

## **Christian Council for Monetary Justice**

**Papers submitted by Members**

### **Oh no! Not another bloody tax?**

**New Statesman : September 10, 2004 : Dave Wetzel -Transport for London**

It must be a thankless task being Chancellor of the Exchequer. Every man, woman and their dog gives advice on taxation to the person holding the hottest seat in Government. Every pub in the land has an "expert" who knows better than the Chancellor how to run the economy. Usually this advice is just a mask for special pleading.

And yet suppose there is one gem among the hundreds of ideas being put forward? - A much more fair, equitable and effective new tax - wouldn't that be worth looking at? After all, it's clear that Western economies are not perfect. We see the difficulties all countries face; even "successful" economies like Germany, Japan and the US.

We know: .

- poverty exists where the state has rigid control of the economy, but also where private markets rule;
- expensive housing land makes it impossible for many young families to afford a home even if they are on above-average incomes;
- Many house buyers are forced to commute long distances, which not only affects and costs individual families but also society;
- high land prices lead to unnecessary higher costs for premises, together with Stamp Duty an obvious restraint on business expansion.
- equity release by homeowners leads to higher inflation with damaging higher interest rates as the only measure of control;
- the north/south divide is not sustainable;
- unemployment is divisive;
- high property costs contribute to jobs being exported.
- the countryside suffers urban sprawl, while valuable sites for homes, jobs or leisure lie empty in towns;
- much needed public transport infrastructure is underfunded causing traffic chaos, road accidents, pollution and unnecessary additional costs for both business and personal travellers;
- the property/business cycle disrupts economies.

We have a duty to find a better way of conducting our economic affairs that not only addresses these problems but encourages business, protects the environment, assists the developing world and contributes to social justice - a tall order for any single reform!

To produce goods and services, it is necessary for Labour, using Capital, to be applied to Natural Resources. For the benefit of clarity, I'll repeat this important point: LABOUR, using

CAPITAL, is applied to NATURAL RESOURCES.

Look around you now: are there any goods that you can see which are not a consequence of these three factors of production? Even a clothes prop cut from a tree, requires a knife (capital), the tree and the land it grows on (natural resource) and human endeavour to plan the activity cut the branch and carry it home (labour).

In the same way, the most modern car, computer, items in the supermarket and even the knife - used above, have all been created from labour, capital and natural resources.

The return to labour is wages.

The return to capital is profit or interest.

The return to natural resources is economic rent.

Economic rent will increase as demand for the use of natural resources grows. The key drivers for this increase are population growth, greater economic activity, improved transport and communications, improved services, innovations, neighbourhood attractiveness and market sentiment.

Obviously workers earn their wages. Without workers there would be no labour.

Savers receive interest. Without savers there would be no capital.

But what do landowners provide to deserve economic rent? Without landowners the land and natural resources would still be available.

Few would dispute that workers earn the product of labour.

Savers risking their investments are similarly entitled to a reasonable return. However, to whom should we pay for the use of land and natural resources?

Land and natural resources have all existed since the planet was first formed and no amount of human effort or ingenuity has created them. (Even land drainage or reclamation requires labour and capital applied to natural resources).

Justice demands that the benefit arising from natural resources should be shared by all.

But how could this be accomplished with fairness and without destroying the incentive to work and invest?

Attempts to impose land redistribution will always fail. They only create a new class of landowner and continue to exclude landless citizens from enjoying the benefits to which all are entitled.

Land Value Tax (LVT) on economic rent, is the only fair way to ensure that we all share Nature's bounty.

Most economists agree that taxing economic rent can not be passed on, has the least disruptive effect on the economy and leads to lower land prices.

Landowners of empty urban sites pay no rates or taxes on their land. Site values grow as the result of community activity - new roads, transport, buildings, better policing, improved

services, shops and offices.

Why should the community not be repaid for the benefit they create for the landowner? LVT would ensure that everybody has a share in the land wealth they create and which otherwise ends up as landowners' unearned income. '

With LVT, all land (including empty sites) is valued and a tax rate applied. Like Business Rates, but only on the land value, not the buildings. (Why penalise, with higher Rates, people who improve their buildings; but reward others with lower Rates, if to the annoyance of neighbours, they let their buildings fall into disrepair?)

The valuation would be based on the optimum, permitted use of each site. Parks freely available to all would pay no LVT.

LVT brings idle land in towns and cities into use. This reduces costly urban sprawl. The extra supply of land reduces land prices and accommodation costs for homes and business premises.

LVT is impossible to avoid - land can not be taken to Jersey in a suitcase. Consequently LVT is cheap to collect. Not only does LVT require fewer tax collectors but also fewer lawyers and accountants employed in the private sector to discover tax dodges. The cost of this tax avoidance and evasion industry falls both on other taxpayers and on consumers.

Countries like Denmark, Hong Kong and Taiwan utilise land values to help their economies. Towns in parts of Australia, South Africa, New Zealand and North America have adopted local forms of LVT.

Alaskan oil wealth pays every citizen a dividend.

Over the past 20 years, Harrisburg in Pennsylvania has enjoyed greater prosperity by switching a small local tax from buildings to land.

Three years ago, Gordon Brown allocated the radio spectrum for 3G mobile phone networks (a natural resource); he could have given the rights free to the Duke of Westminster. He could have sold the "freehold" ownership. However, he rightly introduced a form of LVT; he auctioned these licences for 20 years for a massive £22.4bn and in 17 years time the process can be repeated.

There are currently calls for development or planning gain taxes, which do not share the advantages of LVT and must be resisted because:

1. If you tax an event, (e.g. development) then avoiding the event avoids the tax. Previous development land taxes (1947 Attlee, 1967 Wilson and 1976 Callaghan) all failed because they froze the land market, reduced supply and hence raised land prices. They benefited landowners at the expense of the rest of the community.
2. Why only tax development land? This forms less than 5% of all land.

3. Why accept a one-off payment when LVT can provide annual revenues?
4. Why lose out on future increases in land values created by the activities of future generations?

Whereas other taxes damage the economy, studies by Dr. Rana Roy and Ron Banks have shown that taxing land can help the economy grow more efficiently.

If you charge for a scarce resource (like land or road space), then the resource gets used more efficiently. With reduced profits from land speculation, investment would divert into expanding businesses, creating more jobs and greater productivity. Thus, LVT offers a "land efficiency bonus", calculated by Ron Banks as a staggering £15, 000 per head, population.

With LVT income, and the "land efficiency bonus", the Government could provide new public transport infrastructure, abolish economically damaging property taxes like Council Tax, business rates and Stamp Duty, raise the personal allowance on income tax so that millions of lower paid workers pay no income tax at all, reduce VAT rates to help consumers and businesses and even copy Alaska's dividend for every citizen.

In this article I am suggesting a new tax policy which would provide incentives and release the creative efforts of business. It would improve earned incomes; cut the cost of tax collection; provide affordable homes; reduce the costs of urban sprawl; generally improve economic efficiency; avoid property-led business booms and slumps and make redundant, the disruptive tool of ever-changing interest rates to control land prices and the inflationary results of equity release.

To facilitate the adoption of LVT, a tax-free allowance could be introduced for the first tranche of rental value, (similar to personal allowances for income tax) and for those on low incomes, payments deferred until the land is eventually sold.

Labour's 1931 budget included LVT but was repealed by the Conservatives before it was launched Conservative MPs also defeated Herbert Morrison's 1939 bill introducing Site Value Rating (SVR, local LVT) for the London County Council.

It is encouraging that LVT is now being recognised. Richard Rogers' "Urban Task Force" called for a study of LVT; Kate Barker, in her housing review, has recommended a "Planning Gain Supplement" (another Development Land Tax!) but drawn attention to LVT as "a good method of raising revenue, without distorting behaviour".

Recent articles in the FT, the Guardian and the Morning Star have promoted LVT. It has supporters across the political spectrum from socialists, liberals and the right. Liverpool City Council have asked to be a trial area for SVR; the Scottish Parliament are researching it; Oxfordshire County Council are assessing land values in a trial area; researchers are valuing Whitstable and TfL, DfT and RICS are assessing land values around transport schemes.

Now the Government needs to assess the gains from applying LVT on a national scale - and act upon it.

**Dave Wetzel**

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