

Land Value Taxation

An economically efficient way to distribute wealth

Inequality Matters

One TV moment remains for me of the election campaign: a question and answer session with ordinary voters and Tony Blair trapped into agreeing that growing inequality was not really important. He used all his political skills in an attempt to shift the debate towards the issue of absolute poverty. He emphasised the promises made and redeemed on tackling pensioner and child poverty, the radical improvements made to the benefits system, the contrast with the meanness of the Tory years.

Unfortunately that day a report had been published showing that despite eight years of a Labour administration dedicated to fighting privilege and poverty we were apparently a more unequal nation than when the Tories left office. The facts were undeniable and in the absence of any current or planned policies which could reverse the trend, what could the prime minister do but allow himself to be dragged to the conclusion that it didn't matter that much?

Gordon Brown's skilful management of the economy has resulted in a continuous rise in national wealth together with a massive increase in benefits and investment in public goods and services. Yet the increase in inequality disturbs us and leaves some to wonder whether it wouldn't be nicer to have a country with less total wealth shared out more equally. No policy prescription would make this happen, of course.

This shame is not ours alone. The Make Poverty History event shouted to the world that in an ever-expanding global economy the poor are receiving a smaller and smaller share. Neither is this a new phenomenon. History shows a pattern of economic progress but continuing poverty. So is it a basic law of human society that the rich get richer and the poor get poorer?

If this question had been posed to the members of the Labour Representation Committee in 1905 they would have been appalled. Any supporter of the Labour movement would have confidently referred the ignoramus to Henry George's 1879 inspirational masterpiece *Progress and Poverty*.

The Remedy

Henry George was an American social philosopher who set himself this task: 'an inquiry into the cause of industrial depressions and of increase of want with increase of wealth'. Armed with a firm understanding of the laws of classical economics, he read, travelled and observed. What he discovered was the importance of landownership in the distribution of wealth. By identifying the special attributes of land he was able to analyse how the land market, as it exists almost universally, generates inefficiency, instability and inequity.

His remedy, quite simply, was to substitute all taxes on labour and the products of labour for an annual tax on land, based on its unimproved value, and payable by the owner. George's lucid and beautifully articulated philosophy was compelling. *Progress and Poverty* was the most popular economics book of its time, outselling *Das Kapital* and deeply influencing the political debate for many years.

In 1906 the Parliamentary Labour Party's first programme included a proposed draft bill on the taxation of land values.

Thereafter every Labour Party manifesto contained a proposal to tax land. At last, there came a time when Henry George's great idea was to be realised in Britain by a Labour government. Chancellor Philip Snowden's 1931 budget provided for land value tax (LVT), albeit at a low rate, to be introduced in two years time, and included in the finance bill the all important land valuation necessary for its proper implementation (the issue which had confounded Lloyd George's earlier efforts). This was carried into law but the subsequent National Government under Chamberlain, created to tackle the great depression, quickly stopped the land valuation and the legislation was later repealed.

Yet still, in 1939 Herbert Morrison MP introduced a Private Members Bill calling for site value rating for the London County Council, which was widely debated and approved by many constituencies, but it never became law.

Gradually there was a weakening of the resolution to simply tax land values and nationalisation became the preferred option to remedy the depredations of landlordism. Land nationalisation certainly has its attractions as a socially just measure but it could never be acceptable to this nation of homeowners, even with compensation (although this would be entirely unjust to the landless). By the time that Labour had again won sufficient mandate to implement radical tax reforms at the end of World War II, Henry George's exciting and philanthropic work seems to have been forgotten.

Why Tax Land?

Before the industrial revolution land was the prime source of public revenue. Agricultural production was clearly dependent on the natural environment and condition of the soil, which gave the farm a value on which to apply the tax. Workers' wages were so poor and uncertain that there was little point in taxing them. Our economy is no longer based on agriculture so, you might ask, isn't the land tax an anachronism?

What most people recognise as land are fields, open countryside and building plots. Yet beneath every man-made structure is land. What economists mean by land is planet earth with all its various types of terrain, together with the atmosphere and radio spectrum, less any man-made improvements. In other words, it is what has been provided by nature and we all depend upon it for survival.

Land is, in an increasingly populous world, a scarce resource, whose value depends on its relative utility. Some of this utility is determined by natural attributes, such as prevailing climate, contour, proximity to water, native flora and fauna, mineral deposits, access to panoramic views, etc. But the most valuable land is in cities. This value derives less from natural features, but more from general economic activity and from expenditure on public goods and services. What price would you bid for a residential plot of land in an area which has no schools, shops, maintained roads, libraries, public transport, job opportunities or health services?

Another important factor in the land market is our system of strict planning controls. Obtaining permission for a higher value use is the surest legal way to make a fortune.

The general level of land values is dependent on the availability of credit and trends in population growth and national wealth. When the economy is in good shape, as it has been under this Labour government, land prices rise. This is a consequence of supply and demand, but complicated by the fact that the demand side is swollen by easy credit and low real interest rates while the supply side is constrained by disuse and is ultimately fixed. During the last two Tory recessions land values plunged.

So, the value of an individual parcel of land is not created by the owner at all. In fact a considerable proportion of the value is created by the taxes we all pay whether we own any land or not. Also, unlike man-made structures, the land itself does not need expensive maintenance nor insurance cover. It can sit below mansions in Mayfair or lay there unused and unconsidered for years, yielding no return, without wearing out and steadily increasing in value at no cost to the owner.

This last attribute makes land the best long-term investment for those with surplus wealth and is the reason why vast acres of Great Britain have been owned by the same families for centuries (held in Inheritance Tax insulated trust funds located in tax havens).

It isn't only the aristocracy whose fortunes have been boosted by landownership. House price inflation (i.e. land price inflation) has helped to create many working-class millionaires and allowed their children to buy more valuable properties when they inherit, even those on low incomes. Much depends on luck, of course, because some locations grow in value more than others, but in general, the longer a family has held land the more substantial is their wealth.

The corollary to this is that, as the economy grows, wages and profits are squeezed by land rent, for the simple reason that land is the only resource whose supply cannot be increased to meet demand. With rents rising whilst wages and returns to savings stagnate, workers and pensioners without land are worse off. Equally, the burden of a first-time mortgage on a modest home can reduce residual income to poverty levels and make a misery of family life.

This is the malign mechanism which produces increase of want with increase of wealth. It only works this way when landowners are able to keep for themselves the whole of land rent. LVT will collect this huge, unearned benefit from landownership and redistribute it to the whole community, in the form of public goods and services.

Is it Feasible?

The first time I had the opportunity to ask a senior Treasury minister what objections he had to LVT I was told that it wouldn't raise very much revenue so wasn't worth the bother. I heard the same argument from an ex housing minister at Conference this year. The Treasury still appear to have no interest in obtaining the relevant facts about land, so here is a rough estimate.

At the end of 2003 it was reported that the total worth of UK plc was about £5000bn, of which more than 50% was attributable to residential and less than 10% to commercial property. Given that location or land value is the most significant component of housing costs, it is not unreasonable to assume an average building to land value ratio of 1:1. This gives a capital value for all privately owned land (at that time) of £1500bn.

LVT collects a percentage of the annual rental value of land. Capital values can be readily converted into rental values by multiplying the former by the prevailing discount rate (c 5%). This suggests a total annual rental value of £75bn, which at a rate of 50% could have generated £37.5bn of income, equivalent to total Council Tax (CT) and Business Rates (BR) receipts for 2003/4.

There would obviously be significant setup costs for introducing LVT. To begin with the Land Registry has to be completed. Eighty years after its establishment perhaps we could make a case for this to be enforced under the Freedom of Information Act, with the onus on owners to register their title within a certain period or forfeit it. This could have the effect of politicising the land issue and driving away some myths, such as the burden on wealthy landowners acting as guardians of our rural heritage.

The initial valuation exercise could be expensive but would substitute for the embarrassingly overdue CT reassessments and the next BR revaluation. Experience in places such as Denmark, Australia, parts of the USA, etc. show that land is in fact easier to value than buildings. Self-assessment is also a cheap option, with all data in the public domain. In any case regular reassessment is essential – Denmark manages to do this on an annual basis.

The most frequent objection to LVT is that it would be unaffordable to poor widows in attractive bungalows. There is a perfectly fair solution to this: elderly homeowners on low incomes could have the option to defer all or part of the annual LVT bill, to be settled, plus accrued interest, when the house is finally sold. In this way only the heirs to the estate will be disadvantaged, who surely do not need to be subsidised by the rest of us.

LVT, at anything other than an insignificant rate, will have the effect of reducing capital land values. This is a desirable outcome for first-time homebuyers and entrepreneurs, however there are consequences. Landed property is extensively used as collateral for borrowing and a proposal to tax land values (at an increasing rate) could raise fears of negative equity and lead to the destabilisation of financial markets. It would be necessary for the government to educate the business community about the positive effects of the change and demonstrate that LVT at anything less than a 100% rate would maintain a high capital value for land. The government may consider underwriting such loans in order to reassure the markets. It is, after all, economic downturn which causes mass defaults and LVT would bring prosperity not decline.

Make Poverty History

The chancellor has chosen to focus on benefits in order to redress the worsening imbalance of income and wealth, which was the legacy of eighteen years of Tory rule. He has been unapologetic in using means-testing to ensure that benefits are channelled to those who need them most and has thereby succeeded in lifting millions of people out of absolute poverty.

Progressive direct taxes are another device commonly assumed to redistribute wealth. The increase in National Insurance contributions on employers and employees was brought in on this assumption. However it has not stopped the wealth of those at the top growing faster. As we all know, the super rich and large companies legally avoid big tax bills by holding their assets offshore, whilst it is impossible to calculate how much tax is simply evaded by criminals and the self-employed. This is why the chancellor has largely ignored the call to create higher-rate income and corporation tax bands. Still, it is disappointing that full-time workers on the minimum wage are subject to PAYE as well as all the other, for them, unavoidable taxes.

Wealth taxes are blatantly redistributive but the chancellor does not seem inclined to ruffle the feathers of the elderly who appear to believe that they have earned the increasing value of their homes and that it is a gross injustice to deny their earned-income-tax-paying children a tax-free unearned windfall. In any case, for the experienced wealthy Inheritance Tax is largely a voluntary affair which can be avoided by careful tax planning. The only effective wealth tax we ever had was the domestic rating system abolished by Thatcher in favour of the Poll Tax and achieving at a stroke a transfer of wealth from poor to rich never seen before or since.

The Labour Land Campaign appeals to Gordon Brown to rediscover his roots. The ideals of the founding fathers of the Labour Party will not be realised until the land issue is addressed. We find it incomprehensible that this Labour government, which has discovered so many novel ways to fund its welcome expenditure plans, continues to ignore a revenue source which has these advantages:

- It's fair (poor people do not own valuable land).
- It's unavoidable (you can't hide land in a tax haven).
- It's cheap to collect, yet provides a huge buoyant revenue stream.
- It's simple to administer.
- It's transparent.
- By giving a cost to ownership it encourages best use of a scarce resource, reducing the pressure of development on greenfield sites, bringing marginal land into productive use and boosting output.
- It removes the speculative location element from the property market, which inflates house prices and augments the boom/bust cycle, thus allowing the Bank of England to set more beneficial interest rates.

We set the third world a poor example when, in our centenary year, one percent of the population will continue to own 70% of the land of Great Britain and the source of wealth of the richest British-born man will be the land he inherited from his hunt-loving ancestor who accepted it as a gift from the Crown. The ability of the few to extract economic rent from Africa as well as Mayfair is made possible by our own blindness to the everlasting importance of land.

Carol Wilcox
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I am a software engineer with a degree in economics, secretary of the Labour Land Campaign and secretary of Christchurch CLP.

For further information on land value tax, please refer readers to www.labourland.org, www.landvaluetax.org.uk, www.earthrights.net, www.progress.org/geonomy, www.henrygeorgefoundation.org; www.harrisburgpa.gov/econProfile/