# WELFARE FOR THE RICH

## an examination into just who are receiving the biggest subsidies from UK taxpayers

*Royals on Benefits: Duchy of Cornwall and Crown Estate received over £200,000 in housing benefit payments for their tenants in 2014*


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# *WELFARE FOR THE RICH*

## WHO REALLY RECEIVES THE BIGGEST SUBSIDIES IN THE UK?

**This paper has been written thanks to the support of the International Union for Land Value Tax (www.theiu.org ) and the financial generosity of the Robert Schalkenbach Foundation (www.schalkenbach.org ) - organisations that promote the principles of Henry George as they apply to economic issues of current interest.**

**Born in Philadelphia in 1839, Henry George was a man of vision who studied the underlying causes of social and economic problems that blighted the world in his time. Although his idea of taxation capturing land value was not new - it had previously been discussed by Adam Smith, David Ricardo, James Mill, John Stuart Mill and others. He was an original thinking economist who was renowned in his life (how many of today's economists will have over 100,000 people attend their funeral) but who is largely ignored by today's economists and politicians who advocate policies that favour those who control and own the world's natural resource wealth without realising or caring about the interminable damage they do to our economies and hence humanity and our environment.**

**This paper sets out to challenge the myth that the poorest people in the United Kingdom (UK) are the most heavily subsidised through the UK's welfare system and to show that takers of land wealth are, in fact, the most heavily subsidised in the UK thanks to our inefficient and skewed tax system and a senseless economy in which the poorest of the poor subsidise the richest of the rich.**

**Although this paper focuses on the UK, the responses to injustice and the mismanagement of our natural resources it introduces the reader to are applicable in every society throughout the world where economic and social injustice exists. It argues for a fundamental shift in taxation off labour and production and on to the unearned incomes that land owners take as theirs, despite land wealth being created from the public and private investments and services we all pay for as taxpayers and consumers.**

**The UK's history of land ownership is one of theft; injustice and inequality and this state remains today with historical and corporate land owners controlling the economy and sucking wealth, created by the whole of the UK population, out of the economy when it should be collected to replace all or part of current negative taxes. We need politicians who not only understand how the economy really works but who have the courage to make a fundamental change to the tax system and challenge the UK's history of economic and social wrong.**

**June 2015**

## Contents Page

## The Problems

**Familiar problems but also familiar inadequate solutions**

The same set of problems face so many people today as they did yesteryear – growing poverty; the never-ending cycle of a boom and bust economy; high levels of unemployment particularly amongst young folk; low wages for a growing number of workers; homes unaffordable to rent or buy; increasing prices of food and other necessities; high energy bills; overcrowded classrooms; unfair taxes; public service cuts; crime and a growing division between rich and poor at individual and regional levels and, unbelievable in the 21st Century, families dependent on food banks.

The world banking system crumbled because it was based on inflated land values that were due to greed and sheer speculation. The UK still suffers from that crash but the underlying structure of the UK economy has meant economic and social inequality, economic instability and a skewed economy for generations, indeed since before Medieval times when the nation's land and land value have been the preserve of a few.

**Poverty**

In the 21st Century, the UK has families dependent on food banks provided out of charity - 1,084,604 people, including 396,997 children, received three days' food from the Trussell Trust's network of over 400 foodbanks in 2014/15, an increase of 19%[1] compared with 913,138 in the 2013/14 financial year. Between 2001 and 2011, the number of private tenants in poverty doubled from 2 million to 4 million and a third of privately rented homes failed to meet the Decent Homes criteria[2] – a growing number of families are being forced to pay unscrupulous landlords rent to live in damp, overcrowded and unhealthy conditions.

The UK has a growing number of people working on zero hour contracts which means no job security, irregular hours with work only available at the whim of the employer and often limited or no holiday or sickness pay. All of these ills are at a time when house prices and rents are rocketing out of control once again and where in 2013 the UK's thousand richest people saw their wealth increase by £70billion[3]; the UK is the only leading economy which has become more unequal this century. Life expectancy and infant mortality rates vary across the UK with life expectancy at birth differing by up to 10 years according to the Office of National Statistics (ONS).[4] Although there are many reasons given for these variations, low incomes, poor living conditions and health care are the main factors why a child born to a well-off family can expect to live a longer and healthier life than one born to a low-income family living in bad housing.

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[1] http://www.trusselltrust.org/resources/documents/Press/Foodbank-use-tops-1million-for-first-time.pdf
[2] http://www.ippr.org/assets/media/images/media/files/publication/2014/01/back-to-rising-damp_PRS_Jan2014_11767.pdf
[3] http://www.theartsdesk.com/tv/super-rich-and-us-bbc-two
[4] http://www.ons.gov.uk/ons/dcp171778_360047.pdf

**The never-ending treadmill of economic Booms and Busts and a skewed economy**

In the UK, as in most countries of the world today, we see a repetitive cycle of property booms and busts always followed closely by business booms and busts. There has been much written on the reasons for this destructiveness that explains the behaviour and provides real, sustainable and fair solutions through shifting our tax system off production and earnings and on to land and other natural resource rents. *(For further reading on the root causes of and solutions to booms and busts see www.schalkenbach.org www.theiu.org www.labourland.org www.henrygeorgefoundation.org www.landresearchtrust.org )*

Economic booms and busts are an intrinsic part of our current economic system and will continue to exist until politicians recognise that they allow a minority of the population to own, control and even waste our land and other natural resources. So why do successive Governments allow this minority to receive their enormous unearned incomes? Politicians, think tanks, economists and pressure groups rarely question a land owner's right to "own" the earth's natural resources and thereby claim the economic return that we all create. Because of failed economic teachings, self-interest and ignorance, the UK's economy seems doomed for the foreseeable future to remain one of distortion, instability and dominated by destructive cycles of economic growth and depressions. The UK tax system supports the richest owners of our natural resources being subsidised by the poorest which underpins our flawed economy with its inbuilt inevitability of economic booms and busts.

**Low pay and high unemployment**

The recession has seen unacceptably high levels of unemployment particularly amongst younger people. Employers have taken advantage of the economic situation by employing more people at (or even illegally below) the minimum wage level with up to 4% on zero hour contracts and many others forced into "self-employment" as contractors, with their gains in personal tax advantages not compensated for by the loss of employee benefits.

Although there are signs of economic recovery in the UK, it is very patchy. London and the South are seeing a greater degree of recovery than other parts of the UK (reflected in higher increases in land prices) but even within this region there are areas that have growing poverty, high levels of unemployment, poor housing and overcrowded schools. 'Cities Outlook 2015', a report published by Centre for Cities[5] in April 2015 states "*The divide that grew most sharply between 2004 and 2013 was in the number of net additional jobs created. Cities in the South had 12.4 per cent more jobs in 2013 than they did in 2004, far outstripping the 0.9 per cent growth seen in cities elsewhere. This means that between 2004 and 2013, for every 12 net additional jobs created in the South, only one was created elsewhere in Britain*." This is reflected in a big movement of young professionals from the cities in the North to cities in the South, particularly London.

This "North-South divide" arises because the South enjoys locational advantages compared to other places and yet with taxes on jobs and trade all areas suffer under the same marginal rate of tax on work and production which then dampens the ability of businesses and entrepreneurs to create worthwhile jobs, especially in the North.

[5] http://www.centreforcities.org/wp-content/uploads/2015/01/15-01-09-Cities-Outlook-2015.pdf

Workers on low-incomes with family responsibilities qualify for income support or family credit, so their employers are being subsidised by UK taxpayers and are getting away with it. In turn, because they pay low wages, the profits of these employers grow and thus the economic rental value of their site increases, meaning the benefit that is intended for low-income families goes to subsidising greedy employers and land owners. High land prices means higher prices for homes to rent or buy which has resulted in many people forced to live long distances from their place of employment. These low and middle income workers spend more of their time travelling to and from work instead of enjoying their leisure and family time.

**Lack of affordable homes to rent or buy**

In the UK, there is a growing concept of 'investing in property' to get a massive income without working for it – windfall gains. There are numerous development sites with planning permission for homes and businesses standing idle, in many cases for decades. Many wealthier homeowners in London and the South East of England are buying second homes in the countryside or seaside areas which is pushing up prices thereby making homes even more unaffordable for local folk many of whom are only able to get seasonal work paid at the minimum wage level.

Blocks of flats are being sold to rich UK and overseas buyers - sometimes before they are even built - creating an even bigger shortage of homes and pushing up the cost of renting or buying. Many of these homes are kept empty by their overseas owners as they are not interested in them as a home but as a safe and profitable investment. The UK government also gives mortgage subsidies to many house purchasers including "first time buyers" and those purchasing new build properties but fail to recognise that these subsidies simply increase the price that land owners can charge developers for their land.

Since Margaret Thatcher's government in the 1980s, Council Tenants have enjoyed the 'right-to-buy' their home at a discount and now in 2015 the new Conservative majority government (elected May 2015) is to extend this to homes owned by housing associations. Local Authorities have been denied the funding required to provide social homes so that housing demand remains unmet. This privatisation of social housing has added to rising home prices making rents unaffordable for a growing number of people and providing a direct subsidy of £9.2billion to private landlords who rent homes to tenants who qualify for housing benefit. We witness that many former local authority homes are now let at much higher rents by private landlords who have purchased them from the original tenants and as registered companies they enjoy huge tax subsidies on their mortgages.

**Prices of food and other goods**

Food prices should reflect not only the cost of production but also the environmental cost and transportation from the place of origin to the place of sale. There are also strong and valid arguments for more food to be produced and distributed locally but this is difficult when agricultural land and food processing plants are held in the hands of a few. These farms and plants occupying prime land are too costly to rent or buy especially for young would-be farmers or the growing number of food growing community projects. Even allowing for foods to be available all year round thereby requiring imports, the globalisation of food supplies and centralisation of processing and distribution means foods are grown in one area, transported to be processed (eg waxing of UK grown apples in South Africa) then transported to be packaged and returned to the first area to be sold. All those involved in these activities are making huge profits at the expense of the poorest of folk and wasted energy contributing to climate change.

Around 74% of supermarket sales in the UK are dominated by just four companies - Tesco, Asda, Sainsburys and Morrisons. Tesco's is notorious for holding valuable land out of use to stop other supermarkets from setting up in opposition; their land bank was valued at £20billion in 2014 enough for 15,000 new homes to have been built on it. (In early 2015, Tesco was in trouble and there were 49 cancelled projects in places ranging from Aviemore in Scotland to Dartford in Kent and, in turn, 43 existing supermarkets set to close.) Supermarkets reduce the amount of Business Rates (UK local non-residential property tax) they have to pay by designing the building as far from a road as possible thereby reducing the rateable value of the building - another reason why the UK's business property tax needs a real overhaul.

The bad behaviour of food producers, transporters, processors and supermarkets mean our natural resources are used inefficiently; cause pollution and depletion of natural resources particularly oil and increase the cost of food unnecessarily. Land banking at any level pushes up the price of land in that area and paying as little Business Rates as possible leaves other businesses to pick up their bills even though the land hoarders need the roads and other local public services their business benefits from.

**High energy bills (including petrol)**
Paying high energy bills in itself is no bad thing particularly with the high levels of pollution generated from fossil fuels that are killing the earth. However, what is wrong is that huge profits are made from the collection, processing and selling of these natural resources particularly when no responsibility is taken for the destruction they cause.

Subsidies for renewable energy are necessary but our present system is subsidising land owners who will receive at least £40,000 a year rent for each turbine sited on their land even though the land itself may have little value for other uses or can continue to allow grazing of sheep around the turbine masts.

As well as avoiding urban sprawl, a more equitable economy with the collection of all natural resource rent would mean natural resources would be used sparingly and sufficient money would be available to invest in more public transport services that reduce reliance on cars; improved rail freight transport; low emission vehicles; developing renewable energy and insulation etc of buildings.

**Cuts to public services**
Our public services contribute enormously to land value in the UK and adverts for residential and commercial properties regularly include information about the property's closeness to schools; public transport; hospitals; parks; shopping centres etc. It is hideous that taxes

collected to pay for our public services are avoided or evaded by many when an efficient and fair tax system would collect land value to invest in our public services instead of that wealth going to land owners who benefit from the services and from the economic gain they bring to an area through their ownership of land.

*State schools,* paid for by taxpayers, in areas of high demand can add up to £80K to the selling price of homes by those who hope their child can attend the popular school. That added land value is a direct result of public investment in our children's education. But although the sellers of properties in the catchment area benefit from selling a higher priced home, the higher price excludes lower income families (also tax payers) from living there.

*Private schools* are entitled to charitable status and that gives a tax advantage to the school and to schemes that enable parents to pay fees up front (anything from a term's fees or several years of private education) and get a "discount". In fact, the fee money is invested by the school and, because of their charitable status, the profits are tax free. An article published on 20 February 2014 in 'This is Money'[6] magazine explains legal ways that parents avoid taxes to pay for their child's private education. "*If the school were to take the money from the parents upfront and invest it, and offer them a three per cent discount on the fees in return, both sides benefit. Most private schools will offer a scheme like this. Harrow describes it as a 'tax-efficient Advance Fees Scheme, which offers attractive returns.' Radley, in Oxfordshire, boasts that one in six of its current boys have fees paid in advance. It adds it 'can be very beneficial when parents and other are assessed at the higher rate of tax. There should be no involvement with capital gains tax.' The Independent Schools Bursars Association says: 'The key point to bear in mind is that the commutation benefit to the parents/guardians is not subject to taxation. Therefore a higher rate taxpayer may find the scheme attractive even at a rate somewhat lower than could be obtained in the financial markets.' Everyone's a winner – except the Exchequer*"… **and** the taxpayer!!!

The second scheme involves (rich) granny and granddad, who want to help pay their grandchildren's school fees, by setting up a family business and naming each child as shareholders. Then when the fees are due, they arrange for the family business to pay out a special dividend to the child and because they have a £10,000 a year tax-free allowance, the child pays no tax on the dividend. (nb the law specifically excludes parents, but not grandparents, from operating this clawback scheme.)

The third scheme is to "*invest a lump sum in an offshore bond. They name themselves as trustees and the children and the beneficiaries. The parents then split the bond up into a number of different policies – enough to pay out for each term of school fees. By assigning the policies to the children, the tax on the gain will be payable by the child – and not by the parent. Since the gain will be within their personal allowance, it will be tax free*".

The fourth way is to increase their mortgage to pay the school fees and bump up their pension plan to cover the amount that they claim back when they reach 55 using the 25% tax-free pot.

[6] http://www.thisismoney.co.uk/money/bills/article-2558653/The-5-sneaky-perfectly-legal-ways-Britains-richest-parents-cut-tax-bill-private-school-fees.html

Many UK state schools, paid for by taxpayers, need more revenue and capital funding to bring buildings up to standard so they are functional, safe, environmentally sound and big enough to cope with educational and student demands and they need more teachers and teaching support members of staff.

Why should those parents whose children go to private schools be subsidised by those whose children go to state schools especially when their child's school needs those funds?

*Transport* is probably the most recognised public service known for generating and adding to land value. Much has been written showing how land has risen in value due to investment in rail improvements, light rail developments, trams, improved bus services and even cycle schemes. Currently under construction, Crossrail is a new rail line in London that will provide a high-frequency commuter/suburban passenger service linking parts of Berkshire and Buckinghamshire, via central London, to Essex and South East London. The new line will also relieve the pressure on several London Underground lines such as the Central and District lines which are the current main east-west tube passenger routes, and the Heathrow branch of the Piccadilly line.

This new scheme will cost £14.8billion and is funded from a number of sources including taxpayers, businesses and commuters. Property prices have been soaring along the route of this major rail service and will continue to do so both during the rest of the construction and when it is in operation. According to an article in the Telegraph dated September 2014[7] "*Europe's largest infrastructure project has driven house prices up by 96pc over the past decade, according to a study by the online estate agent eMoov, which also estimated that the average house price of property near the route would rise another 36pc by 2020."* One building that has a history of land speculation is a 33 floor office building called Centre Point that is sited by one of the new Crossrail stations at the junction of Oxford Street and Tottenham Court Road. In the 1960s/1970s it was notoriously kept empty for over 13 years for speculative purposes and was squatted by homeless people who campaigned for homes not more offices. It is now being redeveloped to provide 82 luxury apartments that will sell for an average price of £3.2million. Even with gold and diamond encrusted bath taps, most of the value of these flats is in their location – the centre of London beside a Crossrail and Underground station and close to businesses, parks, museums, theatres and shops.

Taxpayers from all over the UK together with London based businesses and future commuters are all subsidising land owners in London who are seeing their property's value soar because of this new essential transport investment.

*Services for the UK's aging population* along with mental health services, doctors' surgeries, hospitals and other local health care provision are under tremendous strain and need considerable investment to meet growing and changing needs. To try to address the UK's financial deficit the newly elected Tory government has proposed welfare cuts of many £billions but promised £8billion extra spending on the UK's National Health Service (NHS).

[7] http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/11125842/Crossrail-development-drives-property-boom.html

They have not yet identified where the £8billion will be funded from and they certainly make no reference to the added land value NHS and local authority health care services bring to their catchment areas.

The UK's local and national public services benefit the whole nation – we all need fire services, police, roads and public transport and all depend on a healthy, well educated workforce to provide the goods and services we all rely on for our well-being. Those who avoid or evade paying their taxes are being very heavily subsidised by those who do pay.

**Bad tax system**

A report published by PCS (trade union for Civil Servants) in September 2014, claims the UK tax gap between what should have been collected and what was actually collected was over £119billion in 2013/14 and is rising steadily[8]: tax evasion £82billion, tax avoidance £19billion and tax not paid £18billion. This is an increase from 2010 when it was estimated to be £95billion. The UK government estimates the gap to be around £34billion with the difference between the report and the Government figures being the figure for tax evasion because of an underestimate by Government of income that is not recorded in the shadow economy. Research carried out by Tax Research UK suggested that 10% of sales were not recorded resulting in a loss of income tax and VAT of around £47billion.

This tax avoidance, evasion and non-payment means those that do pay their taxes are footing the bill for the rest. These tax avoiders/evaders are being subsidised yet they too make use of schools, hospitals, police, roads, public transport etc.

**Increased division between rich and poor**

A research paper published by Oxfam in January 2015, "Wealth: Having it all and wanting more"[9], shows that *"the richest 1 per cent have seen their share of global wealth increase from 44 per cent in 2009 to 48 per cent in 2014 and at this rate will be more than 50 per cent in 2016. Members of this global elite had an average wealth of $2.7m per adult in 2014. Of the remaining 52 per cent of global wealth, almost all (46 per cent) is owned by the rest of the richest fifth of the world's population. The other 80 per cent share just 5.5 per cent and had an average wealth of $3,851 per adult - that's 1/700th of the average wealth of the 1 per cent."* In the UK five rich families have the same wealth as 12 million people

According to the UK Government's Office for National Statistics (ONS)[10] the top 1% owns as much wealth as the poorest 55% and the gap is widening. "*Net property wealth was the dominant asset contributing to the total aggregate wealth of households in the lowest income quintile, over half (55%) of households in this income quintile had no property wealth. However, 7% of households in the lowest income quintile had net property wealth of £250,000 or more (with 1% having net property wealth of £500,000 or more). The households with low wealth almost certainly live in rented accommodation*."

[8] http://www.taxresearch.org.uk/Documents/PCSTaxGap2014Full.pdf
[9] http://policy-practice.oxfam.org.uk/publications/wealth-having-it-all-and-wanting-more-338125
[10] http://www.ons.gov.uk/ons/dcp171778_368612.pdf

In the UK there is a huge division between the richest and the poorest at a regional level – the 'North-South' divide that exists in England will continue exist until there is proper investment in former industrial areas. More and more young people leave these areas to chase jobs, particularly in London and the South East of England. Yet the poorest of folk living in these poorer areas pay their taxes that pay for good public transport, good hospitals, good schools and so on in the richer areas and they get no share from the increased land values that those investments help generate.

The 2015 Sunday Time's Rich List found Britain's wealthiest 1,000 individuals and families now have a combined fortune of just over £547billion (excluding bank accounts) – or £547million each on average and the richest got so rich because they claim ownership of a considerable amount of natural resource wealth in the UK and overseas. Not only do these super rich people take our natural resource wealth, they avoid paying taxes using every loophole their accountants or solicitors can manage. For example, heading the Rich List is Ukrainian born Len Blavatnik who moved to the US in 1978 where he invested in post-Soviet aluminum and energy companies, endured the bankruptcy of petrochemical giant LyondellBasell, a merger he engineered, and then expanded into media and communications. After selling his stake in Russian oil company TNK-BP to Rosneft for $7billion in 2013, he moved into tech, with investments in three web-based music streaming companies, a stake in online shopping site The Fancy, and a piece of German incubator Rocket Internet. In 2011 he acquired Warner Music for $3.3 billion, and he's also the financial backer of the Faena Group, which has major real estate developments in Miami and Buenos Aires. Minerals, oil, airwaves and property are the basis of his wealth; natural resource wealth that should be shared by those who give it value – the world's population.

The rich are sucking out natural resource wealth that enables them to make investments that make them even richer all at the expense of the rest of the world's population that create natural resource wealth in the first place.

## Land speculation and misuse of valuable urban land

**Precious urban land being kept unused and underused**
The **supply** of land is finite. So when we see a site deliberately kept out of use, it effectively reduces the supply of land available to those wanting and able to use it. We don't have to look far to see empty or derelict offices, factories, houses, brownfield sites or waste land that usually have hoardings and rubbish dumping and rats and raves and graffiti and fires and drug trading being the only activities taking place on them. These sites are kept out of use for a reason. Either the owner is inefficient or they are waiting for the maximum return they can get by selling these sites at a higher price to a speculator or developer. These unused sites are an asset that the owner can borrow against for another financial venture, until they are ready to sell the land for a profit or give their permission for the site to be brought into use. The consequence of this inaction can be seen where an unused site changes hands several times over many years. Whilst the site stands empty the local community is denied homes, jobs and/or services whilst each departing land owner leaves with a handsome profit gained by extracting the land wealth actually created by the local and wider community. Everybody, except land owners and speculators are left poorer.

The pressure by developers and others to have new homes built on greenfield sites in the countryside is encouraging urban sprawl and more long distance commuting. Such a policy means increasing car use and the provision of new infrastructure with all that entails in terms of pollution, road injuries and deaths.

Allowing the unused and underused sites that exist in all towns and cities to remain unused and underused encourages the misuse of our natural resources and adds to the problems of global warming and pollution of our planet. In 2010, there were over 190,000 acres of unused land in England and Scotland that had been developed previously but which lay idle because of speculation in rising land prices by the owners[11], many sites laying idle for decades whilst people need affordable homes and business premises. This misuse of urban land means increasing pressure to build in the countryside and on green belt land with more and more urban sprawl and long distance commuting and the resulting waste of valuable leisure time, increased pollution and more road deaths and injuries. The cost of building and maintaining new schools, health care, public transport and so on all add to the costs of urban sprawl which are paid for by tax payers and not the developers or land owners.

**Land Speculation**
Land speculation is a root cause of economic instability and poverty. The UK has more and more rich overseas land speculators (most of whom have already filched their own country's natural resource wealth) joining the UK based speculators in buying up properties in major cities in the UK – including Leeds, Liverpool, Manchester, Sheffield and London - knowing that as the economy grows so land prices will increase and they will get a huge unearned return on their 'investment' thanks to the workers and worthwhile investors in the trade and production of goods and services. Because their mission in life is to cash in on future land price rises, these non-productive parasites create a further shortage of affordable homes

[11] https://www.gov.uk/government/statistical-data-sets/live-tables-on-land-use-change-statistics

and force up property prices, compelling local folk to live further and further away from the areas where they want to live because they cannot afford the rising rents and home prices.

Headlines in newspapers the day after the UK general election in May 2015 shouted about how "*International investors rush back into UK property market*". The Guardian[12] said how estate agents were reporting "*calls from buyers at the top end of the property market, as the Conservatives' shock election win lifted their fears of a mansion tax on £2m-plus homes.*" Of course, the Mansion Tax proposed in the Labour Party's 2015 election Manifesto on homes valued at over £2million was really about collecting a small amount of land value. Unfortunately its proponents in the Labour Party didn't understand its theoretical basis, probably because they simply copied this tax from the Liberal Democrats - never argued back against its opponents such as musician Myleene Klass who expressed cynical "concern" over how a Mansion Tax would punish the 'asset rich-income poor granny' (normally a widow). Because of their lack of understanding about land value, Labour Politicians couldn't ask her about the 'asset **poor**-income poor granny' who is subsidising her asset rich sister.

Land speculation, fuelled by subprime mortgages (banks deliberately offering loans to those hoping to cash in on the rising land prices and those who could not possibly pay back their debt) was the underlying cause of the 2008 world wide crash that saw numerous families lose their homes, businesses close, banks collapse and the resulting economic crash that affected not only the UK but the US, Europe and other economies worldwide. Today we can observe China heading for an identical catastrophe because they too are making millionaires out of exploitation of their natural resource wealth including land wealth.

The ownership of the world's natural resources in itself does not create a single penny's worth of wealth. If the land in Mayfair owned by the current Duke of Westminster was in exactly the same state as it was when leased by William the Conqueror to Geoffrey de Mandeville after 1066, the land value would be just as high as it is today because of generations of investment in public transport and other public and private investments on and around the Grosvenor Estate that others have contributed to with their capital and labour and not because of any work or effort by the Grosvenors over the centuries. As land owners, the Grosvenor Estates have contributed nothing to either land values or the GDP of the UK.

Land speculation will continue until economists and politicians properly understand how the economy works, the theory of rent, how land value arises and the effect on the economy depending on whether the government collects it or the government has to impose taxes on workers and business.

[12] http://www.theguardian.com/money/2015/may/08/international-investors-rush-back-into-uk-property-market

## The Challenges we face

We should ask the question, if the current economic system works, why did the 2008 recession hit us? Why didn't economists, politicians, their advisors or academics even see the economic downturn coming? Those who argue for an annual Land Value Tax and the few economists who understand the importance of land in the economy did see it coming - and predicted it years ago[13]. When they warned politicians, bankers and others of this approaching catastrophe, they were ridiculed and ignored by the 'experts' who, as we now know, based their incorrect decisions on an economic theory that is fundamentally flawed!

**Successive UK governments accept a level of poverty and poverty wages as being the norm**
The level of pay and better working conditions we enjoy in the UK is only because of struggles led by trade unionists and political activists past and present, but they are being eroded. Under our Capitalist system there is the constant friction between the needs of workers and the needs of the capitalist. This gets reflected in our industrial relations, our political parties and trade union membership and other political activities. Our hard-fought-for benefit system intended to support lower income families and those unable to work for health reasons etc is being steadily dismantled and more and more families are being driven into poverty and resorting to foodbanks. Indeed, our welfare system subsidises employers who pay low wages and that is an abuse of the system but also, our welfare system subsidises the richest of the rich – including some of the UK's wealthiest land owners.

Because land is so expensive in the UK, any individual, co-operative, partnership or company wanting to invest in a new or expanding business have to pay a fortune to rent or buy premises let alone pay unfair and negative taxes that depress the production of worthwhile goods and services. This means the skills and talents of these people are lost as they are forced to remain as wage-slaves in order to survive economically.

There are television programmes in the UK that use families who receive benefits to "entertain" viewers. These programmes also brainwash many viewers into believing people who depend on income support - because they can't get a job, because they are single parents without financial or family support, are on low wages or have a disability - are scroungers, there to be ridiculed and belittled by all.

**An inbuilt injustice exists in our economy for tenants whether residential or commercial (including farm tenants)**
When we experience economic development, the in-built injustice of our economic system automatically rewards those that own our natural resources and penalises those who do not. In the UK, we have the obscenity whereby tenants (residential and commercial) actually pay a hidden subsidy to freeholders of properties and it goes by unchallenged. For example, why shouldn't a family, who happen to be residential tenants and who pay their share of taxes that will be used to fund the new Crossrail in London, not also benefit from the increases in land values that are arising as a result of such investment? Why should these families and

[13] See Fred Harrison "The Coming Housing Crash" in "The Chaos Makers" (1997) and "Boom Bust: House Prices, Banking and the Depression of 2010" (2005).

businesses that pay rent subsidise the land owners who will benefit from this and other public or private investments as well as pay increased rents that result from higher land values? Why should the banks of the world be allowed to fuel land speculation and make enormous profits at the expense of others?

Those who campaign for a fair and just society rightly highlight the problems so many face but they also need to identify the key solutions that are needed to enable local and national governments to permanently eradicate poverty and deliver good quality public services provided by well paid staff. If we want a fair and sustainable economy where the whole of society has access to affordable well insulated homes; full employment; good education; healthcare that is accessible to all and enjoys high quality public services, we need to ensure that our land and natural resources are used for the good of today's population and also for the benefit of future generations.

A growing number of politicians, academics and commentators are recognising the economic significance that land and other natural resources play in the economy. These decision-makers and influencers recognise the economic fact that as public and private investments are made so the increased surplus of production that arises as a result, is diverted to land owners for no other reason than they claim ownership of the land that our homes, jobs, public services etc are sited on. This 'Economic Rental Value' of land becomes the unearned income of land owners instead of being returned to the public purse to be used to maintain and develop our public services including transport, education, healthcare and affordable homes.

Sadly, most compassionate politicians readily identify the problems but fail to offer solutions that address the underlying causes. We are distracted from the real explanations for our problems, with so many simply blaming the bankers; tax avoiders; immigration; older people who keep working after retirement age; older people living in homes of a size young families need; outsiders buying properties; benefit scroungers and so on.

So long as this 'divide and rule' approach persists, people will continue to wrongly blame each other for the ills in our economy rather than address the valid solutions required to overcome the problems that many people face. And until these root causes of our economic and social problems are tackled then a minority will continue to be able to exploit the majority of the population.

The biggest challenge facing those in the UK who do understand that the rentier system is the root causes of inequality; a skewed and unfair tax system; irresponsible use of land and hindrances to good production is the uphill struggle of getting economists, politicians and the media to understand what is wrong with our economy, why it is wrong and how to put things right through a fundamental shift in what is taxed.

## Let's consider WHO really subsidises who?

The manner in which the UK's tax system is structured means the poorest people actually subsidise the richest. All taxpayers subsidise tax avoiders and evaders, farmland owners through CAP (the European Union's Common Agricultural Policy), freeholders benefitting from the government's 'Help to Buy' schemes and wealthy businesses paying poverty wages.

Tenants and other non-property owners subsidise land owners and freeholders and we all subsidise land speculators and big land owners that now include the super-rich overseas land owners who are buying up swathes of the UK's highest valued land from the natural resource wealth they have leached from their countries of origin.

Our tax system benefits the richest at the expense of those on low and middle incomes particularly the "self-employed" on low incomes and employees who have their Income Tax and National Insurance contributions deducted directly by their employer through the UK's pay-as-you-earn (PAYE) system.

**Tax avoidance and evasion means a bigger bill for taxpayers**
When national and local government budgets are set, decisions are made based on estimated income and expenditure. Many individuals and companies avoid paying their taxes, using legal means and exploiting unintended loopholes in the system, and others illegally evade paying their full tax bill. This means the tax collected locally and nationally is being paid by a much smaller tax base than is fair. In 2013, the UK government estimated that £35billion worth of taxes were not collected due to illegal activity and mistakes etc (7% of the total tax bill). A report by Tax Research UK, estimated that in fact the total amount of national tax avoided or evaded is more likely to be £119billion a year[14].

**Housing Benefits paid to private landlords**
A survey undertaken by the GMB trade Union[15] shows *"taxpayers spent £9.028 billion in the year to end November 2013 to subsidise rent to private landlords for 1.65 million privately owned dwellings that they rent out to households in Great Britain."* GMB name the top twenty landlords in each of the 318 local authorities out of 380 that replied to them and the list includes some of the same recipients that also collect Common Agricultural Policy subsidies including the Grosvenor Estates (Duke of Westminster); Cadogan Estates (Earl Cadogan); Buckminster Trust Estate (Tollemache family descendants of the 9th Earl of Dysart); Yattendon Estates (Baron Iliffe and family) and Blackshaw Holdings Ltd.

Tory MP Richard Benyon, who is worth £110million received £120,000 a year from his hard-up tenants' housing benefit. This same greedy housing landlord blasted the "something for nothing" welfare state when he said "*The average household spends £3,000 per year on the welfare state. This figure had been rising inexorably and unaffordably*." This rich land owner deems it alright for him to receive £120,000 a year from taxpayers but not alright for those

[14] http://www.taxresearch.org.uk/Blog/2010/03/11/tax-justice-and-jobs-the-business-case-for-investing-in-staff-at-hm-revenue-customs/
[15] http://www.gmb.org.uk/newsroom/landlords-hit-housing-benefit-jackpot

on low pay or who are unemployed to get some financial support in order for them to exist – double standards or what!

Years of successive government policies of starving councils and other providers of 'social housing' of the necessary funding for sufficient affordable rented homes has resulted in a growing number of families forced to rent from private landlords – some of whom are good and responsible landlords but many of whom are not. 'Buy to let' mortgage schemes together with land hoarding, empty homes and idle sites have all fuelled rising land prices thus forcing up market rents. Private landlords will naturally charge market rents for their properties, but if housing benefit subsidies currently paid to them were instead allocated to councils, housing co-operatives and housing associations to enable them to build homes at really affordable rents it would be a much better use of public monies. Denying social housing providers of funds but subsidising profit motivated private landlords is another example of how land owners are getting more subsidy from all of us as taxpayers. Landlords are entitled to a fair return on renting homes to tenants but under our current tax system this subsidy actually fuels land price rises even further and that is not a sensible or just use of our taxes.

**The Common Agricultural Policy (CAP) is mostly a subsidy for big land owners**

The European Union considered changes to CAP subsidies paid to farmers and one reason for considering change was because the European Union recognised that the subsidies become capitalised into land value and therefore give unearned income to land owners but give no financial benefit to tenant farmers whose rents reflect the subsidy. But with the new changes being implemented in 2015, they have failed to make the much needed radical changes to make the system fair to all farmers in the European Union. The CAP continues to subsidise land owning farmers with tenant farmers paying high rents because of the CAP subsidies.

Duncan Pickard, a land owning farmer in Scotland contends the CAP is fundamentally flawed in a number of ways and argues these subsidies should be phased out[16]. In a presentation he made to a conference in Glasgow, Scotland in February 2015[17] that was organised by the Scottish Land Revenue Group, Duncan said "*There are many farmers in Scotland, including us, who are farming profitably after subsidy income is discounted. Most tenant farmers who receive Single Farm Payments hand over most of it to their landlords as rent. Land owners are the major beneficiaries of farm subsidies.*

*The Common Agricultural Policy (CAP) has never been what its name implies. Since its inception it has been a Social Welfare Policy, designed initially to provide income support for the many farmers on small farms in France. The major effects of subsidies are:-*

*1. To increase the market price of farmland because those of us who receive the surplus money find the best way to invest it is to buy more land.*

*2. To make it almost impossible for those who want to start farming to do so.*

*3. To make the cost of food for the consumer higher than it would be without the CAP. Tariffs increase the cost of imported food. More could be produced in this country but is not because*

[16] Lie of the Land by Duncan Pickard

[17] http://s420649894.websitehome.co.uk/SLRG/attachments/article/13/The%20Farmer's%20Viewpoint.pdf

*farmers are able to live on some or all of the subsidy income instead of using their land to its optimal potential. How many of the farmers who currently claim that they would lose money without subsidies, would do so if they farmed more diligently and effectively? The productivity of the top 25% of farmers shows how much more food could be produced if all farmers were as good as the best.*" As well as owning his own farm, Duncan Pickard rents fields from the retired farmer next to him. To prove the point of subsidies being capitalised into land values, Duncan tells of how he pays no rent for those fields but instead, the retired owner collects the CAP subsidies for the animals and crops Duncan farms on his land – taxpayers pay Duncan Pickard's rent to the retired the farm owner.

CAP subsidies encourage larger land holdings, factory farming, intensive non-organic farming, the destruction of wild life habitats and prevent smaller, organic and new farms from being started. Subsidies paid in 2012 went to the biggest land holders in the UK many of whom, like the Duke of Westminster, are the same families who have "owned" huge tracts of our land for generations and include Sir Richard Sutton's Settled Estates who received £1.4million; the Earl of Plymouth who received £642,808; the Duke of Buccleuch who received £563,092. Other anonymised recipients each got £3.9million, £3.4million, £2.4million and many got around one million pounds. Other big businesses also get these subsidies including Serco Regional Services Ltd that received £1.79million and land owners Frank A Smart & Son who received £2.5million in subsidies. Interestingly, this company sold 18 building plots and six building properties on one of its farms for £1.3million, (the farm was originally bought for £300,000 in 1991). Furthermore, the company made a profit of over £3.1million in 2008, and in March 2009 sold 24 plots of land with planning consent for more than £2.9million[18].

On 31 December 2013, the FT Property and Mortgages[19] publication reported on rising farmland prices that are due to an increased demand for food caused by growing populations. It explains how farmland is considered to be a safe 'investment' because of CAP subsidies and tax benefits that include "*exemptions from inheritance tax and capital gains tax under certain circumstances, the ability to offset any losses from the farm against profits made elsewhere, and benefits by way of value added tax*". The so-called "investment" in farmland in the UK produces no increase in arable farmland but is in fact speculation in further rising land values due to population growth and future incomes from CAP and tax avoidance.

We all, as taxpayers, contribute to the CAP but it is NOT the farmers who benefit but once again it is the land owners – aristocracy, businesses and individuals – that reap the benefit of this huge subsidy; new farmers are deterred by high land prices or high rents. How can this be just, fair or politically acceptable?

**Rural Communities**

Rural communities are facing change for a number of reasons but one of the reasons is taking away people's choice on whether they can afford to continue to live in their area or

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[18] Kevin Cahill New Statesman 11 March2011 http://www.newstatesman.com/life-and-society/2011/03/million-acres-land-ownership

[19] http://www.ft.com/cms/s/0/0246138e-7165-11e3-8f92-00144feabdc0.html#axzz2pWBqSfcG

having to move. Homes in the countryside, villages and small towns are becoming less affordable for local folk because of others buying second homes; people retiring from areas where house prices are high or because of those buying homes for holiday lets. These three groups of home buyers are cashing in on the economic windfalls of rising land prices in wealthier areas particularly London and the South East of England and subsidised mortgages from buy-to-let schemes. The problem is worsened by the number of new homes built on greenfield sites which are attracting workers prepared and economically able to commute long distances to work and who push up the price of homes and out of reach of low paid or unemployed local folk.

Many people living in rural areas are unemployed or depend on low-paid seasonal work and this is particularly a problem for those living in tourist areas where jobs generally last from Easter to October and then these workers are forced to claim benefits in order to exist.

It is difficult for young people to continue to live in remote areas because of lack of public transport, lack of jobs and unaffordable homes. Many who go to University never return to live in their place of origin particularly in their quest for a job.

Tax reliefs for mechanisation of agricultural production; increases of imports of food and raw materials and closure of mines and steel works have led to job losses in villages, small towns and the countryside. Shop, post office, bank and pub closures due to cheaper supermarket goods and drinks and the high level of personal transport have led to lost local services and jobs. Those who are unable to drive or can't afford personal transport are left isolated in their locality dependent on poor bus services that now have to run for profit.

An aging population in rural areas means more pressure for health care services and, because of poor public transport, more isolation for them. The new build homes also put pressure on local services and infrastructure and it is the taxpayer that picks up most of the bill, not the land owner who gained from the development. Roads, schools, health care, water and waste etc all need to be provided and when these are in place, they make the value of the area even greater.

Past and present residents and businesses in rural communities have paid and continue to pay taxes that finance their community's infrastructure as well as the subsidies that go to farm owners under the Common Agricultural Policy (CAP) and subsidised mortgage schemes. Their taxes also pay for transport and other public services in areas where land values are high that have enabled those residents to cash in on their windfall gains to buy in rural areas.

People living in rural areas are subsidising better off folk and the richest of the rich and either face isolation or are being forced out of their local community as a result.

## Housing Problems faced by a growing number of people

**The "Housing Ladder" is a myth that penalises tenants and benefits freeholders**
Normally, increased prices for most commodities are condemned so why do commentators see it as a "good thing" when property prices rise? They criticise petrol price increases, higher fuel bills, food and consumer goods price rises and yet appear to laud house price rises. How can we be happy that the cost of a home soars, thus excluding many from being able to rent or buy in the area they wish or need to live? The media and politicians regularly talk about our desire to get on the 'housing ladder' when what they are really saying is that people, who are already struggling financially, are in fact trying to get on the 'land speculators roller-coaster' of land price booms and slumps.

There is no housing ladder because it is **NOT** the house or flat that increases in value, buildings are like any manufactured goods such as second-hand cars that because they need repair and maintenance depreciate in value over time – it is the **cost of the land** on which the buildings are located that actually rises. It is only the land (or location) value that increases when we "celebrate" property price increases and that land value is created because of our combined demand for land for homes; for jobs; for public services; for leisure activities and so on.

**Land costs us nothing to create**
Land is different to manufactured goods; we require no labour and no capital to create land as it is a free gift of nature, provided at no cost - and is in fixed supply. However, when new investments in our public infrastructure are announced, normally land values in the areas affected will increase and this was observed when Crossrail and the London Underground Jubilee Line extension were announced and delivered, also when other good major transport improvements have been introduced such as the Manchester tram whereby people pay an average of 4.6 per cent more for a home that is within 500 metres of a tram stop[20]. Land owners demand a higher rent for business premises located within the catchment area of good transport networks because of the benefit businesses receive from that public investment – workers can more easily get to work; customers wishing to purchase goods and services enjoy easier access and by locating close together, businesses benefit from the economies of agglomeration. Taxpayers and users pay for the public transport but it is land owners who gain from the increased rents they can demand from business tenants. Similarly, the rental or purchase prices of properties located close to or in the vicinity of parks, schools, health care, places of natural beauty all reflect the location values that have been created by all of society and nature and not from the act of "owning" land.

**The wealth gap not only continues but it grows**
In 2008/10 **t**he wealthiest tenth of households owned more than 40% of overall wealth and were over 850 times wealthier than the least wealthy tenth of households[21]. 1% of the population own 70% of our land[22]. In its document published in February 2013, the GLA

[20] http://www.manchestereveningnews.co.uk/news/greater-manchester-news/living-near-metrolink-station-could-7709457
[21] Office of National Statistics 'South East has biggest share of the wealthiest households' December 2012
[22] Kevin Cahill 'Who Owns Britain'

identified that "*In Great Britain, the richest ten per cent of the population own nearly 45 per cent of the country's total private household wealth, whereas at the other end of the spectrum, half of the population own less than ten per cent of the household wealth between them*."[23]

Quite rightly much is said about the growing inequality between the richest 10% in society and the poorest 10%, however, one of the reasons for this inequality is not addressed. Most people on low incomes are tenants, live with family or friends or are even homeless; yet all tenants (residential and commercial) and other non-property owners in fact subsidise the richest land owners of the UK as well as all other big and small commercial and residential freeholders. To tackle low incomes, poverty and this terrible economic and social inequality that persists in the UK, we first need to tackle one of the most fundamental causes of this disparity.

**Just one of the richest people that the poorest of us subsidise**
The Duke of Westminster holds land valued at £6billion. The Duke may be entitled to claim he created the buildings and other human-made improvements he has made to the land, but the value of his huge urban and farm landholdings arises not from his personal efforts and decisions, but from their location value which is dependent upon natural factors and all of our activities – soil fertility; services both public and private such as transport, clean streets and shops; population size; policing, views of rivers or access to public parks etc and from the tax subsidies he receives from housing benefit - £243,000 in 2013 and the Common Agricultural Policy (CAP) every year - £888,456 in 2012.

Of course, the Duke of Westminster did not create the land he holds. His ancestors acquired his estates through a lease from William the Conqueror, through marriage and through theft via the enclosures. He filches the land wealth that we all create and gets this unearned "gift" we have endowed on him and his family for generations without any effort on their part.

Land is essential for our very existence, and purchasing land gives no moral right to claim exclusive ownership of land rent, any more than trading the sun's rays or the air we breathe.

How is it right that the poorest in society subsidise the richest? Why don't politicians or the media look at who really receives the biggest subsidies in our society?

[23] http://www.london.gov.uk/sites/default/files/Update%2002-2013%20The%20Wealth%20Gap%20in%20London.pdf

## Getting the right answer: tinkering with existing taxes doesn't work

We are conditioned to accept the present system of taxation on incomes as being the best one to provide good public services and a system of adequate financial support for those who, for whatever reason, are not able to get an income through paid employment. The "left" call for greater taxation on the rich, ignoring the fact that, apart from their ability to negotiate eye-watering high salaries to cover their taxes on salaries, the rich are best able to take expensive measures such as overseas residence, switching income to an off-shore company and other intricate devices requiring clever accountants and lawyers to avoid and even evade our taxes whilst poorer taxpayers are left behind to pick up the bill. Even if the highest rate of income tax were increased to 99% then those on the highest salaries would negotiate even higher rewards to pay their higher tax bills which means higher priced goods and services leaving consumers to pick up the bill thus subsidising those richest wage earners even more than we do at present. The French socialist government elected in 2012 has not created more jobs and prosperity by introducing higher personal taxes, instead youth unemployment has grown and as a consequence, the far right won the French 2014 Euro elections.

If there are opportunities to avoid or evade paying taxes, not only are there individuals and businesses that will do so but by so doing they employ some of the best skills and brains to advise on unproductive tax avoidance schemes which are totally fruitless to the wider society when these brains and skills could be much better employed in creating real wealth, new inventions or in the creative arts etc.

Many corporations attempt to pay little or no taxes in any of the countries where they operate by any means possible, for example by setting up subsidiaries and using hideous tax laws in different countries. However, by taxing the rental value of land governments would not only ensure that companies contribute for the benefit of public services they receive but also, because you can't take your land in a suitcase to an offshore tax haven, make it impossible for companies to avoid their responsibilities. Even high tech dot-com companies require offices for their staff, buildings for their computers and servers and if they are selling a product then depots and warehouses.

It is only recently that some local authorities have charged a full Council Tax levy on second homes and empty homes. Property owners deliberately make commercial premises uninhabitable by smashing roofs etc thereby avoiding paying Business Rates.

Instead of tinkering with the current unfair, inadequate, avoidable and unsustainable tax system, this paper argues that we need to think afresh about how the economy works, how human-made and natural wealth are created, owned and controlled and what are the flaws in the current system that mean we have, in varying degrees, constant poverty, hardship, inadequate rewards for work, suffering, inequality and economic, and therefore social, injustice in the UK and in all other countries of the world.

***We fight over the crumbs that fall off the table instead of demanding changes that will result in us all sharing what is on the table – it is time to look at the problems facing us all and seek a permanent solution to their causes.***

## The Economics behind why we need a change to what is taxed

In order to produce all goods and services, we not only need land and natural resources but also workers and relevant equipment or tools whether it is for building a home, mining for oil, growing food, making consumer goods, delivering food to shops, running a bank, providing medical care, educating our children, providing transport and other public services or leisure activities etc.

Of the three factors of production – labour, capital and land (land is the economic term used for all natural resources) – the UK tax system purposely taxes labour and capital despite the many opportunities to avoid and evade paying them. However, land as such is not taxed.

**Just to clarify a few terms**
The word "capital" has many meanings in the English language usually associated with money, bank deposits, investments etc. These are not "capital" in the economic sense. Wealth is created by human labour (mental and physical) being applied to land and other natural resources. Most wealth is used to satisfy our immediate needs and consumption but "capital" is created when we set-aside some human made wealth in order to produce more wealth. So for example, a plumber's tools and their van are capital; machinery, trains, buses, roads, business buildings (factories, shops, warehouses, offices), computers etc are all capital when being used to create more wealth, even the merchants' stocks in a shop or warehouse and part-finished goods in a factory are capital. So land, which is not created by human labour, cannot be capital. The returns to capital are interest paid on loans and profit paid to the business investor. (Most economists including Thomas Piketty "Capital in The 21st Century" make the fundamental error of confusing land and natural resources with capital).

"Labour" means any form of physical and mental effort by humans employed in the production and delivery of goods and services. The return to labour is wages.

In economic terms, "land" includes all natural resources including land itself whether it is used for farming, leisure, transport, homes or commerce and the return to land is economic rent. Classical economists such as David Ricardo or Henry George give the following definition for "economic rent": *"the rent of land is determined by the excess of its production over that which the same application can secure from the least productive land in use".*
So this means that "economic rent of land" is the surplus income generated from a site after the costs of production are paid, that is payments for wages, the cost of capital, interest on loans and a reasonable return on the investment. The selling price of land averages around twenty times the economic annual rental value but this can be (and often is) added to by artificial scarcity (eg empty homes or land owners refusing to build on their land banks) and speculators wanting to buy farm land on the urban fringe, creating an artificial scarcity or hope value (that is expectation of future land rent increases). An element of economic rent

is inefficiently collected through current property taxes and some economists even argue that all taxes come from land rent but those latter arguments are for another discussion. Land is of a fixed supply and land owners will always charge the highest amount of rent possible for the use of their land and premises and that is why any form of subsidy or grant will always capitalise into land value after a period of time.

- The **demand** for any site depends on the permitted activities any individual, organisation or business is carrying out or is planning to carry out in an area.
- The **value** of a particular site will depend on its location; neighbouring services and facilities, its permitted or intended use and its usefulness to the current or potential user in carrying out their business.
- The **economic rent** of a site (or use of any other natural resource) is the surplus income generated from the use of that site in producing goods and services after the costs of labour and capital and a normal profit have been paid.
- The **price** a site is sold or leased for is the lowest price the owner is prepared to sell or lease the site for and the highest price a user is prepared to pay for the exclusive use of that site and it may be in the form of payment of a rent or a lease (with or without rent renewals) or a freehold. (nb we are only concerned with the site value and not the building value of a property).
- **Speculation** that land prices will rise, together with freely available credit, is what forces up the price of a site above its true economic value creating a 'bubble' that will eventually burst leaving havoc for so many households and businesses in its wake.

**The greater the surplus income that is generated by labour and capital so the greater the amount of unearned income is filched by those claiming ownership of land and other natural resources. Clear evidence of this law of economics is observed throughout history and throughout every economy in the world.**

**Land and Natural Resources are not "Capital"**

The first flaw in modern (neo-classical) economic teaching is to describe land and natural resources as being a part of capital and not a separate entity with specific features that humans cannot replicate. Land, air, minerals, oil, water, natural forests, the spectrum, airwaves, the sea, sunshine, airport landing slots and so on are all gifts of nature – we need them, we harness them, we use them and unlike capital they are essential for our very existence.

Natural resources are not created by humans. Land owners do not produce the land we require for our farms or our towns and cities; mining companies do not produce the minerals in the ground; oil companies do not deposit the crude oil or gas below the surface of our planet; mobile phone companies did not invent the spectrum; airline companies do not create time and space on which airport landing slots depend; farmers do not make farmland.

Not one of us has created land or natural resources and yet we allow a few privileged individuals and companies to benefit financially from our need to use these free gifts of nature.

So, who should own Natural Resources? - as we all depend on the use of the world's natural resources in providing us with our homes, our food, our clothes, our consumables etc, why do we allow a tiny fraction of the world's population to own the economic wealth that nature has provided for all of us to enjoy rather than share the economic benefit we all gain from their use? It is not simply owning a natural resource that gives power to a few, it is the ability to determine how a site may be used and the unearned income they take as theirs that gives land owners such a huge and unfair privilege and advantage over most of the population.

By accepting the premise that a minority of the UK's and of the world's population have a natural right to take 'ownership' of our natural resources and the economic benefits they generate, we are accepting an economic system that can only ever be one where inequality, unemployment, inadequate housing, low wages and poverty are the norm.

## We need a fairer tax system that does not penalise workers and savers

The political establishment and academia may differ in their political views but could be united on one common principle – **that the economic rent of land and all other natural resources should be collected** and used to replace some or all of the negative taxes that deny workers the full return on their labour and which distort the spending power of us all as consumers or providers of all goods and services.

An OECD Economics Department Working Papers No. 1205 "Reforming the Tax on Immovable Property"[24] confirms this "*The efficiency effects of the property tax depend on whether the tax base includes land, investment, such as buildings, or both. A pure land tax is considered most efficient since it hardly affects households' and firms' behaviour."* In fact, William Vickrey, the 1996 Nobel Prize winner in Economics, stated "*The property tax is, economically speaking, a combination of one of the worst taxes—the part that is assessed on real estate improvements …—and one of the best taxes—the tax on land or site value*"

The arguments in this paper focus on land wealth - how it is created, who collects it, how it is collected and examines its effect on the economy. However, the same arguments apply to all other natural resources including oil, minerals, airwaves, the spectrum, water, solar and wind power and so on.

It is recognised by most UK political parties that current property taxes are not efficient or fair for a number of reasons; Business Rates are avoided by owners who leave their buildings unusable and leave development sites idle and, because it is a tax on buildings and location, penalises owners who have good buildings and Council Tax means modest homes outside London are paying the same levy as the most expensive in Central London.

**Why do we accept a bad system as being OK?**

Owning land appears normal to us, but it is a fairly recent invention in the term of humankind's 200,000 years of existence on this planet. Until relatively recent times, land was shared by all and owned by no one. In the UK this really changed after 1066 when William the Conqueror became the sole owner of land leasing out parcels of land to his supporters in return for providing armies when required and other dues. Today, many of the descendants of these Barons still hold that land, though without any financial or other obligation to the Crown or the Treasury – taxation was shifted off land and on to trade, production and wages.

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

[24] Blöchliger, H. (2015), "Reforming the Tax on Immovable Property: Taking Care of the Unloved", *OECD Economics Department Working Papers*, No. 1205, OECD Publishing, Paris. http://dx.doi.org/10.1787/5js30tw0n7kg-en

- Why do we allow this hideous and immoral situation to continue?
- Why don't economists, academics or politicians call for this injustice to be corrected?
- Can we do anything to stop this theft of the wealth we all create from going to a few simply because they lay claim to part of the surface of the planet?
- Are there lasting solutions that will eradicate poverty - whether in poorer or richer countries?

So long as our economic 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 or in the world. Those who create the wealth of the nation will always be subsidising the owners of land and other natural resources.

**The deadweight losses of taxation**
We know that governments use their tax policy not only to raise revenue but also to affect behaviour. Examples of behavioural taxes are taxes on tobacco and alcohol which are usually set at a higher rate than normal in order to encourage people to reduce their consumption of these products. Similarly in the UK Value Added Tax (VAT, the UK's sales tax) is NOT applied to food, children's clothes, newspapers or books in order not to artificially reduce consumption of these commodities.

However, not just taxes on alcohol and tobacco but all taxes on production, buildings, capital and trade affect behaviour. These taxes reduce consumption, reduce production, reduce trade and therefore destroy jobs and therefor add to unemployment and reduce the nation's GDP. This undesirable affect is termed the "deadweight loss" or "excess burden" of taxation and is described quite comprehensively in Fred Harrison's "The Losses of Nations – Deadweight Politics versus Public Rent Dividends".[25]

Without trade every individual would have to become self-sufficient and we would all be much poorer. With trade we are able to exchange goods and services between individuals, between companies, between regions and between countries and hence all parties to the trade become wealthier. So except for matters of health and safety, environmental protection or deliberate trade boycotts, why do we impose barriers on normal trade or inflict taxes that reduce trade?

One would expect economists and politicians to seek tax alternatives that do not add a deadweight loss to the nation's economy. It was Adam Smith in his book "An Inquiry into the Nature and Causes of the Wealth of Nations" (1776) who first described the benefits of an annual Land Value Tax by saying "*nothing [could] be more reasonable than a land value tax*" (in Book V) and many notable economists since from David Ricardo, John Stuart Mill, Henry George and including Nobel prize winners William Vickery and Joseph Stiglitz have drawn attention to the benefits of an annual Land Value Tax.

[25] "The Losses of Nations". Editor Fred Harrison. Othila Press. 1998.

## So, what is the solution?

This paper argues 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 transparent, fair and just. One that shifts taxes from wages 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 public shared ownership and the full economic rent charged for their use, then we should at least call for a levy to be applied to the annual rental value of all land and to all other natural resources including oil, minerals, the spectrum, airwaves, wind and solar energy, fishing in our seas, landing slots at airports etc. As natural resource taxes are introduced there should be a reduction in negative taxes including income tax and VAT. These and most (but not all) other taxes actually depress the economy, increase unemployment and do not allow other positive economic and social policies to be properly implemented.

***This paper argues that we should be looking to charge for the use of all of our natural resources but the income to go to the public purse and not to land owners. Firstly to ensure we use them sparingly and usefully; secondly because natural resource wealth is created by our <u>collective</u> efforts and thirdly because such charges are unavoidable.***

**Land:** By taxing the annual rental value of all land and reducing taxes on incomes and production, there will be immediate benefits to society including:

- Decrease in land speculation, a reduction in the enormous number of valuable unused or underused sites that blight our towns and cities;
- Reduction in urban sprawl as land owners and developers bring into use valuable brownfield sites and empty buildings;
- Reduction in commuting with the environmental and social damage that causes;
- Increasing the amount of land being made available for homes, start-up businesses, recreation and leisure facilities etc;
- Providing governments, companies and individuals with a sustainable income that is free of the economic distortions caused by property market booms and busts;
- The opportunity to use land rent to improve public services and to reduce negative taxes that actually act as a drag-anchor on the economy;
- New small start-up enterprises encouraged to grow and expand with lower property costs and reduced taxes;
- Lower tax bills for all and improved employment opportunities, especially in areas of high unemployment and low land values;
- Re-distribution of the wealth we all create - morally fair and economically just;
- Encouragement for people to use their skills and talents in positive ventures.

- Tenants and other non-property owners benefiting from the natural wealth they too create rather than being penalised and forced to pay an unfair and hidden subsidy to land owners.
- Lower income tax and VAT reducing business costs and encouraging consumer spending, saving and investment.
- The reduction of unemployment reducing the social welfare bill that has to be met by taxpayers.

There are situations where transition to this system of taxation may need consideration; the 'asset rich but income poor' payer is often raised. However, given that LVT would need to replace and/or reduce existing negative taxes including current inefficient property taxes on buildings, it is likely that most taxpayers will pay less in LVT than their current business or personal taxes including property taxes, but where there is a genuine problem of hardship the simplest solution is for their LVT bill to be rolled over year on year (with interest) until ownership of the land changes hands.

***(www.labourland.org provides a list of FAQs which give answers and solutions to questions and issues people interested in a better understanding of LVT have raised.)***

**Oil, coal and other minerals and ores**

By taxing the 'economic rent' of all natural resources, the wealth these resources generate will give local and national governments a sustainable and naturally growing income for public expenditure on health care, education, transport, housing, social services, leisure, investing in new sources of renewable energies, improved insulation etc. rather than go to obscenely rich institutions such as De Beers or to new multi-billionaires such as overseas football club owners. An example of such is the levy applied to oil in Alaska whereby the residents of the state each receive an annual dividend from oil revenues through the Alaska Permanent Fund.

**Landing slots at airports**

These permissions to occupy our skies at a particular altitude and time can exchange hands for millions of pounds. The peak time slots obviously give the airline that owns it a tremendous commercial advantage. The landing slot should be paid for but each slot's economic rental value should be collected by the government and not by the airline concerned. The revenue collected should be used for the general good and not to subsidise airline shareholders.

**Airwaves and the Spectrum**

In 2000 when the Labour government auctioned off five 20-year licences for third generation mobile phone services, they raised £22billion (government advisers thought £5 to £6billion would be raised) and in doing so they collected the economic rent for the twenty years of the licences. So long as those parts of the spectrum will still be needed, the next auction in 2020 will provide a fresh income for the government, again collecting the economic rent for the use of the spectrum 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 should be applied to all airwaves and the spectrum.

**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.  One of the biggest costs for providing wind farms is the high payment to land owners for the use of land which may be scrub land with no real economic value.

It is essential that economists, academics, politicians, journalists, trade unionists, business, think tanks and the general public become concerned with examining this land reform.

## Some ways to collect the economic rent of land

Arguably the most just way **w**ould be to bring land back into public ownership, without compensation and collect all land rent for the public purse. This would mean a plentiful supply of cheap land to provide truly affordable homes, access to land for young people wishing to farm themselves, cheaper business premises, a huge income to the government who could reduce taxes on workers and introduce a citizens land dividend which would not only ensure every adult and child enjoyed the benefits of us all owning our land and natural resource wealth but also create a blocking mechanism if a future government wanted to return our land to the likes of the Duke of Westminster and his ilk – the descendants of the original thieves who stole the land from our foreparents by the English enclosures, the brutal Highland clearances and other devious methods.

**The alternative most likely to be adopted**
If public ownership is too radical, then a more modest approach could be adopted that should be of interest to politicians of every persuasion. An approach that has been advocated by the founders of the Labour Party (it was in Labour's first 1906 Manifesto), an approach supported by Dr. Sun Yat-sen the first President of China after the boy Emperor, an approach reflected in Lloyd George's Liberal budget of 1909, an approach legislated for by the Labour government in their 1931 budget (but promptly frozen by Ramsay McDonald's National government and then dropped by the subsequent Tory administration), a policy advocated by Tolstoy, Lloyd George, Winston Churchill and Herbert Morrison, an economic instrument often advocated by right-wing journalists and commentators in the FT, the Economist, the Institute for Fiscal Studies and Money Week. A policy advocated by the Co-operative Party, the Green Party, the Liberal Democrats, some Trade Unionists and MPs like John McDonnell, Andy Burnham and pursued by Caroline Lucas, the Green MP with her 2013 Private Members Bill and supported by many environmentalists. This approach is an **annual Land Value Tax**, by which we would collect some of the land rent for the public purse and stop land hoarding, land speculation and their resultant destruction of jobs and homes.

As well as Land Value Tax, other names given to the collection of part of the annual rental value of land include Natural Resource Rentals, Location Benefit Levy, Site Value Rating, Location Benefit Charge and Site Value Tax. No matter the name, the important thing is to collect part of the land wealth that is created by the whole of society to be used fairly to maintain and develop our public services nationwide instead of that unearned income going to 'owners' of land.

**How an annual Land Value Tax will work in practice**
A number of stages have to be completed but with information already gathered for local and national government purposes and with the benefit of modern technology and the knowledge and experience gained by those in the world that already value land, at least annually, in order to collect land rent, this task will not be an onerous or complicated one.

**Political considerations**
The government of the day will need to make decisions in preparation for the shift in taxation from earned incomes to LVT including:

- The name to call the levy on land rents (this paper uses Land Value Tax throughout).
- To collect the levy from the freeholder annually and where appropriate to add the charge to PAYE codes in order to even out payments.
- Whether it is collected locally and/or nationally. Local authorities could be the collecting agents using the same procedures as currently used for business rates where the receipts are forwarded to The Treasury but in the case of LVT having the power to determine their own local element over and above the Treasury's levy.
- The percentage of the annual rental value of land to be collected nationally and the percentage to be left to the discretion of local authorities for their own needs.
- With the exception of funding new infrastructure, which increase land values, LVT will be revenue neutral and replace existing taxes in whole or in part.
- Not to create a new government department or agency but to use existing local and national government departments to carry out the changes necessary using the skills, information and structures that already exist within local government, HM Land Registry, The Valuation Office, Revenue and Customs etc.
- What, if any, fair, accountable and valid interim measures need to be in place during a transition period.

## Stages needed to Implement LVT

**Registration of all land**
The UK land registers need to be completed so that the owner and their contact details, permitted use and size of every parcel of land is known. This will be a simple operation as approximately 80% of UK land is already registered. Public advertisements could announce that the owners of unregistered land could be required to register within six months for tax purposes and then any unregistered land (ie land with no ownership claim) could be leased by the government to the current occupiers, councils, businesses or individuals on 99 year leases with regular rent reviews.

**Valuation of every parcel of land**
Each site needs to be valued annually according to its optimum permitted use. "Permitted use" is the use that the community, through the planning process, decides the land should be used for and "the optimum use" is the actual use that generates the most rent within the limitations of the permitted use. For several reasons the valuation should be on its annual rental value a procedure familiar to the UK where business rates apply to rental values). Annual valuations will keep information up to date, and provide transparency and fairness so that there is not a situation such as exists with the current Council Tax which is still based on 1991 valuations. Objectors of LVT often suggest it is impossible to value land, however where sites are exchanged land valuations occur every day of the week and there is no identified situation that exists where professional valuers are unable to determine the economic value of a site.

There are many jurisdictions in the USA that value land separate from buildings or other improvements at regular intervals using valuation skills and modern computerised and Global Positioning System (GPS) technologies.

**Apply levy**
The percentage levy on the annual rental value of each site will depend on the speed at which the government of the day wishes to reduce harmful taxes and their economic and social policies.

**How much income will a shift in taxation to LVT collect?**
The amount collected will depend on decisions made by the government of the day such as a shift to LVT being revenue neutral; which taxes are abolished and which are reduced and the rate that the positive economic effects of LVT on the economy materialise. It is difficult to give any accurate figure on how much could be collected from a particular LVT percentage because of a lack of relevant information on current land values and the need to assess the positive effects that LVT will have on land use and the higher productivity of the economy with more essential infrastructure, harmful taxes reduced or abolished and a better rewarded labour force.

Total UK tax receipts are about £648billion for 2014–15 of which current property taxes raise around £69billion: National Non Domestic Rates raise £29billion; Council Tax £26billion; Stamp Duty £8billion and a further £6billion in Capital Gains and Inheritance taxes.

However, at 31 March 2013, 13% of business premises in England were empty and the cost of the empty property rate relief was £957million. Because empty sites or land with unusable buildings are not subject to Business Rates, the owners of these sites pay no property taxes. Empty commercial premises or idle sites not only deny the community access to these sites for business use, lost jobs, lack of goods and services, lost revenue to the exchequer, but these empty sites and buildings become a target for vandalism and other anti-social behaviour as well as becoming a fire risk – a complete misuse of land in our towns and cities. In 2010, there were over 190,000 acres of unused land in England and Scotland that was previously developed but laying idle because of speculation in rising land prices by the owners and this does not include sites with buildings that are not being used to their full planning potential.

It is also known by informed economists that any reduction or increase in taxation will affect land values simply because of the law of Economic Rent whereby land owners take the surplus of production after costs of labour, capital, raw materials and taxation are deducted from total income.

In a government report published March 2014 titled 'Land Reform in Scotland: Interim Report - Scottish Affairs Committee' [26] it was stated: *"In this interim report we have focussed on the role fiscal policy plays in determining the price of land. Professor Paul Cheshire, Emeritus Professor of Economic Geography at the London School of Economics was clear in what he told us. 'My basic message to you would be that all the work that I have done, and that an increasing number of scholars around the world have done, reinforces the conclusion that land markets are amazingly efficient at capitalising almost everything. By "capitalising," I mean that the price of land reflects everything about its value and use [...]*
*If you try to help poor farmers by giving them subsidies, it gets capitalised into the price of land. If you give inheritance tax reliefs to farmers to try to keep family farms going, it gets capitalised into the price of land and squeezes family farmers out. If you give subsidies to farmers, it gets capitalised in the price of rural land. If you give planning permission with particular obligations, the expected value of those obligations—because it is always in the future—is again reflected in the price of land.'"*

The OECD Economics Department Working Paper No. 1205 Reforming Tax on Immovable Property (22 April 2015) states that property taxes are known to be inversely related to property prices "*The property tax is capitalised in property prices. Any tax hike will be reflected in lower property values and higher tax payments*."[27]

Without allowing for the economic effect of abolition of Business Rates and Council Tax or any reduction in or abolition of existing taxes, and using the limited information available, estimates suggest an introductory 30% levy on the annual rental value of all land according

[26] http://www.publications.parliament.uk/pa/cm201314/cmselect/cmscotaf/877/87708.htm
[27] Blöchliger, H. (2015), "Reforming the Tax on Immovable Property: Taking Care of the Unloved", *OECD Economics Department Working Papers*, No. 1205, OECD Publishing, Paris. http://dx.doi.org/10.1787/5js30tw0n7kg-en

to each site's optimum permitted use would generate an income of circa £92billion (see below).

However, if one accepts all taxes are inversely related to land values, then if the government were to replace or reduce current taxes, the amount of Land Value Tax would **increase** by that amount plus that which is currently avoided, evaded or simply not paid (the tax gap) which the Treasury estimates to be £34billion but which Tax Research UK estimates to be £119billion which would be a total of up to **£769billion** and growing as the economy becomes more efficient and grows in currently under-invested areas.

Also, these figures do not take into account the effect of Land Value Tax on the economy particularly in areas where there is currently low investment; high unemployment; empty homes and from where young people leave to find work elsewhere particularly in London and the South East of England. Of course, a government could decide to introduce an LVT percentage rate lower or higher than 30%.

## What is the current value of all land in the UK?

The UK government provides no clear, up-to-date or accurate data on the total value of land in the UK. However, an estimate is shown below based on information used by the Office of National Statistics and elsewhere. Of course, these estimated values are based on the UK's current tax system and would be quite different if the UK's tax system were changed as explained above.

The total value of all residential land in the UK at December 2013 was £5.963trillion.[28] Agricultural land values rose considerably between 2010 and 2013 and at December 2013[29] were around £6.7k per acre with farms over 1000 acres in size selling at between £8K and £10K per acre.

### Estimate of Residential land values

*Table 1: UK residential land values*

| Region | Stock | Total property value | average price per home | Land value per home* | total land value | annual rental value at 5% of total land value | Example of income from applying a 30% LVT |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £ | £ | £ | £ |
| London | 2,869,641 | 1,480,071,868,929 | 515,769 | 415,769 | 1,193,107,768,929 | 59,655,388,446 | **17,896,616,534** |
| SE England | 3,907,585 | 1,233,085,337,770 | 315,562 | 215,562 | £842,326,837,770 | 42,116,341,889 | **12,634,902,567** |
| East of England | 2,863,931 | 753,640,578,719 | 263,149 | 193,149 | £553,165,408,719 | 27,658,270,436 | **8,297,481,131** |
| SW England | 2,460,608 | 602,467,565,760 | 244,845 | 174,845 | £430,225,005,760 | 21,511,250,288 | **6,453,375,086** |
| NW England | 3,218,964 | 532,316,857,716 | 165,369 | 95,369 | 306,989,377,716 | 15,349,468,886 | **4,604,840,666** |
| West Midlands | 2,427,780 | 448,593,049,500 | 184,775 | 114,775 | 278,648,449,500 | 13,932,422,475 | **4,179,726,743** |
| Yorkshire and The Humber | 2,022,666 | 304,237,283,724 | 150,414 | 80,414 | 162,650,663,724 | 8,132,533,186 | **2,439,759,956** |
| East Midlands | 1,978,415 | 343,929,642,015 | 173,841 | 103,841 | 205,440,592,015 | 10,272,029,601 | **3,081,608,880** |
| NE England | 1,569,724 | 264,401,171,112 | 168,438 | 98,438 | 154,520,491,112 | 7,726,024,556 | **2,317,807,367** |
| Scotland | 2,616,293 | 443,809,630,469 | 169,633 | 99,633 | 260,669,120,469 | 13,033,456,023 | **3,910,036,807** |
| Wales | 1,401,472 | 227,014,638,976 | 161,983 | 91,983 | 128,911,598,976 | 6,445,579,949 | **1,933,673,985** |
| Northern Ireland | 783,281 | 123,373,023,748 | 157,508 | 87,508 | 68,543,353,748 | 3,427,167,687 | **1,028,150,306** |
| **TOTAL** | **84,361,080** | **6,756,940,648,438** | **2,671,286** | **1,771,286** | **4,585,198,668,438** | **229,259,933,422** | **68,777,980,027** |

*Using 2011 figures, assuming building only values **of £100K London and SE England & £70K elsewhere**

[28] The Independent 29 May 2014

[29] http://www.voa.gov.uk/dvs/_downloads/pmr_2011.pdf

**A rough breakdown of UK's land value by current permitted use**

The following table gives an estimated value of income that would be collected from an annual Land Value Tax. It takes no account of the effect on existing land values of reducing taxes on production and abolishing Business Rates and Council Tax and replacing them with an annual Land Value Tax. Data is taken from different sources including government data and Savills Estate Agents.

*Table 2: 2011 UK land values and example of income collected from 30% annual LVT*

| **Land Use (60m acres total)** | **Acres** | **Average Value per acre** | **Capital value of land** | **Annual rental value at £5%** | **Example of income from applying a 30% LVT** |
|---|---|---|---|---|---|
| | **million** | **£** | **£million** | **£million** | **£million** |
| Agriculture & forestry | 47 | 7,000 | 325,500 | 16,275 | 4,883 |
| Non-commercial Woods, marshes, heath & other | 8 | 0 | 0 | 0 | 0 |
| Residential (all) | 2 | 2,300,000 | 4,600,000 | 230,000 | 69,000 |
| Commercial (all) | 1 | 1,000,000 | 900,000 | 45,000 | 13,500 |
| Public services, Parks, roads, non-commercial etc | 3 | 0 | 0 | 0 | 0 |
| *Previously developed sites - Residential | 0 | 2,300,000 | 230,000 | 11,500 | 3,450 |
| *Previously developed sites - Non-residential | 0 | 1,000,000 | 100,000 | 5,000 | 1,500 |
| **Total** | | | **£6.2tn** | **£307.8bn** | **£92.3bn** |

***Nb these are rough estimates and do not account for the effect on land values of the abolition of or reduction in other taxes***

## Let's change our economic system

**Land Value Tax (LVT) Post the UK's May 2015 General Election**
Political parties, trade unions, think tanks, academics, campaigners and others who want a fair and more equal society and who highlight the failures and hardships caused by the present economic system are increasingly recognising the need for a fundamental change to our tax system that will really achieve a shift of wealth and power to working people and their families.

With the defeat of the Labour and Liberal Democrat parties in the 2015 General Election and only one Green MP elected, there is a huge challenge for those who want to see a fairer and sustainable tax system which includes the collection of the economic rent of land. Given the history of the Conservative Party and its entrenched link to land and land wealth ownership being held by an elite, it seems unlikely that they will want to shift taxes off earned incomes and onto the unearned incomes taken by land owners. However, two consultations in 2015 do give a glimmer of hope: the Scottish Commission on Local Tax Reform[30] and the Treasury's review of reforming Business Rates[31]; both consultations have a deadline date of June 2015 for submissions to be made.

LVT is increasingly proposed by a number of think tanks, commentators and academics as a replacement for Council Tax and/or Business Rates both of which are inefficient and unfair property taxes.

In 2010 and 2011, the well-respected Institute for Fiscal Studies (IFS) published "Tax by Design"[32], the second and final report of the Mirrlees Review which carried out a lengthy and detailed study of the UK's tax system. Chapter sixteen discusses the taxation of land and property and in its conclusions, the report advocates that Business Rates should be abolished and a Land Value Tax levied on all commercial land including farm land which is currently not taxed. The IFS produces an annual Green Budget[33] that analyses the issues and challenges facing the Chancellor in preparing the Budget and, for 2014 and 2015, it repeats its conclusion that Business Rates should be replaced by a Land Value Tax and applied to all farming land[34].

The Centre for Labour and Social Studies (Class) is a think tank established for left debate and discussion published a paper written by Andy Hull titled"In Land Revenue: The case for a Land Value Tax in the UK" it concludes "*all land, whatever its use, would be subject to the new Land Value Tax, except for land with an occupied primary residence on it up to a property value of £2m*."

[30] http://localtaxcommission.scot/
[31] https://www.gov.uk/government/consultations/business-rates-review-terms-of-reference-and-discussion-paper
[32] http://www.ifs.org.uk/publications/5353
[33] http://www.ifs.org.uk/uploads/gb/gb2015/gb2015.pdf
[34] http://www.ifs.org.uk/uploads/mirrleesreview/design/ch20.pdf

In a paper "Financing Green Urban Infrastructure"[35], the Organisation for Economic Co-operation and Development (ORCD) discusses the merits of taxing land value.

The Institute for Public Policy Research's (IPPR) paper "Property And Wealth Taxes In the UK The Context For Reform"[36] in its conclusions and areas for further research, one of its three suggested areas of reform calls for the "*Gradual introduction of land value tax: introducing a new tax on the value of high-value but undeveloped land would help build the infrastructure for a more comprehensive tax in time."*

In November 2014, the House of Commons Library produced a Standard Note (SN 6558)[37] that discusses "*recent debates over the case for taxing land values and proposals for a 'mansions tax' - an annual levy on the most valuable residential properties."*

In his recent book "All that is Solid *How the Great Housing Disaster Defines Our Times, and What We Can Do About It",* Danny Dorling Halford Mackinder Professor in Geography at the University of Oxford draws attention to how land hoarding and land speculation make homes unaffordable. He also says taxing land value is one of the requirements needed to solve the UK's growing housing problems.

A growing number of journalists comment positively on how a Land Value Tax replacing or reducing current taxes, particularly property taxes, would make housing more affordable to rent or buy and be fairer to individuals and businesses.

**We need to change our economic system that is fundamentally flawed and discriminates in favour of the rich**

Land owners take much of the surplus that we all create as taxpayers, workers, consumers and investors. Until this fundamental flaw in the tax system is addressed, workers can never be rid of the threat of inequality, unemployment, inadequate housing, poverty, or many of the other ills that trouble us today and tenants and other non-property owners will continue to subsidise all land owners who take land value as theirs when they did nothing to create it.

**We need a change in policy that will tackle the real injustice of the poorest paying huge subsidies to the richest.**

**We need an annual Land Value Tax in order to build a just society for the benefit of todays and all future generations.**

***Heather Wetzel (Vice Chair Labour Land Campaign www.labourland.org )***
***Email heather.wetzel@labouland.org***

**June 2015**

[35] http://www.oecd.org/gov/regional-policy/WP_Financing_Green_Urban_Infrastructure.pdf
[36] http://www.ippr.org/assets/media/images/media/files/publication/2013/03/wealth-taxes-context_Mar2013_10503.pdf?noredirect=1
[37] http://researchbriefings.files.parliament.uk/documents/SN06558/SN06558.pdf

# Why LVT is a fair and just tax benefiting the whole of society

- LVT recognises that every individual – including tenants - helps create land values through their work, their community activities and their spending
- LVT recognises that every new investment – public and private – helps create land values, whether it is in public transport, businesses, leisure facilities, schools, hospitals, airports, making neighbourhoods smarter and more pleasant, or in homes or jobs
- LVT also recognises that existing services and businesses – public and private – add to land values
- By including land that is currently kept idle, LVT encourages better use of land, particularly in towns and cities
- LVT therefore encourages investment in more jobs and businesses and more affordable homes
- By encouraging the use of urban brownfield sites LVT actively contributes towards protecting the rural environment
- LVT therefore helps to protect green land and minimise urban sprawl
- LVT will rid communities of derelict sites and buildings that encourage anti-social behaviour
- Unlike other taxes, it is practically impossible for people and businesses to evade LVT
- LVT increases the funds available for public services, including public transport, health, education, leisure facilities, crime prevention, and social welfare