A Land Value Tax for Wales

LTV is a tax which would be levied on the annual rental value of specific pieces of land, where the value is determined by different usages, for example, agricultural and industrial land. It is, of course, an *alternative* to existing forms of taxation, not an addition to them. At its most radical, a LVT would allow for the abolition of Council Tax, Business Rates and Stamp Duty Land Tax, by introducing a levy on the annual rental value of every site in Wales including all residential, commercial and farming land, as well as privately owned estates. Moreover, LVT is a *progressive* tax. Council Tax is regressive because it imposes a lower burden on the rich than on the poor – and also a lower burden on rich *places* than poor places. LVT reverses that proposition.

The basic idea behind a Land Value Tax is that the supply of land is fixed. As Mark Twain said, when advising people to buy land, they aren't making it any more. As a result, it is inherently scarce. Its price reflects three things: its scarcity value; the value of improvements made by the landowner; and the value of improvements made by other people, especially the public sector. In modern conditions the first and third of these almost entirely swamp the second. Therefore it is right and fair that value created not by the landowner but (mostly) by national and local government should be taxed.

To give just one practical example: It has been calculated that the Jubilee Line extension to Stratford has raised property values around the stations by £10 billion. If only a small part of this windfall had been taxed, it would have paid for the extension very easily. And, at the same time, while those who benefit from big increases in land values as a result of such development pay more, those whose sites have suffered (such as, for example, housing close to railway tracks which may decline in value because of noise or vibration) would pay less – a form of automatic compensation without any complicated appeals system. In just the same way an LVT could easily pay for many other much-needed infrastructure schemes.

What, then, are the main practical advantages of a LVT?

First and foremost, such a tax would be tricky for even the rich to avoid. It's hard to hide land or move it offshore to avoid getting taxed.

For economists such as the OECD's, who advocate a LVT, there are two other big advantages: land taxes (they argue) increase long-term stability and growth by fostering more productive use of capital; and they stabilise government finances by bringing in revenue efficiently and quickly.

So, a LTV is:

- cheap to collect
- difficult to evade
- discourages speculative land holding
- encourages active use of land, creating more job opportunities and wealth
- and, here in Wales, we already have, in TAN 6, 'One Planet Development', a policy approach which is sympathetic to land value principles.

Is it, then, a practical, political possibility? Well, I don't want to underestimate the problems of tackling taxation, especially in an economic downturn. And the experience of the poll tax remains one which has scarred the collective memory of tax change in the property field.

Nevertheless, a LVT has an impressive economic and political pedigree. Lib Dem supporters have included both Vince Cable and Chris Huhne. For Labour, Andy Burnham made it a centre piece of his campaign for Labour leadership, describing it as an idea so old-Labour it can be traced back to Thomas Paine. It is the official policy of the Green Party in Scotland where research carried out late in 2010 suggested that a land value tax of 3.16p per pound would generate enough cash to replace council tax and the uniform business rate, while leaving 75% of Scottish households better off in the process.

But LVT is not simply a policy of the radical left. Free-market capitalists and mainstream economists, such as Martin Wolf and Samuel Brittan, have both argued the case in favour. And, indeed, on the right of the political spectrum, a LVT has gained new traction in relation to problems in Greece. Put simply, it is quite difficult to move an Athens mansion off-shore (or, indeed, one in Belgravia) in order to avoid taxation.

And here in Wales LVT is also an idea with a strong lineage. Inside the Labour Party, the idea was first seriously advanced by Keir Hardy, in his 1906 Manifesto to the people of Merthyr Tydfil and Aberdare. Here is what he said:

> 'The slums remain, overcrowding continues whilst the land goes to waste. Shopkeepers and traders are overburdened with rates and taxation whilst the increasing land values that should relieve the ratepayer go to people who have not earned them.'

Three years later, a Land Value Tax was intended to be the centre piece of Lloyd George's 'People's Budget' of 1909, but was defeated by the vested interests of the House of Lords and property owners in the House of Commons. Now, in the era of devolution, there may be a chance for their uncompleted work to be brought to a conclusion in Wales.

Of course, it may be that the current settlement will not make it easy for such a reform to be introduced in the immediate future; but the whole future of responsibility for taxation is very much a matter of current debate. I hope that, by raising this matter, it can be brought to the attention of the Silk Commission so that it can include a consideration, if not of land value tax itself, then at least of the case for providing the National Assembly with powers to reform taxation in Wales, in this way, should it choose to do so.

Because here, the part of the United Kingdom with the longest tradition of radicalism, we have no difficulty in understanding the notion that land is 'common wealth' – that land is a resource in common. As a result of being fixed and fundamental, it should belong to the people; and those who have the privilege of ownership should pay something back for that privilege, through a Land Value Tax. Once this is understood and agreed, the serious work of detailed investigation of its pros and cons and its practical implementation here in Wales can begin.