BOOK REVIEW

Josh Ryan-Collins, Toby Lloyd, and Laurie Mcfarlane, *Rethinking the Economics of Land and Housing*, Zed Books, London, 2017, £14.99 pbk, 253pp, ISBN 978-1-78699-118-8

Many books have been written on the land issue but it is unlikely that something as comprehensive as this has been published since Henry George's *Progress and Poverty: An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth,* together with *'The Remedy'*.

What is more its structure and narrative style, despite the wealth of detail, makes it a good read. Concentration on the UK land market, with useful comparisons with other countries, makes sense. The use of footnotes rather than endnotes is appreciated.

The extensive bibliography demonstrates that it is well researched and embedded in current economic thinking, something which most books strongly advocating land value taxation (LVT) are not - and may be the reason why they have made little impact. This has enabled the authors to challenge some of the work of established economists. It is good that, whilst clear on the benefits of LVT, the book does not proselytise.

These are the chapter headings:

- Introduction
- Landownership and property
- The missing factor: land in production and distribution
- Land for housing: land economics in the modern era
- The financialisation of land and housing
- Land wealth and Inequality
- Putting land back into economics and policy.

There is a Foreword by Oxford Professor of Economics, John Muellbauer.

The second chapter takes the reader through the history of landownership, for which due credit is paid to Andro Linklater's study *Owning the Earth*. It also raises some fundamental philosophical questions about the issue.

On page 21 there is implied criticism of Hernando de Soto's *The Mystery of Capitalism*, where he advocates private ownership of land by the poor and its use as collateral to fund business expansion. This view is shared by LVT campaigners.

There is one point on page 30 which may be disputed: '… the more effectively such interventions [land value capture] reduce the prevalence of economic rent, the less revenue they raise'. This would only occur if the form of land value capture was based on the price of land. It does not apply to LVT, which is a tax on the capital value or rental value of land.

Also to be doubted is the assertion on page 35 that 'Development taxes are more theoretically robust'. In both theory and practice development land taxes hinder intended development, just as any tax on economic activity will reduce that activity. There is more criticism to be made than that they are 'politically vulnerable', which is covered in chapter 4.

A recent trend, which the chapter on landownership has overlooked, is for developers to sell new homes as leasehold and retain the freehold. They later sell off the freeholds leaving the residents exposed to unforeseen increases in ground rents and the cost of acquiring the freehold.

In the third chapter, the unique characteristics of land are well described, clarifying the distinction between land as location and other natural resources, which are generally encompassed in the economic definition of land. The 2006 edition of the standard textbook used in the UK, Greg Mankiw's *Economics,* has no definition of land at all; it just states: 'The meaning of the terms labour and land are clear…'! One particularly important point is made on page 55: 'Land not used is land services down the drain'. One might add that idle land is just as much a loss to production as is idle labour.

There is a good explication of neoclassical capital theory and its seriously erroneous conflation of land and capital, which infects economic thinking to this day. Acknowledgement is duly made to Mason Gaffney's *The Corruption of Economics*, who identified John Bates Clark as the prime culprit.

Despite the fact that Steve Keen gives his endorsement to this book, it is notable that in his own *Debunking Economics,* where he so brilliantly unpicks neoclassical economics, he does not mention Clark. In fact, on page 53, Keen is called out for conflating land and capital in his critique of the theory of marginal productivity. Thomas Piketty is also taken to task later in the book for the same reason. It is sad that all the fine work he has done on wealth inequality is flawed by such a basic error.

The antagonism that existed between Henry George and Karl Marx, and their respective supporters, is discussed on page 61, referencing the work of Michael Hudson, who is one of the few supporters of LVT from the left wing of academia. George's single-tax policy – no taxes on incomes or capital - clearly supported capitalism. As is shown, Ricardo's 'Law of Rent' and 'marginal production', on which George's work rested, was at the time more easily applied to US land, which was largely agricultural and unenclosed, than to the UK. There is no mention, however, of the first plank of the Communist Manifesto: 'application of rents of all lands to public purposes'.

The story of the game of Monopoly, and its link to Henry George, is well and concisely related in Box 3.2.

The analysis in the chapter on housing is particularly fine, leading to the conclusion that land market dysfunction is the cause of the housing crisis.

Starting on page 68 we are shown how the industrial revolution and subsequent urbanisation changed the way that land was used, in particular for housing. It covers the overcrowding and poor conditions of housing in older cities, the start of new urbanisation, the first social housing and public investment in infrastructure to support the growing settlements.

The chapter then concentrates on the effects of government policies which have led to today's major housing problems: the sale of council houses, the deterrence to provide new council housing, the drive for homeownership and the promotion of 'buy-to-let'. The turning point is shown to be in the 1970s when deregulation of the banks began.

Box 4.1 refers to the Garden Cities initiative of Ebenezer Howard, although it is not recalled that Howard was inspired by *Progress and Poverty*, which is why land value capture was used to finance the building and maintenance of Letchworth Garden City, and communal ownership of the land was retained. This is contrasted in Box 4.2 with the later New Towns programme which used Treasury Bonds and the sale of freeholds to finance infrastructure. Actually the book is not totally correct on this: 'Howard's garden city proposal was never more widely adopted'. He was commissioned to design the Hong Kong Garden City which was and is much admired.

The attempt by the post war Labour government to capture the uplift in land value on change of use is covered on pages 79-82. However this is not the full history of Labour's flawed land acts. Both the Betterment Levy of 1967 and the Development Land Tax of 1976, met a similar fate to the 1947 Development Charge. Labour even attempted it one more time in 2007 with the Planning Gain Supplement, which was advised by the 2004 Barker Review. The plan was fortunately derailed following a public consultation at which Dave Wetzel, then Vice Chair of Transport for London, made a valuable verbal contribution.

On page 93 Section 106 Agreements are correctly described as a form of development land tax, and their significant deficiencies identified. (In fact there are websites devoted to showing how to avoid the costs).

It is fascinating to read on page 83 of the way that small building firms benefited from having clients from both the private and public sectors. But that was before government policies changed the scenery. Now there is extreme concentration of the UK house building industry (page 96), together with a trend towards smaller and poorer quality new homes. We learn on page 97 that 'new homes in land-constrained Netherlands are on average 53% larger' and even Japan has bigger new builds. It might also be noted that the UK's housing stock, as well as being some of the smallest in the developed world, is also on average poorly maintained and energy inefficient.

In Box 4.8 it is said that the 12 per cent of revenue collected in the UK from property taxes is 'mainly due to the Council Tax' (repeated on page 201). This is not strictly true since Business Rates collect a similar amount. In fact there is no reference to Business Rates which collect a large proportion of land rent, although not as efficiently as LVT.

As stated on page 201, Council Tax is highly regressive. Just how regressive might have been illustrated by the fact that the owner of a mansion in Westminster pays less than the tenant of a bedsit in Weymouth.

In the discussion on Lloyd George and the People's Budget (page 77) it is stated that: '[World] War [I] immediately killed off the political drive to tax landownership'. This is not true. The later reference to the Labour Party on page 193 refers to the manifesto of 1900, which included land nationalisation. Actually the body which existed in 1900 was the Labour Representation Committee - the Labour Party was not properly established until 1906. All its manifestos from 1906 until 1931 contained LVT as the main taxation policy. LVT was in fact enacted in 1931 as part of the Finance Bill. Soon afterwards the Labour government fell and the incoming coalition government repealed the act, so LVT was never implemented. The appeal of LVT to Labour Party activists persisted, however, as demonstrated by Herbert Morrison's 1938 Site Value Rating for London Bill. It would appear that World War II finally killed off the political drive for LVT. No doubt the machinations of some of the leading LVT advocates, Morrison and Chancellor Philip Snowden, had something to do with this. However, since the Shadow Chancellor is a long-term supporter of LVT, it is hoped that it will be part of the next Labour Party manifesto.

On page 74, we see that a Royal Commission in 1885 'found that almost half of working class households were paying 25-50% of their income on rent alone'. How times have not changed! As it says in the conclusion of the housing chapter: 'Projecting these trends forward, it would seem that the nineteenth century picture of the land economy is beginning to re-assert itself in the twenty-first: sooner or later the majority will find themselves renting from a small, wealthy minority of property owners.'

The financial chapter presents a clear picture of how land is and always has been the prime collateral for credit. It shows that the correlation between changes to banking regulation, particularly those affecting mortgage finance, and land price inflation is indisputable and describes how this has led to a major change to the structure of the UK economy. It draws on the wealth of current literature on the finance sector by, among others, Steve Keen, Richard Werner, Thomas Palley and Joseph Stiglitz, as well as the foresighted Hyman Minsky.

There is a good explanation in box 5.2 of the term 'financialisation', which has come into currency since the financial crisis.

The effects of the demutualisation of the building societies, formerly the main providers of mortgages, is described and nicely illustrated by the parable of Northern Rock in box 5.4.

Box 5.5 describes how residential mortgage-backed securities work, and the role they played in the financial crash is outlined on pages 139-140.

Figure 5.5 is a useful diagram showing the powerful house price-credit feedback cycle.

We are told how, initially, deregulation appeared to be benign (page 154): '… mortgage lending and equity withdrawal can support consumption and demand over long periods. This can help give the appearance that the economy is healthy even as productivity or wages are stagnating. Many advanced economies enjoyed an unprecedented period of steady growth coupled with low inflation from the 1990s and up to the crisis'. However, little attention appears to have been paid to what was going on in the real economy (page 122): 'increasing land prices negatively affected business investment via reduced lending (as well as potentially via increased rents…)'.

It is good to see mention of the role of CAP subsidies in increasing agricultural land values (since the basis was changed from output to acreage – referred to on page 33). As it says on page 122: 'The lucrative nature of the Common Agricultural Policy … has also played a role in the growing perception of farmland as a profitable financial investment'. This illustrates the direct relationship between subsidies and market prices.

However, there appears to be no acknowledgement of the inverse relationship between property taxes and the market price of land. One would have thought that analysis of the data would show the effect of the major change in the taxation of residential property in the early 1990s on house prices, although the picture may be clouded by the resumption of growth post recession. There is no reference to the old domestic rating system - a progressive property tax - which was replaced in 1990 by the Community Charge (Poll Tax) – not a property tax at all – and eventually by the current Council Tax, which retains an element of the Poll Tax with the single occupant discount. One might have also expected a price response to the 1963 abolition of Schedule A on imputed rent, referred to on page 85.

It is surprising also that there does not appear to be any analysis of the effect of interest rates on house prices. House price inflation does not follow general price inflation (which is why, perhaps, the Bank of England Monetary Policy Committee is obliged to ignore the damage it does to the real economy). The recent history of very low nominal interest rates may explain why house prices have recovered since the crash, despite low wage inflation. The earlier figure 1.1 only shows real land and house price indices until 2008.

Figure 5.7 shows the chart of home equity withdrawal in the UK, which has played a significant part in sustaining growth, with peaks before 1990 and 2007, an unprecedented dip thereafter, followed by the current flatlining.

An important conclusion is drawn on page 151: '… mortgage credit will not support increased growth in the economy unless it enables residential investment, home building or consumption. The vast majority of mortgage credit in the UK … goes towards the transfer of existing homes between households … As new credit and money is created and flows into existing homes and land, the inevitable result is house price inflation and rising household debt-to-income ratios: the classic house price … bubble.'

On page 155 credit is given to Steve Keen and Dirk Bezemer for predicting the financial crash. Yet, LVT campaigner Fred Harrison foretold the crash and the precise date of the land market peak, in *Boom Bust: House Prices, Banking and the Depression of 2010* published in 2005. Harrison's work was acknowledged in Keen's *Debunking Economics*.

The next chapter, covering the link between land, wealth and inequality, concludes that the rise in inequality has not been by the accumulation of savings from unequal incomes (although income inequality has also been increasing) but by the capital gains from the ownership of residential property.

There is criticism on page 171 of Thomas Piketty's *Capital in the Twenty-First Century*, which confuses capital with wealth when in fact wealth comprises both capital and land, in the form of housing. Using Piketty's datasets 1970-2010, Figure 6.4 clearly shows that: 'Once the effects of capital gains [mainly from land] are removed, the underlying wealth-to-income ratio has actually fallen significantly in the UK since 1970'.

Further, on page 177, it is pointed out that: ‘For those who own property, rising house prices represent untaxed capital gains which increases net wealth and, as a secondary effect, boosts consumption [equity withdrawal]. For those who do not own property, rising house prices mean facing higher rents in the rental market and having to save more to be able to afford a deposit for a mortgage.’

The subsection titled ‘The role of leverage’ draws attention to the ‘increasing share of economic rents flowing to the financial sector in the form of interest payments’, which explains the rise in profitability of the financial sector from 1% in the 1960s to 15% after the financial crisis (page 184).

Figure 6.9 shows the change in average house price to earnings 1983 to 2014, across UK regions. Whilst there is an increase in every region, it shows the disparity between the north and south and the huge outlier that is London.

Recognising ‘the key role of land in the economy’, the final chapter discusses policies which might address the challenges we face today: ‘a housing affordability crisis, rising household debt, financial instability and growing inequality’ (page 189).

Some reforms are incontrovertible. ‘Firstly, the private rented sector should be made more secure, with longer guaranteed tenancies, limitations on rent rises and stronger tenants’ rights’ (page 214). The need for more social housing is acknowledged (pages 215 and 222), although there is no mention of council houses.

The book makes a strong case for LVT, but as acknowledged on page 206, its introduction would have a profound effect on the financial sector and ‘… it is thus necessary to make reforms to the banking and wider financial system to wean it off land as its main means of de-risking lending’ and support banks to return to their ‘textbook’ role of lending for productive investment, which in the UK, ‘has fallen from around 35% of all lending to less than 10% since 1986‘.

Reforms suggested are various forms of credit control or simply forcing commercial banks out of the mortgage market altogether. The development of equity-based or Islamic finance mortgages could be encouraged (page 211).

There is a recommendation for a shift to narrow banking or a sovereign money system (page 212).

The call for the National Accounts to include land as a distinct asset class, ‘despite being one of the largest and most important’ (page 219), is welcome. It could be said that the inclusion of the resultant datasets in economic models is even more important. This is something which the Labour Land Campaign has been keen to promote recently. However, it will take a lot of effort by the economics profession to formulate the algorithms to use them given their current state of ignorance about the land issue. The economists at New Economics Foundation should be prepared to help them.

One of the benefits of including land in economic models is that it might be possible to show the share of national income which has gone to landowners since the 1970s. This would correct the assumption that the decreasing share which has gone to labour has mainly gone to the owners of capital.

A question remains as to whether banks holding land as collateral are in effect part-owners.

Before focussing on LVT, the book examines some alternative property tax reforms.

It is depressing to read on page 202 that Professor John Muellbauer believes that: ‘At the least there is an overwhelming case for the revaluation of council tax’ on the basis that: ‘… establishing the market price of land can be difficult’. Box 7.2 shows several examples of countries which tax land values and therefore do value land. In fact experience in Australia and the USA is that land values are much easier and cheaper to assess than property values and produce less appeals.

As it says on page 201, 'LVT requires land values to be assessed fairly and accurately on a regular basis'. Indeed, frequent, regular revaluation is essential to retain the credibility and effectiveness of any annual property tax. It is, therefore, unfortunate that in Box 7.2 Pittsburgh is cited as one of the Pennsylvanian split-rate cities, since Pittsburgh abolished its form of LVT in 2001 following a much delayed and botched revaluation process. Harrisburg is usually given as the most successful implementation of the split-rate tax.

As is stated on page 202, the Valuation Office Agency already maintains the valuations of all non-domestic properties for Business Rates. It carried out a similar function for the domestic rating system before that was abolished – mainly due to the fear of undertaking delayed revaluations. Note the recent howls of protest arising from Business Rates revaluations, delayed for an extra 2 years. It is doubtful that reassessing for Council Tax would cause any less outrage.

It should be noted that Australians value land every two years and their experts say it could be done annually using modern techniques.

There have been many calls to reform Council Tax, mainly by just extending the number of bands, but the whole basis of the tax is flawed, where local authorities set the rates against wildly varying location values and levy a property tax on those who do not even own their home (reference box 4.8). The situation will be exacerbated with the intended total withdrawal of the grant from central government to local authorities by 2020.

On page 203 the book quotes the Mirrlees Review of the UK tax system on its support for LVT. Yet Mirrlees held back from recommending that LVT replace Council Tax, instead opting for a vaguely defined 'housing consumption tax'. It is good that this book recognises that, despite the perceived hurdles, it is not impossible nor politically infeasible to apply LVT to residential property – indeed, it is the key to solving the housing crisis.

The main barriers to introducing 'a large land value tax overnight' to replace Council Tax, and how they may be addressed, are discussed starting on page 202.

First, there is the effect on 'household wealth and financial stability', because LVT would tend to lower land and hence house prices. This is the inverse relationship between taxes and market prices referred to earlier here. It is proposed on page 203 that this be overcome by 'phasing it in gradually over an extended period of time'.

Then there is the problem of the 'income-poor pensioner sitting in a valuable house who is unable to pay a recurring levy'. Winston Churchill, quoted as an LVT supporter on page 76, referred to this as the 'poor widow bogey'. The solution offered is the deferment of payment until death or sale or, '… they could give up a percentage of their equity in the property each year that wasn't paid to the state or local authority, enabling the community to gain from any capital appreciation' (page 203). The latter is apparently a suggestion from L. Mayhew and D. Smith, 2016 (see the bibliography) which is new to the reviewer but sounds complicated. It might have been added that affordability issues could also be addressed by the benefit system.

There are other suggestions, presumably aimed at making the introduction of LVT more palatable. One of these is to 'hypothecate the proceeds of any large-scale land tax evenly across the population as some kind of universal basic income'. However, this is controversial and antithetical to the provision of decent public goods and services. Moreover, it is unlikely that it was ever envisaged by Henry George, as stated on page 203. The only reference the reviewer can find to Henry George and the distribution of LVT revenues on a per capita basis, is a *Conversation between David Dudley Field and Henry George*, published in the North American Review in 1885. In this it is Field who suggests the universal income means of distribution. Some latter day LVT advocates (who believe that LVT should be the only tax) would agree with the idea of distributing the revenue, wholly or in part, as a 'citizens dividend'.

So far as the other suggestion on page 203 of hypothecation of LVT revenue to the NHS, this underestimates the potential revenue stream from LVT, which would be in excess of that required to fund any single public service.

However, there are even further complications in replacing Council Tax with LVT than the authors have anticipated.

Both the Burt Report in 2006, charged with reviewing local government finance in Scotland, and a report by a team at Heriot-Watt University, commissioned by the Joseph Rowntree Foundation (*After the Council Tax: Impacts of Property Tax Reform on People, Places and House Prices*, 2011), concluded in favour of a scheme involving individual valuation of properties. However, the later study came up against an insoluble problem with trying to include house price outliers like London in the scheme. The replacement of Council Tax with LVT would prove no less problematic.

A study by two members of the Labour Land Campaign on implementing LVT sought to address this particular issue. The resulting proposals included replacing Council Tax with LVT, initially, on a revenue neutral basis **for individual local authorities**. Like the book, it also recommended an extended period of phasing in.

This study also concluded that it was necessary to distinguish between the two types of private homeownership for tax purposes. As with commercial property, rented homes are income-generating, and their owners, therefore, should not be considered for relief from full LVT. Indeed, it would be of benefit if landlords were forced, by the imposition of a fair property tax, to relinquish their, literally, rent-seeking activities and give local authorities the opportunity to pick up suitable properties at bargain-basement prices for letting as council houses. This would enable councils to increase their revenue and reduce central government's outlay on housing benefit.

In fact, by focussing on the replacement of Council Tax by LVT, the chapter overlooks the substantial benefits to be obtained from collecting the full economic rent of land, as well as the extent of the revenue, which, on current estimates, is more than £200 billion. And this takes no account of the dynamics, or multiplier effect, which would be involved in reducing or abolishing other taxes which impose a deadweight loss on the economy. A significant reduction in the VAT rate, which the UK's exit from the EU will permit, would also have good welfare effects, as VAT is another very regressive tax.

The long-run objective should be to have a national rate of LVT for all land, with a formula to fairly allocate the revenues to local authorities, in order to capture, as near as possible, all land rent for public benefit. This is important in order to rebalance the economy geographically.

There is no reference in the book to the Community Infrastructure Levy, which was intended to replace Section 106 Agreements and is equally prone to preventing rather than fostering development. LVT would render such development taxes redundant. They should be abolished, together with Council Tax, Business Rates and Stamp Duty Land Tax (a transaction tax which hobbles the market).

All the suggested elaborations on implementing LVT in the preceding paragraphs are contained in this paper: http://www.labourland.org/wp-content/uploads/2015/09/JonesWilcoxLVTpaperFinal-V2.pdf.

With LVT there would be no need to remove the Capital Gains Tax exemption for prime residences, suggested on page 202 by Muellbauer, as it is only land which gains in value over time, not the 'bricks and mortar' which require expenditure on renewal to maintain their value.

The book makes a good case for proactive planning (page 216), but there is no mention of how LVT could aid the fulfilment of local plans. Reference is made to the difficulty of public authorities acquiring land for infrastructure projects. The government's manifesto proposal for the creation of new garden cities appears to have stalled, no doubt for this reason. Since land values are highly sensitive to permitted use (page 216), with LVT, local authorities could redesignate land which they wished to see developed as residential, which would see the owner's LVT bill increase. This would force the landowner to develop or sell. The market price would then fall enabling the land to be acquired at the going rate by the local authority. Compulsory purchase and compensation would only be required where there is current meaningful activity, and in any case negatively affected neighbouring communities would automatically be compensated by a reduction in their LVT bills.

What is more, LVT revenues could fund the development of new towns and garden cities, much needed council housing, and necessary infrastructure (as well as their maintenance and renewal), with upfront costs covered by government bonds. This can be demonstrated by the example of the Jubilee Line Extension, covered on pages 194-5. The £13 billion increase in land value which went to the landowners could have been extracted for public benefit via LVT.

Other methods of part funding, like the supplementary rate paid by local businesses towards the cost of the London Crossrail project, or the extraction of economic rent by 'investors', would be redundant. The Crossrail funding innovation is actually a version of Tax Incremental Finance often used in the USA – the Transport for London executive who commissioned the project was an American and the Vice Chair who supported him was Dave Wetzel, long-time LVT campaigner. It was also Wetzel who pushed for the revaluation of the land affected by the Jubilee Line Extension.

Finally, as elaborated on page 6, effective public and private investment increases the value of land. It could have been shown that the introduction of LVT would initiate a 'virtuous circle' whereby public investment in infrastructure leads to increases in local land values, which increases LVT revenues, which could fund further public investment – a non-inflationary multiplier effect. This is a much more sustainable way of financing the provision of affordable housing than the state housing and investment banks advocated on page 209 or by using pension funds (page 214).

This book is aimed at the serious reader and does not lend itself to emotional appeal, but one feels that somewhere it needs to recognize that housing is a basic human necessity, like food. We don't see people starving on the streets of Britain, but many sleep there.

This is an important book which should become a standard text for economics students and is equally useful for campaigners for land value taxation who tend to be rather more 'mature', as well as politicians and civil servants, and people in general, with an interest in the housing issue.

Apart from the odd few criticisms here, this is an excellent book, and is highly recommended.

Carol Wilcox
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