PRACTICAL POLITICS

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LAND VALUE TAXATION GETS BACKING IN WALES

At present the National Assembly for Wales has no powers to levy taxes, only a degree of freedom to determine the allocation of revenues it receives from central Government. LVT was reviewed by the Assembly soon after it had been set up, and was included in a listing of options for future consideration. It is therefore appropriate that, at a time the Silk Commission is investigating giving the Assembly new fiscal powers, an Assembly Member, Mark Drakeford, has given his backing to LVT in an article for the Institute of Welsh Affairs. "In Wales…we have no difficulty in understanding the notion that land is a resource we share in common…Those who have the privilege of ownership should pay something back for that privilege, through a Land Value Tax…Of course it would be an alternative to existing forms of taxation, not an addition…It would introduce a levy on the annual rental value of every site in Wales" [a]. In the local government context, it would allow for the abolition of council tax, the NNDR (business rates), and (why not?) the SDLT (stamp duty land tax) too.

This is good news. We have frequently stressed the special relevance of the LVT policy to disadvantaged and geographically peripheral areas. Activities at or close to the economic margin cannot operate profitably whilst also required to sustain the burden of current taxation on labour, capital, and their products.

Conventional taxes cripple, and destroy jobs at the margin of production. Against that, a duty based on land value must, at the true economic margin, be nil, and will be light in near-marginal locations. The margin thus becomes a tax haven and in the absence of any other taxes, production immediately becomes viable. The price at which goods are sold goes to reward only labour and capital. This is not just a matter affecting the edge of the wilderness, however. In practice, each occupation has its own effective margin. Marginal activities, in town as in the country, can be put out of business by taxation just as easily as those struggling at the literal margin. Thus, the more distant the activity is from the market, the greater is the impact of, for example, an *ad valorem* duty like v.a.t. at 20% slapped on top of everything else, as with the motor vehicle fuel tax.

A renewed surge of opportunity for profitable livelihood can come about only when government is funded solely from collection of the rental value of land. We accept that such a change to full land-rent collection cannot be made overnight; but a progressive switch away from conventional taxation to LVT, fully and properly implemented, is a pre-requisite if Wales and other parts of the United Kingdom remote from the south-east of England and the heartland of continental Europe will feel the benefits. If Wales leads, the rest of the U.K. will surely follow. The sooner, the better, for all our sakes!

WHAT CAN MAKE LAND PRICES RISE…or occasionally fall

(i) "Parents moving to an area with a top-ranked primary school face paying up to 42% – or £91,000 – more than the national average". Asking prices for houses "near the top 100 state primary schools in England" were compiled and set against the average. "The difference was most pronounced in the east Midlands (£82,000 or 48% higher than the average)" [b]. These differences are pure location value (land value). The landholders neither built nor staffed the schools, and neither they nor their predecessors in title ever manufactured (or could have manufactured) the housing plots. There is no ethical, economic, or social case for private expropriation of the rent of land.

(ii) "A wooden beach hut on an isolated sandbank near Christchurch…has gone on the market for £145,000…It has no running water or electricity and takes 30 minutes to reach on foot. 'The views are to die for' said [the] estate agent" [c]. Shall we say 'not much for the hut, but a lot for that bit of land'?

(iii) Gascony lies in south-west France, west of Toulouse. "A new two-lane highway is being built between Toulouse and Auch and a new autoroute, the A65 joining Bordeaux to Pau, was opened in December 2010. Not long ago Toulouse and Bordeaux were the only airports, now Tarbes and Pau are also well used…The airports at Agen and Auch…take private jets. However, the biggest economic jolt to the area will be the extension of the TGV high-speed train to Agen in five years time, which will reduce the journey time to Paris to under three hours" [d]. Gascony's landowners can hardly wait.

(iv) "The three Royal Docks, Victoria, Albert and George, lie south of Stratford and north of the Thames". Much of the land has stood empty since commercial activity ceased in the 1980s, but "over the past 30 years more than £500m has been invested in leisure, education and commercial infrastructure, including London City Airport, the ExCeL exhibition centre and Docklands Light Railway (DLR) transport connections…Boosted by new residential apartments, 'enterprise zone' status and regeneration projects planned to coincide with the Olympics", the Docks are already attracting further investor interest and residential buyers are being tempted by "a viable alternative to Canary Wharf…The most upmarket developments are near the ExCeL exhibition centre where the Crossrail transport link will arrive in 2017, providing a fast connection to the City and Heathrow". Shops and other facilities have yet to move in, though, and "it may take some time", but "with all its open space, the Royal Docks is going to be a very attractive area" [e].

(v) "There is intense rivalry for prime housing in the historic market town of Ludlow" in Shropshire [f]. "What you can buy for £1m" is either "a unique medieval townhouse in the centre of Ludlow, around 3,500 sq ft, listed and packed with original features, or a large six-bedroom farmhouse with 20 acres of land outside the town". It is obvious why one can buy so much more for the same money in the surrounding country than in the town centre, but why is it apparently so difficult for professional economists and practising politicians to do likewise and follow the answer to an appropriate conclusion?

(vi) "Research at Cambridge University suggests that immigration can push down house prices because it causes richer people to move away from affected areas. Even a small influx of people from overseas into an area can have a noticeable effect on property values…The pattern applied only in areas where the arriving immigrants were poorer. In areas where they came from the top of the income scale – such as the City of London – the pattern was often the opposite" [g]. It is all a matter of class, it seems. The actual houses are the same in either case, so it clearly is the location (the land they stand on) that takes the hit or rakes in the gain. Landowners (big and small) must grab whatever comes their way, as they do – all the time, everywhere.

CONSIDERATIONS ON THE CAUSES OF A DEPRESSION

Wen Jiabao, at his final National People's Congress news conference as Prime Minister of China, stated unequivocally that "If we blindly develop the housing market a bubble will emerge in the sector. When it bursts more than just the housing market will be affected, it will weigh on the entire Chinese economy" [h].

"In the latest bubble, home prices in the US and the UK rose rapidly relative to the cost of renting. It was not a rental boom. It was thus financial in origin, not caused by the rise in the real scarcity value of housing services that people want to consume. It was instead a change in the investment demand for ownership of a claim on a stable flow of rents". In part, these home price increases were "related to unrestrained and unrealistic public expectations for future price increases" [j]. Let us call this what it is – land speculation. Let us laud the recognition that the buying/selling price of housing land rose much more rapidly than the rental value. Price, though, is always prone to be more than just a roll-up of future annual rental values, containing, as it also does, forecasts for currency inflation, future interest rates, changes in likely economic activity in the area, and demographic movements. Being finite (in effect, fixed both in quantity and location), land is the ideal subject of speculation, and in the fever and excitement of a boom pours its pernicious froth deceptively all over the land and property market. The failure to distinguish land (the free gift of God or Nature) from capital (man-made, reproducible, very often transportable) further clouds the picture. Self-deceived, borrowers proffer swollen land values as collateral for loans and, equally self-deceived, lenders rush to accept it and to grant extended credit, resulting in both over- borrowing and over-lending and leading to the eventual corrective slump. The speculative boom in land prices (hidden as real estate prices) was the cause of the crash. Finance was but the mechanism through which land speculation performed the deed. There is a final consideration to be stated, though. In legislation to introduce land value taxation (capture of land-rent), the valuation basis ought to be the annual rental value: capital values are unreliably volatile and prone to froth damage.

DEPRESSION

"Some £230bn of commercial property loans are outstanding in the **UK**, with British banks holding about £150bn of these. About 60 per cent of this is due to mature over the next three years and, of the £230bn total, about 80 per cent is thought to be in breach of loan-to-value covenants…Britain's banks have been…focusing on the ability of a customer to service a loan rather than repay or refinance. Maturity extensions have become the norm…[The] banks are muddling through. Just don't bring on any more shocks" [k].

Spain is in crisis "because its banks have not yet admitted the scale of the writedowns they must take in the wake of the bubble" [m]. The banks "had borrowed €227.6bn in March, a huge jump from the €152.4bn in February – this is a massive red flag" [n]. Spain and fellow eurozone delinquents desperately need free-floating exchange rates, which the common currency set-up denies them. Meanwhile, the European Investment Bank "has made legal allowances for **Greek** companies to repay their loans in drachma – a tacit admission that the break-up of the eurozone is possible. The bank, which lends money for EU infrastructure projects, has inserted a new clause into Greek contracts to secure repayment, even if Athens is forced out" [p].

Target 2 transfers are automatic credits within the ECB family whereby strong national central banks pass funds to weak central banks in countries experiencing large capital outflows, so in effect funding trade deficits. "Who are the losers from this process? The savers in those remaining European countries that still have sound economies. They have assets that have been pledged without their knowledge or consent" [q].

[a] Mark Drakeford, A.M., cited by David Williamson, "Wales Online", 3rd. February [b] Mark King, "Observer", 25th. March [c] "Daily Telegraph", 26th. March [d] Fred Redwood, "Financial Times", 31st. March [e] Victoria Maw, "Financial Times", 14th. April [f] Graham Norwood, "Financial Times", 31st. March [g] "Daily Telegraph", 28th. March [h] Zhu Zhe, "China Watch" (produced and published by "China Daily", People's Republic of China), 3rd. April [j] Robert Shiller (professor of economics and finance at Yale University), "Financial Times", 21st. April [k] Paul Murphy, "Financial Times", 28th. April [m] John Authers, "Financial Times", 21st. April [n] Stephen Smith, "Financial Times", 14th. April [p] "Daily Telegraph", 24th. April [q] Dr. H-W Sinn, cited by Ambrose Evans-Pritchard, "Daily Telegraph", 20th. April

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