

■ CHAPTER SIXTEEN

## *Final Review: What Does All This Mean and How Important Is It?*

**W**here have we arrived in our examination of LVT as affecting these relatively small islands off the coast of mainland Europe? Our response and our goal in this final chapter is to bring together substantial issues from the British experience of land value taxation and its future prospects into fuller context.

### **Part I: Introduction**

In this section, we examined the nature of LVT in its two basic forms (site value rating [SVR] and capital levies for value capture) and noted the essential difference between them: an annual tax (such as SVR) should pick up all increases in land value over time; the one-off hits by value capture exactions only consequent upon certain trigger events (e.g., an act of development process or property demise).

The prospects for the introduction of LVT in Britain are encouraging, as is its prospective importance in the current movement towards taxation shift. LVT is thus potentially part of the change that favours those taxes, such as eco-taxes, that tackle the problem of charging for the use we make of land (in its widest aspects) and its consequential environmental effects, instead of taxing enterprise wages, profits and production.

The intellectual underpinning of LVT can be traced to the economic and moral thinking of the early French Physiocrats and an array of classical economists. But, it is the American social philosopher and economist Henry George who made the greatest impact in his seminal work *Progress and Poverty* (1879). He argued persuasively for a single tax on land and the abolition of other taxes, which then were predominantly levied on other property. George felt land values were based exclusively on general forces, whether of a natural or social character. Landlords had no moral right to land values, and there was no case for their retaining existing rents or the increments that were likely to accrue in the future as economies

expanded. The case for LVT that emerges is as follows: first, the tax is based on the land's economic rent, which is morally justified in that its value has not been created by the landowner; second, the tax is efficient because it is economically neutral, as it does not affect the supply of other goods and services; and third, landowners cannot shift the tax.

## **Part II: The British Experience**

After analysing the history and present circumstances of the rating (property tax) system, taken together with our overview of the general taxation system in Britain, we considered how LVT (or SVR) might harmonise within the extant British taxation systems, taking into account the influence of membership of the European Union. It appears that there is no real impediment to introducing LVT, either as a replacement tax or even as an additional tax.

It has been helpful to examine how LVT<sup>1</sup> has been tried in varying aspects over the history of Britain. Since the nineteenth century, there have been many attempts to introduce some form of site value taxation, and various government committees have pronounced on its possibilities. There has also been post-World War II interest in reviving those attempts right up until the present day, and we have reviewed and analysed their successes and failures. Despite more than a century of social, economic and political pressures, successive governments have had a distinct lack of success in bringing LVT within their armoury of tax-gathering measures to supplement local and national revenues. This is due, in part, to opposition from various professional groups and landowners, each with their own taxation agendas. Modern economists have not supported George's root-and-branch single-tax panacea, although proposals under consideration by Parliament certainly did not embrace these in their original form. Rating valuers and surveyors have stressed the difficulties of site valuation (despite the findings of the Whitstable pilot surveys) and still hold to the long-established rating procedures for a tax on the occupation of combined hereditaments of both land and buildings.

In evaluating LVT as a capital exaction influencing development activities, we first considered recoupment of development value via ownership, sometimes known as land banking, which we include under the overall descriptive term as LVT. As a means of land value capture for the benefit of the community, this process gained impetus in the years immediately following World War II, and hence we treat it as an historical precursor to later attempts at value capture. Governments can recoup development value by early ownership of land. We have concentrated our analysis on the British history of land acquisition, but use exam-

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1. Here we are addressing the tax in its simplest form, being the process of raising an annual tax on land values, usually to meet some elements of government expenditures. Other forms of LVT, such as recoupment via ownership, development value capture and recovery of infrastructure costs are referred to later.

ples from other countries to illustrate the process, which is exercised in various forms all around the world.

One of the most important ways to capture value for the community is the recoupment of betterment via the town and country planning system. Here, betterment refers to increased value from development activity, in line with the Uthwatt Committee's view that "[t]he principle of betterment [legislation] is that the public authority are entitled to require the owner of land increased in value by their works to pay over in money part of the increase which he hereby enjoys" (1942, 116).

However, three postwar measures for betterment tax as a capital levy on development value in Britain, introduced by successive Labour administrations, were all withdrawn by succeeding Conservative administrations, and to date no really comparable legislation has replaced them. Why did these measures fail? We agree with Blundell (1993, 12–13) that they were very complex pieces of legislation, and unintended anomalies arose. Furthermore, they were preoccupied with speculative profits made at a given point in time and not with taxing a continuing accumulation of land values. Overall, the combined effect was to provoke resistance or inertia, to deter development and the better use of land, to encourage land hoarding by owners and to produce an artificiality of sites.

One critically important feature of the original Town and Country Planning Act (1947) remains unaffected: the Crown continues to own all landed property development rights, and these rights have not been returned to the property owners. Consequently, there is now no compensation problem; if a planning application is refused, or is granted with conditions, there can be no claim for loss of development rights. This lends considerable support to the case for revisiting LVT in Britain.

Among the ways of capturing development value for the community, we are particularly concerned with the recovery of contributions to infrastructure costs. We have found the current situation unsatisfactory, based on exactions determined by planning gains and planning obligations. This should be the occasion for new thinking, including some recent suggested measures that have yet to be fully considered by Parliament.

As previously indicated, the second part of this book reviews the complex history of land taxation in Britain. Since the end of Roman occupation up to the nineteenth century, land taxation as such has never been of major importance as an actual or potential fiscal or taxation tool of government. More relevant to our considerations are the various attempts since the 1880s to promote the introduction of LVT. But of the many attempts to introduce an annual land tax, only two acts of Parliament reached the Statute Book, in 1910 and in 1931, and both were allowed to lapse before making any positive impact. However, to recap, these

attempts were directed towards annual ongoing taxes, i.e., termed site value rating in Britain, and not to capturing value for the benefit of the community on the occasion of development. Apart from unsuccessful attempts to secure betterment as part of the planning process in 1909, 1925 and 1932, various development taxes were introduced from 1947 onwards—development charge, betterment levy, development gains tax and development land tax. But all these measures were repealed by successive governments.

Although these capital levies were abandoned, there still remain other extant ways of recouping some development value back to the community. Recoupment via purchase can be exercised as a form of land banking by public authorities for planning purposes, and exactions known as planning gains or planning obligations are obtainable from developers to offset some public infrastructure costs. However, a capital gains tax, enacted in the U.K. by the Finance Act of 1965, allowed the taxation of capital gains made on the disposal of assets, including land from outright sale or the grant of a lease. As such, it has been an enduring feature of the taxation system, now seen as part of general taxation and not specifically related to land.

We recognise that the many past efforts by British governments to introduce a measure of land taxation equity, through SVR for local government revenues, and for recouping capital values to the community on the occasion of development, met with only very limited success, and most proved difficult to administer in practical terms.

### **Part III: Opportunities for Future LVT**

Our hope is that by learning from past endeavours, we can present proposals that avoid previous shortcomings and so pave the way to a more acceptable future for LVT in its broadest applications. We began by looking at options available for introducing LVT into Britain at the present time and choices from which we can make recommendations. What emerged from this analysis is the case for gradualism; the success of new and changed land taxation depends on steady progression rather than challenging confrontation.

We accordingly propose that Britain should make an initial venture into LVT by way of site value rating, replacing the current property tax (rating) system with a two-rate basis following the Pennsylvania model. This would entail splitting existing assessments between an owner's rate on the land and an occupier's rate on improvements, with a gradual transition to a full owner's rate on site value only at highest and best use (on a development plan-led basis). At the same time, unratred and unoccupied land would be brought into the SVR system. The question of capital levies (value capture) is a separate issue, but clearly related to LVT.

The practical implications of an annual LVT to replace the current business rates was discussed with regard to Vickers's research (see Appendix B) that analysed the technical and administrative measures necessary for the introduction of LVT. Implementation proposals for smart-tax pilot schemes in selected parts of the U.K., perhaps coupled with BIDs, could act as tests for national adoption of LVT in the future.

Recoupment via public ownership is another means of capturing land value growth for the benefit of the community. We also have considered the British government proposals to deal with the difficulties of compulsory purchase (eminent domain), but recognise the need for new approaches to land assembly, land pooling and public-private equity sharing for major developments.

There is clearly no appetite in present Labour Party circles to repeat those failed experiments with betterment levies by various Labour governments since World War II. However, introduction of an enhanced capital gains tax coupled with a greenfield tax would fit more easily with current Labour Party thinking and offer more political feasibility. The full detail of such proposals of planning gains/obligations is not entirely clear (despite the presentation of the latest Planning and Compulsory Purchase Bill), but it seems to herald at least a prospect of the U.S. style of impact fees. However, for further enlightenment we can only wait upon events (see updates in Appendices C and D).

We have considered whether the British planning system will prove a hindrance to the establishment of LVT in Britain or whether such potential problems are resolvable. The anticipated changes in the planning system confirmed in the recent Planning and Compulsory Purchase Bill may well also work towards that end. One of the major underlying issues in establishing LVT in Britain concerns the political pressures likely to affect its introduction, no matter how strong the pragmatic and moral cases may be. We addressed those political and other influences that may shape prospects for LVT in Britain, as highlighted in Vickers's research (see Appendix E).

### **Why Is LVT Particularly Relevant Now?**

Various current pressures are accumulating for a change in taxation, particularly towards a more equitable distribution of the rates burden (property tax) and thus a fairer collection of local government revenue. These arise from the incidence of devolving governing and taxation powers to Scotland, Wales and (when eventually restored) Northern Ireland and also from the activities of various special political groups (e.g. Greens, Scottish Nationalists, Liberal Democrats and even active Georgist organisations). Besides the possibility of reintroducing capital levies, there is also a sense that the current methods of capital value capture, i.e., recoupment via purchase and contributions for infrastructure, need

to be strengthened and augmented; recent government pronouncements have added to expectations in these areas.

### **Pulling the Threads Together: Where We Are**

The crux of our concluding argument is that the political prospects are opportune and feasible for the introduction of site value rating as a form of LVT, initially on a dual-rate basis that will also extend the tax base to empty, unused and derelict land. This could eventually replace, on a transitional basis, the current property tax (rating) system for local revenues. There are also opportunities for extending LVT to include increased capital exactions on development activity, namely an enhanced capital gains tax, possibly bolstered by a greenfield tax. Other opportunities involve augmenting the land banking process and contributions for infrastructure costs.

But what would be the expected benefits of taxing land value in these various ways?

- *Economic:* LVT cannot be shifted and will not distort economic activity. Nor will it discourage building and improvement. It will produce revenue with less economic burden than other taxes.
- *Efficiency:* LVT would be cheaper, quicker and easier to assess, to bill and to collect from landowners.
- *Effectiveness:* LVT is more effective as a taxation instrument than current rates (property tax) and council tax in Britain for exacting contributions towards government expenditures, because it is a tax on owners rather than on occupiers and because it is a tax on land only. As an annual tax, it is an effective means of capturing increases in land value, which occur because of community actions.
- *Equity:* Taxing landowners on their land values is an equitable means of extracting “value capture” from wealth and even incomes that have not been earned by those landowners. This value is arguably created by the community in various ways over time and is something that should and could be recouped for the benefit of the community by way of LVT. Empty, unused and derelict land should bear a charge that reflects its value as a social asset.

What does all this mean? And how important is it? We need to look further than these listed opportunities and consider LVT as part of a larger tax shift.

## Eco-taxes

Eco-taxes<sup>2</sup> are increasingly viewed as part of such a taxation shift. Their compatibility with LVT, in terms of their social and economic relationships, has previously been examined by Lichfield and Connellan (2000c). Their working paper considered the distinct nature of the two forms of taxation and the link between them, and the possible application of LVT to supplement eco-taxation. The conclusion is that these two forms of taxes, although different in history and application, should be able to live together in mutual harmony and interdependence. Details of this argument can be found in an abridged version of the working paper in Appendix F and Connellan (2000b).

Some particular issues from that paper are elaborated as follows:

### *Link Between LVT and Eco-taxes*

A general overriding reason for links between the taxes has been introduced by Robertson: “policy makers should seriously examine the potential of the site-value tax, as a resource tax which will contribute to economically efficient, socially equitable, and environmentally sustainable developments” (1999, sec. 3.1). Robertson’s reasons, which reflect the views of many others, argue for a tax shift from “enterprise and employment and onto resources including land, energy and the capacity of the environment to absorb pollution” (sec. 3.2).

### *The Affinities and Their Relevance to Sustainability Issues*

We assume that LVT would have general application. What then would be its effect on the environment? If the assessments reflect the planning system, then green spaces within urban areas will be assessed at their present use and exclude value for future development. If the assessments follow market expectations, then the retention of such green spaces can be encouraged by scaled reductions in the tax or even exemptions. In other words, the imposition of LVT need not necessarily encourage development, although in specific cases that may be desirable. This same principle of tax amelioration might be applied to areas outside the urban fringes when preservation of the countryside is a policy aim.

At the same time, the general imposition of LVT would encourage development within urbanised areas and mitigate the tendencies towards sprawl at the urban edges with a beneficial effect on the green spaces beyond. The classic

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2. Eco-taxation here follows the definition used by the European Commission (ATW Research 1996), namely, that it is based on a physical unit (or proxy for it) of something that has proven specific negative impact on the environment. It can be a tax (unrequited payments to government) or a charge (required payments for which a service is provided by some public body generally in proportion to payment made), and these are examples of economic and financial instruments, which are designed to modify market behaviour with a view to achieving government objectives (DETR 1993).

Georgist argument can be updated to address the current green issues: urban development can lessen the pressures to expand beyond the urban fringe. In addition, revenues garnered from such LVT could be used for the amelioration of pollution and redemption of other eco-transgressions. This, in turn, raises the issue of sustainability and sustainable development,<sup>3</sup> and leads us to consider the degree to which LVT and eco-taxation are consistent with those concepts. It is not difficult to argue the case, since eco-taxation can be regarded as a natural offspring of the International Union for Conservation of Nature and Natural Resources (IUCN 1980) and World Commission on Environment and Development (1987). Its primary purpose is to ensure that the quality of the environment is conserved for future generations, even though this implies diminution of the product from contemporary development.

Perhaps it is less easy to show that LVT in itself is sustainable in this sense. For one thing, while the concept of conservation was around when LVT was introduced to the world through Henry George, the concept of sustainability was not. Indeed, doubts have arisen as to whether LVT as envisaged by George can be seen as “green,” because it could stimulate development on open space that should be protected into the future, and also stimulate the premature release of farmland for development and encourage the related speculation in doing so. This apparent conflict stems from the inherent incompatibility between the system of LVT, which follows the market in making the assessments related to the highest and best use that can be obtained, and public policy, which aims to regulate the market in the public interest, as for example in the conservation of open land, natural amenities and beauty, and coastal zones.

In order to ensure compatibility between LVT and regulation, we introduce the concept of the regulated market (see Appendix D). This means that the assessments of land value for LVT are based not on the unregulated market known to Henry George in the nineteenth century, but on the regulated market of those countries that have subsequently introduced planning regulation and economic instruments in order to protect the environment. If this situation is to be the basis for the LVT assessment, then LVT must be green, insofar as the plans and policy instruments of the locality in question are also green.

In summary, the introduction of LVT can be seen as compatible with the armoury of green taxes, and as a widening of the concept of how we could order our institutions to serve our sustainable interests for future generations.

### **Pressures for Restructuring the Tax System**

General arguments for systemic tax reform are gaining support. They include:

3. Sustainable development is defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).



- reducing distortionary taxes on business enterprise and human effort would benefit the economy;
- greater efficiency in the use of natural resources (now overused) and in the use of human resources (now underemployed and underdeveloped) could be achieved;
- unemployment would be reduced by lowering taxes for both employees and employers;
- reduced energy use, other natural resource use and pollution would benefit the environment; and
- developing capacities and skills would exploit the growing world market for environmental technologies.

### **Towards a Tax Shift**

A taxation shift away from enterprise, production and income sources and towards the cost of using the environment is connected to sustainability and the sustainable development argument. Some policies include eco-tax reform and site value land taxation, based on:

- the introduction of a range of taxes and charges on the use of common resources and values, including, but not limited to, energy and the site value of land; and
- the reduction, and perhaps the eventual abolition, of taxes and charges on employment, incomes, profits, value added and capital; together with
- less heavy tax on the incomes and profits they earn from useful work and enterprise, on the value they add, and on what they contribute to the common good; but
- heavier taxes and charges reflecting the value they subtract by their use of common resources, including land, energy and the capacity of the environment to absorb pollution and waste (Robertson 1999, sec. 3.0).

Two important American reports are among recent publications that have discussed in depth the need and scope for a tax shift on those lines. Hamond et al. do not specifically include LVT among their recommendations, but they underline LVT's compatibility with them.

Reconciling healthy economic development with the protection of the air, water and natural habitats is one of the great challenges of the next century. A revenue-neutral shift to resource taxes offers a way to help to meet this challenge. A resource tax could work somewhat like a rental or interest payment for the use of assets that are owned by all of us, ranging from the broadcast spectrum to the air we breathe. These new revenues would, by reducing other taxes that are a drag on the economy, provide a dividend—lower taxes on work and saving—to which the public is entitled.

These environmental levies would not impose a sudden charge for things that used to be available at no cost, as some people will protest; rather they would extend the effort to end “free lunches” to perhaps the biggest free lunch of all: free or low-cost use of assets owned by everyone in common. (Hamond et al. 1997, ch. 4)

In the other American report, Durning and Bauman give a prominent role to LVT as a sprawl tax, which they treat as one of five major types of desirable tax (the others being carbon, pollution, traffic and resource consumption taxes). The following indicates the approach they support:

Most Northwest jurisdictions seek to prevent sprawl through the regulatory tools of land use planning; none applies taxes to the same task. Yet a simple reform to the existing property tax would turn it into a powerful incentive for investment in city and town centers and in adjacent neighborhoods.

A property tax is actually two conflicting taxes rolled into one. It is a tax on the value of buildings and a tax on the value of the land under those buildings. As experience in Australia, New Zealand, Taiwan and Pennsylvania shows, shifting the tax from the former to the latter aids compact development while suppressing land speculation, promoting productive investment, and tempering housing costs, especially for the poor. (Durning and Bauman 1998, 2–3)

## **Conclusion**

The taxing of land in particular can have far-reaching repercussions beyond its immediate fiscal importance. In our consideration of the case study of Britain we have seen the many different attempts to introduce various measures of land value taxation as influenced primarily by the teaching of Henry George. From this analysis, we looked to future prospects for the tax in Britain and even to wider shores.

We conclude that it is now appropriate to contemplate an introduction of LVT, especially into Britain. Various current pressures can be identified as accumulating for a change in taxation, particularly towards a more equitable distribution of the rates burden (property tax) and thus a fairer collection of local government revenues. These also include widening the tax base to bring in properties presently unrated and not caught up in the present British property tax, e.g., empty, derelict and unused properties. In addition, we envisage present opportunities for introducing capital levies such as an enhanced capital gains tax. Such pressures arise from the devolving governing and taxation powers to Scotland, Wales and (when eventually reinstated) Northern Ireland and also to the activities of various influential special interest and political groups (e.g. Greens, Scottish Nationalists, Liberal Democrats and even active Georgist organisations).

All of this is set against a current background of taxation shift away from production and on to various exactions that could be made for the use and abuse of natural resources, including land. Here we are entering the realms of ecotaxation and issues affecting the sustainability of the planet, but we have suggested that LVT ought to be considered as having a rightful place among these important measures currently under debate. So, it is entirely appropriate now to repeat a quotation from Solow:

The best way to keep George's ideas alive and effective is to develop and refine them, and to extend their range of relevance to issues of land use, urban form, and taxation, including many aspects that could never have crossed George's mind. The range of possible activities is very broad. . . . The list could be very long; this random selection is intended to indicate only how diverse it could be. (1997, 14)

His statement reminds us that we are dealing with still-developing ideas that require continuous re-examination for their relevance to modern and changing circumstances. The significance of the emerging issues almost speaks for itself, and LVT is seen, by its supporters at least, as an ideal vehicle to encourage new approaches to taxation at perhaps an historical turning point.

We remember, however, that Henry George in the nineteenth century was realistic, even cautious, about progress:

The truth that I have tried to make clear will not find easy acceptance. If that could be, it would have been accepted long ago. If that could be, it would never have been obscured. . . . Will it at length prevail? Ultimately yes. But in our own times, or in times of which any memory of us remains, who shall say? (1879, 214)

Responding from the twenty-first century, shall we not ponder that perhaps at last that time has come?