CHAPTER 4

HISTORY

> Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor.
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> **Adam Smith,** *The Wealth of Nations,* 1776

4.1 Early History

LVT has never been introduced in Britain, although the idea has been discussed at both central and local government level, and on several occasions almost been implemented. An early history of the idea of LVT may be traced and summarised chronologically through the following events and publications:

1662. Publication of *The Treatise of Taxes and Contributions* by William Petty (1623–87), economist, scientist and philosopher, in which he mentions 'Land Taxe' as a means of raising revenue.

1692. Amongst a package of other taxes on personal estate, movable goods and income from public office, a Land Tax was introduced (which astonishingly endured until 1963). Initially this tax was based on annual rental values, but after the first valuation no more were carried out. From 1698, quotas based on acreages at the 1692 values were established for each county and remained fixed thereafter. Consequently, the amount collected diminished progressively from 35% of total revenue at the start to 17% in the 1790s and 11% by the 1820s. By 1733 that part of the tax on personal income and moveable goods had proved too difficult to collect and was largely abandoned, so the tax became almost entirely based on the revenue from land. The tax became gradually overshadowed by other taxes but continued into the 20th century, eventually raising no more than the cost of collection. It was finally abolished in 1963.[1]

1758. Publication of *Tableau Economique* by François Quesnay (1694–1774), French economist, physician to Louis 15th and co-founder of the Physiocrats. The Physiocrats considered that all wealth was derived from the agrarian production of land and proposed a single tax on land only.

1775. Lecture on land reform delivered to the Newcastle Philosophical Society by Thomas Spence (1750–1814), pamphleteer and revolutionary. In his lecture he proposed the formation of parish corporations that would collect the economic rent of land in place of all other tolls and taxes.

1776. Publication of *The Wealth of Nations* by Adam Smith (1723–90), political economist and philosopher. Smith is generally considered to be the father of classical economics. In his book he advocates the taxing of ground rents.

1781. Publication of *An Essay on the Right of Property in Land* by William Ogilvie, (1736–1819), Scottish landowner and classical scholar. In his treatise Ogilvie states, 'The gross amount of property in land is the fittest subject of taxation.'

1796. Publication of *Agrarian Justice* by Thomas Paine (1737–1809), political theorist and revolutionary. In his pamphlet he wrote, 'Every proprietor owes to the community a ground rent for the land which he holds.'

1817. Publication of *On the Principles of Political Economy and Taxation* by David Ricardo (1772–1823). Ricardo is credited with identifying the principle of the Economic Rent, or the Law of Rent.

1848. Publication of *The Principles of Political Economy* by John Stuart Mill (1806–73), political economist and philosopher. In Book 5, Chapter 2, he describes the benefits landlords gain from rents in which, 'They grow richer, as it were in their sleep, without working, risking or economising.'

1879. Publication of *Progress and Poverty* by Henry George (1839–97), American economist and social philosopher. In his book George finally pulls together all the threads and comprehensively explains an economic system based on land value taxation, which will become the definitive work and will give rise to a worldwide movement.

1891. After the publication of his book, George's ideas were adopted by the British Liberal party whose policies were formulated and declared each year by the National Liberal Foundation. This was a precursor to the manifestos adopted later by all parties, and an acknowledgement that party members should be allowed to influence policies. Meeting in Newcastle in 1891, the Liberals published their Newcastle Programme, which included rating reform and a 'just taxation of land values and ground rents.' This was the first declaration of LVT as a policy by any British political party.[2]

Smith, Ricardo and Mill were the founders of what came to be known as classical economics, in which land was considered an essential factor of production along with labour and capital and the phenomenon of economic rent was acknowledged. In the late 19th and early 20th century the neoclassical school of economics arose, in which land became considered as a part of capital, and so the significance of land became obscured (see Appendix 1). This neoclassical school still dominates current economic theory but is now being challenged by many independent free-thinking economists.[3]

4.2 20th Century History

Henry George's influence was extensive after the publication of *Progress and Poverty*. His ideas attracted many progressive thinkers and politicians of the time, not least of which was a young Winston Churchill, who became a Liberal MP in 1904. However, the forces of landed vested interests also recognised the threat to their power base and were always able to defeat attempts to introduce any system of LVT. The 'People's Budget' of the Liberal government of 1909 included LVT, but it was defeated by the Lords, most of whom were landlords. Any further progress was curtailed by the onset of World War One, and then by the return of a Conservative administration in 1922. During the first four decades of the 20th century numerous attempts to introduce LVT were made by local authorities, or, at the national level, through private member's bills, by Liberal or Labour MPs. These attempts are well documented in the book *Land Value Taxation in Britain* by Owen Connellan.[4]

It was during this period that the Liberals became displaced by the ascendant Labour party—which had always supported the idea of LVT. In a further attempt, in 1931, the Labour Chancellor Philip Snowden included LVT in his March budget and it became Part 3 of the following Finance Act. But in the subsequent Conservative dominated coalition, elected in October, the measure was repealed. In 1938 the Labour MP Herbert Morrison attempted to introduce a site-value rating bill for the London County area, but this was defeated again by a Conservative led majority. Events were then overtaken by the advent of World War Two. After the war LVT became forgotten in the new Labour government's enthusiasm for the Town and Country Planning Act of 1947, which was indeed a necessary and progressive measure. To it we owe the fact that England remains largely a green and pleasant land, but it did not deal sufficiently with the unearned gains to be made through land ownership. Also, many members of the Labour party held on to the belief that nationalisation was the best solution. In his book *The New Enclosure*, Brett Christophers quotes the then chancellor Hugh Dalton celebrating the fact that 'We are moving towards the nationalisation of the land.'[5]

However, the government was aware that large gains could now be made through speculation and the possibilities of 'planning gain', but the development charge that was part of the act was insufficient to capture the betterment gains for which it was intended. The landlords simply held on to their land and did not develop it, awaiting a change of government, which arrived in 1951, and which duly repealed the charge.

The manifestation of planning gain was not something new; it appeared long before the 1947 Act. In his book *The People's Rights*, Winston Churchill reported that immediately after the decision to go ahead with the Manchester Ship Canal in 1885 the prices of the necessary land to be purchased for the project rose by five or six times, to the exclusive benefit of the local landowners, who contributed nothing to the scheme.[6]

The Conservative government took the matter further in protecting the interests of the landowners. In 1961 they introduced the Land Compensation Act, which was part of legislation required to compensate property owners in the event of compulsory purchase. Within the act, section 5 provided for additional compensation for the loss of speculative 'hope' value due to anticipated future increases in land values.

The next Labour government introduced the Land Commission Act Betterment Levy in 1967, designed to recoup, for the government, a share of the land-value increase arising from a permission being granted, but this was ritually abolished by the succeeding Conservative government in 1970. In a further move, in 1975, the third post-war Labour government brought in the Community Land Act, followed by the Development Land Tax in 1976. However, none of these measures really encompassed the underlying principle of LVT, which is the *continuous* collection of the economic rent for the public purse.

Throughout the whole post-war period, the inability to understand the real significance of land values is evident in the various attempts at taxing 'betterment gains.' The capital gains tax (introduced in 1967) serves only to obscure the importance of land values; it is applied to all property, including art, antiques and cars, and principal homes are exempt. It is beset with complex exemptions and conditions, and in any case only applies once, at the moment of sale.

It has long been recognised that taxpayer-funded infrastructure increases land values, the benefits of which go to private landlords in the form of higher rents and property values. In order to help finance the costs of infrastructure related to particular sites under development, the Town and Country Planning Act of 1990 incorporated a 'Section 106 Agreement' (also known as Planning Obligation), which enabled local authorities to recoup some of the costs from the developer in exchange for the planning consent. However, this was a matter of negotiation and included such items as the provision of affordable housing as part of the deal.

Because of perceived deficiencies in this system the Town and Country Planning Act of 2010 included a new Community Infrastructure Levy (CIL) based on a fixed tariff schedule, so avoiding the uncertainties of negotiation. At the time, the CIL was considered simpler and more transparent for raising funds, which could be used over a general area, whereas Section 106 was more site-specific and was seen as more suitable for negotiating the levels of affordable housing. Both systems could be used in tandem, but care had to be taken to avoid any duplication of charges.

All of the above attempts at land value capture (LVC) due to taxpayer-created value, suffer from the same fatal flaw: they were and are dependent on single events; they do not have the continuity that is necessary for any useful system of raising revenue through taxation. They show a disregard of the continuity implicit in the underlying Law of Rent revealed 200 years previously by David Ricardo.

In recent years, the term ‘land value capture’ has been more commonly adopted amongst politicians and economists to describe the process of recouping the increases in land values for the public benefit. Some economists see it as an umbrella term that includes the land value tax. But for me the opposite is more accurate; it is the land value tax that incorporates land value capture. In most discussions on land value capture the main concern is with capturing the increase in land values due to publicly funded infrastructure, usually short-term single projects. But as I explain in Chapter 5 there are other causes that affect land values, which are permanent. Also, the discussions are always about increases of land value, never about decreases. The land value tax takes into account all of these contingencies.

Various ideas for land value capture have been proposed in recent years, which include:

Tax Increment Financing (TIF)

This is a system of land value capture relating to specific infrastructure projects, whereby a proportion of the resulting increase in property values can be recouped by the local authority to finance the project. It has been employed (not without controversy) in the US[7] and is supported in the UK by Centre for Cities, an organisation which represents the interests of mainly provincial cities.

Community Land Auctions (CLAs)

Using this mechanism, land parcels which come up for sale and which gain in value through planning consent for development can be auctioned to the highest bidder; the local authority taking a proportion of the proceeds. This system has been advocated by Tim Leunig of the think tank Centre Forum.[8]

The TIF and CLA systems both recognize the significance of increased land values, but still only apply to one-off events.

The Mansion Tax

The proposed Mansion Tax arose as a consequence of the excessive increases of house prices, especially before the economic collapse of 2008. As was explained earlier, the houses themselves do not change in any material way. What changes is the value of the sites upon which they are located. The Mansion Tax is an attempt to recoup some of this increase of value by imposing an annual tax of 1% on houses exceeding £2 m in value. Unfortunately, as with the current council tax, it makes no distinction between building value and site value. It has been pointed out that the same end result could be achieved by simply extending the existing council tax bands, the valuation basis being the same. As with TIF and CLA, a Mansion Tax would be automatically incorporated in any comprehensive system of land value taxation.

A report by the House of Commons Committee on Land Value Capture published in September 2018 recorded that both section 106 and CIL were in need of improvement.[9] CIL was reported as inflexible and only suited to smaller developments in high value areas, so it was not much used by local authorities outside London and the South East. Commenting on section 106, one participant asserted that, ‘it was not fit for capturing land values.’ Several participants felt that where negotiations were concerned, many local authorities were no match for more skilful private developers. In an attempt to remedy these defects, the final recommendations included further supplementary systems: LIT, (Local Infrastructure Tariff), which applied to all developments, and SIT (Strategic Infrastructure Tariff), which is similar to the mayoral CIL employed for Crossrail in London. These proposals, of course, only applied to the increase of values due to infrastructure.

One has the rather depressing sense that this proliferation of ever more schemes for capturing land value are yet another demonstration of an inability (or unwillingness?) to recognise the underlying causes. A straightforward land value tax would sweep away all these ingenious but ultimately unworkable schemes with a system that comprehensively includes all forms of LVC, one which is continuous and takes into account all the causes of land value increase not simply those due to infrastructure.