the overall rise around all 11 stations over the same two-year time frame is £13 billion[9], a return of nearly 200% a year on a public-sector investment that all went into private pockets.

[8] Report commissioned by Transport for London and conducted by real estate services and money management firm Jones Lang LaSalle: "Jubilee Line raises land value by estimated £2.8 billion at Canary Wharf and Southwark tube stations" [https://tfl.gov.uk/info-for/media/press-releases/2004/july/jubilee-line-raises-land-value-by-estimated-andpound28billion-at-canary-wharf-and-southwark-tube-stations]. Last consulted on 05/01/2017

[9] Don Riley "Taken for a Ride: Trains, Taxpayers and the Treasury (Inside story)" (2001) published by the Centre for Land Policy Studies [ASIN: B0015A1ZQC]

If returns on public sector investment were captured for more public sector investment instead of going into private hands, a virtuous cycle could be established in which state spending drives increasing land value (as it has always done) which is in turn harvested to fund further public sector investment to improve the quality of life of citizens, especially the less privileged whose quality of life has most room for improvement.

Virtues

As well as having negligible deadweight losses[10], LVT is superior to all our current taxes in a number of important ways:

- LVT is fair. Not only is it fair in the sense that those who are most able to pay (the wealthy[11] and big businesses), pay the most, but also in the sense that those who benefit the most from public sector investment (i.e. landowners, through the resultant rise in the value of their asset), contribute most towards said investment in reasonable, proportionate measure. In this light LVT could be seen as a **payment for benefits received** rather than a tax[12].
- LVT is easy to collect and impossible to avoid. Land is easy to value[13] since said value is mainly conditioned by location (unlike the value of any specific

[10] Indeed, many economists suggest that LVT might directly enhance market forces (deadweight gains?), notably through knock-on consequences of expanding the tax base, incentivising improvement of the stock of housing and commercial property, and encouraging optimal land use.

[11] Despite a general perception that wealth is less land-based than it used to be, this is not the case. Although less land might be in the hands of Lord Downton Abbey, capital excluding land and housing has been roughly constant as a share of the economy since the mid-1950s, and is lower today than at the turn of the 20th century. Even today, newly acquired wealth quickly finds its way to solid ground, as shown by the massive escalation in land values and property prices since 1990 when the total value of UK housing stock was 1.3 trillion pounds. With only inflation it would now be worth two trillion but its actual value is well over four trillion. This doubling of wealth has come through a rise in the value of land itself, not through new buildings because once built, buildings deteriorate rather than appreciate and notoriously not many new houses were built in that time frame.

[12] William Cobbett said: "*The tendency of taxation is to create a class of persons who do not labour, to take from those who do labour the produce of that labour, and to give it to those who do not labour*", presumably talking about his days' equivalent of scroungers on Benefit Street. But failure to tax the right things creates another "class of persons who do not labour etc. etc.", in this case the trust fund kids who roar up and down Knightsbridge in their Lamborghinis.

[13] Perhaps the easiest way is that of Chinese nationalist leader Dr Sun Yat Sen who recommended having the landowner assess the value of his own land for taxation purposes and then, if it seems like a good deal, to buy it!

property which will depend on a host of very different variables). Every square metre in a given geographical zone will have essentially the same value before simple algorithmic adjustment for planning permission. Effective computer-aided mass assessment techniques are available off-the-shelf for use with geographical information systems so land value can now largely be assessed and regularly updated without ever leaving the office[14]. Although data on land ownership in Britain is notoriously sketchy[15], this is not a problem with LVT in that if the tax goes unpaid, the land and any property on it is forfeit. Similarly, Her Majesty's Revenue & Customs will know exactly where to collect LVT; you cannot put your Mayfair flat in the Cayman Islands.

- Corollary benefits:
  i) Derelict and underexploited land will be brought into optimum use since LVT will encourage landowners to maximise the return on their precious asset that they are now having to pay tax on. In particular, LVT would undermine the socially iniquitous but extremely lucrative and common practices of speculation and land-banking. All this would help solve the housing crisis as well as generally improving the stock and efficiency of use of both residential and commercial property.
  ii) Regeneration of less fortunate areas. Shifting taxation off production costs and on to land value would incentivise businesses to set up or relocate to places where land value is low thereby bringing employment and economic activity to the deprived geographical regions where these are most lacking.
  iii) Recovering some of the wealth tied up in sterile assets and investing it back into the real, wealth-creating economy would drive growth (not to speak of freeing up so many of our brightest and best who currently spend their days administering our Byzantine taxation system or—the rent-seekers together with the useful fools who help them—deploy their

[14] Australian states revalue all their land every two years: Valuation of Land Act 1960 [http://www.austlii.edu.au/au/legis/vic/consol_act/vola1960173/] Last consulted on 05/01/2017

[15] Kevin Cahill: "*there is no land registry record for about 50% of England and Wales*" In: Who Owns Britain (2001) published by Canongate

undoubted talents in economically counter-productive and socially negative activities like land speculation and tax dodging).

iv) Broadly speaking, in any aspect in which advantage will accrue from making land use more efficient or labour and investment more lucrative—be it housing, farming or industry—LVT will bring about corollary benefits.

Implementation

Although the very introduction of LVT might bring corollary benefits, the central issue is reform of our current inherently unfair, unnecessarily complicated and economically deadly taxation system; the core benefits of LVT are those of it making it possible to abolish other pernicious anti-free market taxes that impede economic activity. Political problems are paramount because, although the economy as well as society and most households will win out, there are bound to be losers and, however small the minority they represent, the population in question wields disproportionate power. The devil is always in the detail and exactly who will win and who will lose is going to depend on how LVT is introduced. Nevertheless, given the fact that land ownership is as concentrated as it is in the United Kingdom[16], simple arithmetic suggests that it should not be too difficult to formulate LVT in such a way that the vast majority of citizens—and perhaps more pertinently voters—end up better off. Hereafter, a concrete, provisionally costed proposal as to how such a reform might look, although the rough figures presented are obviously no more than that. Depending on their politics, some might prefer to cut Treasury revenue and others raise it but the proposal hereafter is based on keeping the overall tax take the same. Abolishing the eminently unfair Council Tax[17] and economically perverse Business Rates[18] together with a slew of minor taxes that bring in little revenue, are expensive

[16] According to Kevin Cahill, the 16.8 million homeowners account for barely 4 per cent of land, and 70% of the country is owned by just 0.6 per cent of the population. In: Who Owns Britain (2001) published by Canongate

[17] The owner of a £20 million flat in Mayfair pays less Council Tax than a tenant in a £50,000 flat almost anywhere else in the country

[18] CBI Policy Briefing No. 4: "Business rates has become a barrier to entrepreneurship, investment and productivity growth for businesses of all sizes and needs urgent reform."[www.cbi.org.uk/cbi-prod/assets/File/pdf/Business%20Rates%20briefing%202016.pdf] Last consulted on 05/01/2017

to administer and cause hardship for certain groups of people would result in a shortfall to the Treasury of £82 billion, i.e. about 12% of overall revenue (Table 1).

Table1. Annual revenue from taxes to be abolished

Tax	Revenue (£ billion)
Council Tax	28.0
Business Rates	28.0
Stamp Duty Land Tax	8.0
Capital Gains Tax	5.6
Inheritance Tax	3.8
TV licence	3.5
Stamp Duty on shares	2.9
Insurance Premium Tax (75%)	2.2
Annual Tax on Enveloped Dwellings	0.1
TOTAL SHORTFALL	**82.1**

Taking aggregate values for the United Kingdom and applying a conservative estimate that, on average across the country, land value corresponds to 55 per cent of capital value[19], charging LVT at a rate of 3 per cent on commercial properties and 1 per cent on owner-occupied properties would plug the gap created by abolishing the above-mentioned taxes (Table 2). The differential in rates on businesses and owner-occupiers justly reflects a distinction between land held in order to generate income (hence including rented dwellings) and land held for consumption (i.e. living on).

In this scenario, most households would be paying less in LVT than they do currently in Council Tax[20], notably, the 6.3 million families or 49 per cent of the population[21]

[19] This is based on the assumption that average rebuild cost is £100,000 (probably an overestimate), which for Britain's 2.7 million homes would amount to £2,700 billion, leaving £3,300 billion as the land value, or 55 per cent of the property value.

[20] The Professional Land Research Group has constructed an application which allows users to estimate how much tax they are paying now (on the basis of demographic information about the household's earnings, Post Code and dwelling) and how much they would be paying if LVT were introduced on a revenue-neutral basis to replace other taxes (with the user choosing which taxes to replace or adjust via a "mixing-desk" slider interface). Crucially, this model includes land value estimates for every Post Code Sector in England and Wales (Post Code Sector is everything to the left of the space plus the digit on the right, e.g. NW6 7??, of which there

who now live in rented accommodation. This is because when supply of a good is fixed, any tax levied on it will be entirely borne by its owner, i.e. rents—which are purely governed by market forces—will not go up[22]. Similarly, most businesses in the country will be paying less in LVT than their current Business Rates bill, especially those in deprived areas[23].

Table2. Annual LVT revenue

Sector	Capital value	Land value	LVT rate	Revenue (£ billion)
Residential properties[24]	6,000			
Owner-occupied	3,900	2,145	1%	21.4
Rental	2,100	1,155	3%	34.6
Commercial properties[25]	1,300	715	3%	21.4
Agricultural land[26]		200	3%	6
		TOTAL REVENUE		**83.4**

are about 8,000). This application (an Excel spreadsheet) will soon be available to download from the Web site of the Professional Land Research Group [http://www.plrguk.co.uk/] currently under construction

[21] Resolution Foundation: Only half of families own their own home – how do the other half live? [http://www.resolutionfoundation.org/media/blog/only-half-of-families-own-their-own-home-how-do-the-other-half-live/] Last consulted on 05/01/2017

[22] The rent on a buy-to-let house whose owner is paying off a hefty mortgage is exactly the same as that on the identical house next door whose owner paid it off years ago

[23] Labour Land Campaign: "Save the British steel industry by dipping into workers' pensions or replace pernicious Business Rates with a neutral and efficient Land Value Tax?" [http://www.labourland.org/press-releases-and-archive/] Last consulted on 05/01/2017

[24] Office of National Statistics: The UK national balance sheet: 2016 estimates, non-financial assets [https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/2016estimates] Last consulted on 05/01/2017

[25] a) Department for Communities and Local Government, Statistical Release: National Non-Domestic Rates to be collected by Local Authorities in England 2013-14, February 2013

b) www.scotland.gov.uk/Resource/Doc/917/0098553.pdf. [April 2010 figure following revaluation]

[26] a) Valuation Office Agency, Property Market Report 2011.

b) Jawad Khan and Tamara Powell (Office, for National Statistics) and Amli Harwood (University of East Anglia, Land Use in the UK, 2013 [www.scribd.com/document/229286274/landuseintheuk-tcm77-316028]. Last consulted on 05/01/2017

c) 'UK farm land values reach record highs', Property Wire, 22 February 2013.

Once in place, LVT could be extended as time goes by to get rid of other anti-free market taxes, e.g. it could be raised incrementally in parallel to successive rises in the Personal Allowance for payment of Income Tax[27]. And taxes on trade must be on the horizon: VAT really ticks all the boxes for an economically disastrous, unfair, difficult-to-administer and easy-to-dodge-and-even-easy-to-actually-defraud tax.
LVT could cause hardship in certain populations: those living in places like London where land values have escalated beyond sanity; the asset-rich/income poor such as the widow living in the big old family home; ... Politically expedient tweaking may be necessary: geographically differentiated rates may be indicated; the collection of levies due may have to be deferred until the property changes hands (with borrowing based on future expectations, if necessary); … But, as a recent article on LVT in The Economist magazine[28] put it, "*Politically tricky problems are ten-a-penny. Few offer the people who solve them a trillion-dollar reward*".

Conclusion

Shifting taxation towards a system based on land value would enrich a substantial proportion of the less privileged population of Britain (or anywhere else where taxation has been formulated by landowners, i.e. everywhere) because rich people tend to own a lot of valuable land, poor people little. Land value-based tax reform would benefit wealth-creators and ordinary people at the expense of the rent-profiteers who constitute a minority—in essence a tiny minority—of citizens of the country. LVT could easily be engineered to increase economic prosperity and improve social outcomes for the bottom third of the income distribution; a more radical implementation might benefit the vast majority of citizens who own such a small corner of our green and pleasant land[29].
In parallel, one of the few things that economists—as diverse as Adam Smith[30], David Ricardo[31], Henry George[32], Milton Friedman[33] and Joseph Stiglitz[34]—tend to

[27] Raising the Personal Allowance from £11,000 to £25,000 would at a stroke significantly benefit the lowest-paid third of the working population

[28] Edward Lucas: Space and the city (4 April 2015) [http://www.economist.com/news/leaders/21647614-poor-land-use-worlds-greatest-cities-carries-huge-cost-space-and-city] Last consulted on 05/01/2017

[29] Believe it or not, reliable figures on land ownership in Britain are VERY difficult to ascertain because of the lack of transparency in far-away Tax Havens where so much of our country seem to be located.

[30] Adam Smith, The Wealth of Nations, Book V, Chapter 2, Article I: Taxes upon the Rent of Houses "*Ground-rents are a still more proper subject of taxation than the rent of houses. A tax upon ground-rents would not raise the rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a*

agree on[35] is that shifting the burden of taxation off economic production, trade, enterprise and investment, and on to unearned economic rent would free markets up to do what they do best and thereby enhance a nation's economic freedom, productivity and competitiveness as well as the welfare and quality of life of most of its citizens. LVT is a quick, efficient way of redistributing—via natural market forces—unearned wealth through the community that creates said wealth.

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monopolist, and exacts the greatest rent which can be got for the use of his ground. More or less can be got for it according as the competitors happen to be richer or poorer, or can afford to gratify their fancy for a particular spot of ground at a greater or smaller expense. In every country the greatest number of rich competitors is in the capital, and it is there accordingly that the highest ground-rents are always to be found. As the wealth of those competitors would in no respect be increased by a tax upon ground-rents, they would not probably be disposed to pay more for the use of the ground. Whether the tax was to be advanced by the inhabitant, or by the owner of the ground, would be of little importance. The more the inhabitant was obliged to pay for the tax, the less he would incline to pay for the ground; so that the final payment of the tax would fall altogether upon the owner of the ground-rent."

[31] David Ricardo: "*A land-tax, levied in proportion to the rent of land … will not in any way affect the price of raw produce, but will fall wholly on the landlords.*" In: On the Principles of Political Economy and Taxation

[32] Henry George: "*The tax upon land values is the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community for the use of the community of that value which is the creation of the community. It is the application of the common property to common uses. When all rent is taken by taxation for the needs of the community, then will the equality ordained by nature be attained.*" In: Progress & Poverty [1879]

[33] An Interview with Milton Friedman: "*the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago*" Human Events 38[46]

[34] Joseph Stiglitz: "*Not only was Henry George correct that a tax on land is non-distortionary, but in an equilibrium society ... tax on land raises just enough revenue to finance the (optimally chosen) level of government expenditure.*" In: The Economics of Public Services, Feldstein & Inman, eds., London: Macmillan. 1977

[35] The Economist: Why Henry George had a point (2 April 2015) [http://www.economist.com/blogs/freeexchange/2015/04/land-value-tax] Last consulted on 05/01/2017