

## **After coronavirus, let's stimulate a fairer economy and a healthier and green environment**

### **A lesson from yesterday that we can learn from today**

After the Coronavirus, the world's economy should not just return to the state of "Business as Usual". Instead we need a new economy that offers everybody economic justice and a healthier and green environment. An economy that not only recognises the value of the important people who have saved our lives but also all those other low-paid key workers who continued to provide essential services throughout the ordeal. An economy that recognises the importance and power of controlling our natural resources and natural resource wealth in tackling the damage we have done to our planet.

It is easy to applaud the NHS from our doorsteps during the pandemic but we need to remember our debt when rebuilding the economy and ensure the new paradigm not only rewards ALL essential workers but gives everybody a share of natural wealth and is fit to meet the greater challenge of climate change.

A fundamental example we could all learn from, is the actions taken after the San Francisco 1906 earthquake. Property owners pleaded with the City Leaders that as their buildings had been destroyed, they should be relieved of their property taxes. In their wisdom the politicians replied that yes there would be no taxes on their buildings but as the property owners still owned their sites, the land value would continue to be taxed, albeit at lower values because of the earthquake.

With virtually no subsidies from Federal or State Government the taxing of land values in San Francisco actually stimulated new building to provide homes and business premises. This steady source of income allowed the City Mayor to invest in much improved new public infrastructure, and San Francisco was rebuilt and the population expanded, all within a few short years.

Little has been written about how San Francisco's economy not only survived but thrived. However Mason Gaffney, Emeritus Professor of economics at the University of California, did examine what measures the City Mayor took and realised "*The destruction in San Francisco meant there was little left to tax except the land. Instead of shying away from collecting the existing land tax, the City continued with it and the result was San Francisco bounced back so fast its population grew by 22% from 1900 to 1910, in the very wake of its destruction; it grew another 22% from 1910 to 1920 and another 25% from 1920 to 1930, becoming the tenth largest American city. It did this without expanding its land base, as rival Los Angeles did, and without stinting its parks. On its steep gradients it housed, and linked with publicly-owned mass transit, a denser*

*population than any city except the Manhattan borough of New York. It is these people and their good works that made San Francisco so famously liveable, the cynosure of so many eyes, and gave it the massed economic power later to bridge the Bay and the Golden Gate, grab water from the High Sierra, finance the fabulous growth of intensive irrigated farming in the Central Valley, and become the financial, cultural, and tourism center of the Pacific coast."*

### **Our Economy and tax systems are seriously flawed**

There is much written about the problems a growing number of people face including poverty, bad housing conditions, homes unaffordable to rent or buy all over the UK, over-crowded classrooms for children, poor NHS and social care services for many, underfunding of the NHS and social care system, inadequate and expensive public transport, loss of green land in our towns, cities and villages, building on greenbelt land and open spaces, idle development sites blighting our towns and cities, pollution and growing other environmental damage, increasing violent crime, students starting their working life with huge debts, zero hour contracts, the North South divide and the list goes on and on and all the time the rich get richer and richer. Even before the coronavirus, UK homes, shops, factories and other businesses were under threat because tenants couldn't afford the rents demanded by landlords.

The zero rate business rates subsidy only helps businesses in the short-term; over time it will become a direct subsidy to land owners who always charge the maximum rent they can. In addition, government-backed loans and furlough payments (up to 80% of staff wages reimbursed by the government) will help many businesses to survive and continue paying rent to their landlords. It is an economic fact that subsidies will ultimately capitalise into land value and therefore raise land prices and the rents landowners charge. Because commercial tenants pay a maximum occupation cost affordable to them which includes rent and business rates, landlords will be able to increase rents to take account of any reduction in or cancellation of business rates as and when they can.

### **How did land (and other natural resources) become privatised?**

We all need access to land to survive which means those who claim ownership to land (and all natural resources) have immense power both in terms of how land is used and in who receive **land wealth - created by all of us, not land owners - which is currently over £5.3trillion, ie over 51% of the UK's net worth**. Land wealth only arises from our combined demand for its use for homes, jobs, leisure, food production, public services, roads and transport etc; land wealth does not arise from any action taken by those who own it.

The history of denying folk access to land for their survival is well recorded but today's economists and politicians rarely link today's social and economic inequality to the historic misappropriation of our land that started before the Normans conquered England and continued with monarchs handing out parcels of land to their supporters and the Church. We've been told that William the Conqueror "gave" the land and estates to his Barons but the reality was that he rented land in return for services and payments in cash and in kind. These rents funded the expenses of the state. The history of Parliament, Magna Carter etc is the history of the aristocracy and others relieving themselves of the obligations inherited with their landholdings so that the Monarch was forced to gain taxes and income from towns and cities, trade, merchants and workers. Rich landowners also benefited by stealing common land from the people described as the English enclosures and the Highland clearances. These actions deprived our foreparents from their economic independence as they became homeless beggars, poachers and trespassers on what was formerly the common land where they could fish, forage for edible vegetation and mushrooms etc. hunt game, graze their livestock, collect wood, peat, turf and other natural materials such as herbs for their fires, their food, their homes and their medicines. As George Orwell wrote: *"Stop to consider how the so-called owners of the land got hold of it. They simply seized it by force, afterwards hiring lawyers to provide them with title-deeds. In the case of the enclosure of the common lands, which was going on from about 1600 to 1850, the land-grabbers did not even have the excuse of being foreign conquerors; they were quite frankly taking the heritage of their own countrymen, upon no sort of pretext except that they had the power to do so" ['As I Please', Tribune, 18 August 1944].* In recent years, approximately 2 million hectares of publicly owned land (approximately 10 % of Britain) has been privatised - worth about £400bn. Also, almost every major redevelopment and shopping centre in London has resulted in the privatisation of public space, including areas around the Olympic Stadium, King's Cross and Nine Elms.

### **We need to collect natural resource wealth for the benefit of all**

We need a fair tax system as well as other progressive policies to make fundamental changes that benefit all of society permanently.

We need to have a tax system that is fair and just. One that shifts taxes from wages, savings and production to unearned income; one that protects our natural resources from over-use; one that cannot be avoided or evaded; one that rectifies the historic wrong whereby land and other natural resource ownership and wealth has been taken by a few and left the rest of us subject to their control.

Assuming it is too unrealistic to hope for all natural resources to be taken back into common and shared ownership and the full economic rent charged for their use, we should at least call for a substantial levy to be applied to the annual rental value of all land and to all other natural resources including oil, minerals, airwaves, wind and solar energy, fishing in our seas, landing slots at airports etc. As natural resource wealth taxes are introduced there should be abolition of current property taxes and abolition

of or at least a reduction in distortive and negative taxes including income tax, national insurance, VAT and corporation tax. These and most other taxes (except behavioural and green taxes) actually depress the economy and do not allow other positive economic and social policies to be properly implemented.

**Land:** By taxing the annual rental value of all land and reducing (one day eliminating) taxes on incomes, trade and production, there will be immediate benefits to society including a reduction in the enormous number of valuable unused or underused sites that blight our towns and cities; a reduction in the demand for urban sprawl by landowners and developers; a reduction in long-distance commuting (by car and public transport) with the environmental and social damage that causes; an increase in the amount of land being made available for organic small-scale farming, homes, start-up businesses, leisure etc; a source of sustainable income that is free of the economic distortions caused by property market booms and busts; the opportunity to use that sustainable income to improve public services and to reduce negative taxes that actually act as a drag-anchor on the economy; a re-distribution of the wealth we all create that is morally fair and economically just and which will encourage people to use their skills and talents in positive local ventures. With the abolition of VAT consumers will be able to purchase more goods and services which in turn will create more jobs as we rebuild a battered economy after Covid-19. Currently, all landowners (including homeowners) enjoy the benefits of rising land values as society progresses but with an annual Land Value Tax (LVT) tenants and other non-property owners will also benefit from the natural wealth they too create.

**Oil, coal, other minerals and ores:** By taxing the 'economic rent' of all other natural resources, the wealth these resources generate will give local and national governments a sustainable income for public expenditure on health care, education, transport, housing, leisure, investing in new sources of renewable energies and so on rather than go to obscenely rich institutions such as De Beers or to new multi-billionaires such as Abramovich.

**Landing slots at airports:** These permissions to occupy our skies at a particular altitude and time can exchange hands for millions of pounds. But obviously no airline has ever created the sky or claims to have invented time so the value of these slots should be shared by all. The ownership of slots at busy airports (especially at peak times) obviously gives the airlines that own them a tremendous financial and commercial advantage. The landing slots should be paid for but each slot's annual economic rental value should be collected by the government and not by the airline concerned. The revenue collected could be used to pay for soundproofing homes, schools, nearby businesses and for research into more economic and environmentally safe aircraft engines and to encourage unnecessary travelling in favour of more tele-communications by businesses and individuals.

**Airwaves:** When the former Labour Government auctioned off five 20-year licences for third generation mobile phone services, they raised £22.4 billion (government advisers

thought £5 to £6 billion would be raised) and in doing so they collected the economic rent for the twenty years of the licences. When those airwaves are auctioned later in 2020 it will provide further income for the government, collecting the economic rent for the use of those airwaves perhaps for the next 20 years. This method of auctioning the use of a natural resource means the nation benefits from the natural resource wealth and not a private company or individual and therefore these auctions should be applied to all airwaves.

**Wind and solar energy, fishing in our seas and use of other natural resources:** Again, by taxing the economic rental value of each of these and other natural resources, the economic income that arises from our demand for them in their natural state will provide a sustainable source of income to be used for research and investment into, for example, developing renewable energies and will force us to use them sparingly.

We need to encourage economists, academics, politicians, journalists and others to be concerned with examining the above fundamental economic reform that will result in a fair and sustainable tax system whereby land and other natural resources are used for the benefit of all, are not wasted and are protected for use by future generations.

### **How Land Value Tax would work**

First, the ownership of all land (i.e. every site whether developed, vacant or agricultural) must be registered with its permitted use recorded so that the beneficial owner can be identified. This is largely complete in urban areas, and the Land Registry aims to finish the task for whole country over the next few years but it needs to be carried out for all land and not just when land changes ownership.

Next, each plot of land will be valued separately from the buildings and other developments on the land (valuers already do this for insurance purposes and estate agents know the “location value” of the residential and commercial sites they market to sell or rent). In the UK, USA and other countries there are many techniques used to value the economic rental value of land. It is possible to value every piece of land in the UK for LVT purposes and experience from other countries shows that valuing land is, in fact, easier, less costly and more accurate, than valuing buildings or other developments on land. It should be noted that when valuing land, any disadvantages of particular sites, such as residential properties backing onto busy railway lines, or noisy factories, would be taken into account – the land would have a lower value than in a better location and therefore the LVT would be lower.

For LVT purposes, each site must be valued for its optimum permitted use value. Today using computers, GPS and mass appraisal techniques valuing land is easier than in previous times and therefore regular annual updates of taxable values become a reality and it is possible to introduce a system of land value taxation capable of replacing other taxes which damage the economy. Revaluations of every site will need

to happen annually otherwise unfairness and problems will arise as has happened with infrequent valuations for Business Rates and Council Tax bands.

As with any major change in the tax system, there would be some 'winners' and 'losers', compared with what prevailed previously. However, with LVT the 'winners' would be the vast majority of people living in "normal" homes and particularly owner occupiers and tenants who are currently unemployed or living in poor housing or who cannot afford high prices or rents in order to set up their business and the 'losers' would be a minority who currently acquire most of the UK's land wealth (that we all create) as their unearned income.

### **Rate of levy to be applied to land value**

The percentage levy on the annual rental value of each site (the poundage) will depend on the speed at which the government of the day wishes to replace current property taxes, reduce harmful taxes and the government's economic and social policies.

### **What is the current value of all land in the UK and how much income will a shift in taxation to LVT collect?**

The Office of National Statistics has calculated that the total value of all UK land is over £5.3trillion<sup>1</sup>. However, it must be noted that this estimated value is based on the UK's current tax system and would be considerably different if the UK's tax system were changed to LVT because **taxes and land value are inversely related**.

The amount collected will depend on decisions made by the government of the day. A future government may wish a shift to LVT to be revenue neutral in terms of total tax collected or in terms of current sums paid by individuals under the existing tax system. Any estimates of future revenues will need to include the positive effects that LVT will have on better land use leading to higher productivity and increased employment. LVT will also divert investment funds from pointless land speculation to commerce and productive industries. Compared to current taxes, LVT will be cheaper to collect as it will reduce tax avoidance and evasion (one cannot hide land in the same way it is possible to hide income or other forms of wealth).

Without allowing for the economic effect arising from the abolition of Business Rates and Council Tax or any reduction in existing taxes, and using the limited information available, estimates suggest an introductory 30% levy on the annual rental value of all land according to each site's optimum permitted use would generate an income of circa £92 billion.

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<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/bulletins/nationalbalancesheet/2018#growth-in-the-worth-of-household-land-accounts-for-much-of-the-growth-in-uk-net-worth>

However, if one accepts **all taxes are inversely related to land values**<sup>2</sup>, then if the government were to replace or reduce current taxes, the amount of land value would increase by that amount and growing as the economy becomes more efficient in currently under-invested areas.

Also, these figures do not take into account the effect of Land Value Tax on those areas where there is currently low investment; high unemployment and empty homes. As these depressed areas have low land values they would see their current tax contribution reduced under LVT, many existing businesses would expand, new businesses would flourish with the new investment and the UK economy would become more evenly balanced with graduates for example able to find more opportunities nationwide and not just limited to the prosperous South East. Of course, a government could decide to introduce an LVT percentage rate lower or higher than 30% but politically it might be desirable to implement a gentle introduction but not to have a poundage that is so low that it would not affect the behaviour of land speculators such as the owners of empty or underused homes and the big house builders with their 20 year land banks.

## Summary

### **LVT is a “right/wrong” issue, not a “left/right issue**

There has been much serious discussion in recent years by politicians, think tanks, journalists and others of replacing business rates with an **annual Land Value Tax (LVT)** that is based solely on the value of each site according to its optimum permitted use. Indeed, this policy was discussed by the Labour Party and advocated by the Lib-Dem Party, Co-operative Party, Green Party and Communist Party in recent elections. An All Party Parliamentary Group exists calling for land value capture. This is a good policy and will, if implemented without exceptions, stop land speculation and bring idle development sites and underused buildings into full use and help to address the UK’s “North/South divide”. Inflated rents will fall to their fair and realistic levels and that will encourage new business start-ups and expansion of existing ones. However, if LVT was to be used to reduce or replace bad taxes such as Value Added Tax we would see other social, economic and environmental benefits that could lead to a fairer society without poverty and greatly reduced tax avoidance as well as local and national government income put on to a sustainable and sound basis.

If a future Labour government were to introduce a universal basic income, LVT is the perfect tool to fund such a policy. It would be similar in principle to the Alaskan “Permanent Fund Dividend” (PFD) which is funded from oil revenue investments, and

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<sup>2</sup>Blöchliger, H. (2015), “Reforming the Tax on Immovable Property: Taking Care of the Unloved”, *OECD Economics Department Working Papers*, No. 1205, OECD Publishing, Paris.

paid annually to all Alaska residents that have lived within the state for a full calendar year and intend to remain there indefinitely.

Indeed, the collection of the economic rental value of all natural resources would lead to them being used sparingly as well as sharing the economic benefits with all UK residents rather than the few rich individuals and companies that claim ownership of our natural wealth.

LVT would stimulate the UK's economy following the Coronavirus tragedy as well as offering a means to protect our countryside from damaging developments and urban sprawl. With a reduction of unemployment other positive gains would be the currently hidden talents and skills of so many being used to develop new initiatives and more local production of food and goods that we unnecessarily import from all over the world which is causing a huge amount of environmental damage.

With better use of idle or underused urban sites collecting land wealth from owners of business premises could lead to a really green economy rather than one based on greed of the few at the expense of the many.

Because we have accepted the historical theft of our natural resources and natural resource wealth, we have also accepted a terrible injustice whereby the surplus wealth - which we all create through our economic and social actions and decision-making - goes, without question, to those who claim their ownership. This means that no matter how much we improve our economic output, land and other natural resource owners will always take the surplus wealth we all create and wages for labour are kept low.

So long as our economic, environmental and social policies are based on flawed, distorted and inaccurate economic theory, we can never be free of poverty or economic or social injustice in the UK and saving our planet will only happen if we seriously challenge those who claim ownership of our natural resource wealth.

**Heather Wetzel**

**heather.wetzel@labourland.org**

**www.labourland.org**

**Tel 0208 568 9004**

**Mob 07552703660**

**29 Riverdale Road, Hanworth, Feltham TW13 6NR**

**Vice Chair, Labour Land Campaign**

**Author: "Welfare for the Rich" - read how the poorest of folk subsidise the richest**

**[http://www.labourland.org/downloads/papers/Welfare\\_for\\_the\\_rich.pdf](http://www.labourland.org/downloads/papers/Welfare_for_the_rich.pdf)**



***The Labour Land Campaign is a broad left voluntary organisation that advocates a fundamental shift in taxation off earned incomes and on to the unearned incomes that owners of land and other natural resources take as theirs. [www.labourland.org](http://www.labourland.org)***