

Follow that pop star!

THE issue of land value taxation has sorely suffered over the ages from its enthusiasts on the green ink and sandals wing of the Liberal party. It deserves better. Taxing the increase in land values makes sound economic sense while also serving a pressing present need.

If Britain's cities are to be stopped from becoming vast Tokyo-style sprawls, it is vital to maintain their green belts. But it is equally important to curb the soaring house prices which such planning restrictions help to create. If this circle is not squared, the green belts will be steadily eroded by development, simply because the profits to be had are so high.

House prices are, of course, really land prices. The cost of constructing the bricks and mortar on the land has risen only a little more than the general rise in inflation. What has soared is the cost of the site. In London, an average house - a semi-detached family home - has risen in price from less than £50,000 in 1984 to more than £110,000 today.

This land price boom has already done serious damage to the economy by encouraging fresh borrowing and spending, and sending the balance of payments into sharp deficit. It has introduced an arbitrary element into the distribution of wealth between those who bought before the boom, and those who are still too young or too poor to have put a foot on the housing ladder. It has erected an obstacle to mobility. It has made a nonsense of economic incentives, since many south easterners have made more in tax free capital gains on their home in the last four years than they have earned at work.

There is only one possible solution: an increase in land supply. And if that supply is not to come from environmentally important farm land and green belt, it must come from the better use of the land within our cities. First and foremost, that must involve bringing back into use the estimated 200,000 hectares of

vacant land in England, most of it in the inner city, and about a third of it privately owned.¹ Secondly, it should involve encouraging existing owners of land to use it to the full potential allowed in the local development plans.

A tax on the increase in potential land rents would be ideal. It would impose a cost for the first time on anyone holding on to wasteland merely in the anticipation of gain, and would thereby encourage development or sale to someone who would build. It would be a tax on the rental accruing to the land if it was fully used according to the limits set out in the local plan. If the site is zoned for a six storey office block, then the tax would be on the rental value of the land as if the block were already built. The incentive to develop to the full potential allowed by the planners would thus be great. There would be no increase in the tax once the block was actually built.

The economic argument for such a tax is exceptionally strong, because economic rent is a basis for taxation which distorts the economy less than any other. Rent, for an economist, is defined as that extra payment to a factor of production which is over and above what would be necessary to entice it to its present role. A pop star might be prepared to play for £10,000 a

By Christopher Huhne

Christopher Huhne is economics editor of The Guardian, London and was a parliamentary candidate at Oxford West & Abingdon in 1987. This article first appeared in New Democrat (Vol. VI, No.5).

year rather than become a merchant banker, but in fact receives £100,000 a year. The extra £90,000 is thus 'rent', and a high tax on it will not affect the pop star's decision to be a pop star. The same principle applies to land, but even more so. Land is in essentially fixed supply, which means that its price is determined by the demand for it. This point has the important corollary that a tax on rent cannot be passed on to the consumer, and therefore cannot distort consumer choices.

There is also an important moral basis for taxing land rents, because they benefit particularly from whatever is happening in the surrounding area. If a new underground line is built, then local shops and homeowners see the value of their land (and their land rental values) rise even though they have done nothing to cause that rise, and may not even have contributed more than their share in general taxation to the building of the amenity.

This was the moral basis for the ill-fated development land tax introduced by the Labour government, but Labour had sadly forgotten the well-springs of the idea in the work of Henry George, the path breaking Victorian land tax economist. The development land tax recognised the principle that the community should share in the

increase in land values, but it was a tax on development, which thereby discouraged it. Surely, it is far better to tax the full potential development, and thereby encourage it to occur.

There is another reason too for taking the land issue seriously. By the time there is a non-Tory government, the poll tax will have replaced the rates as the main source of local government finance. Such a regressive and unjust tax should be repealed, but what is to replace it? Part of the answer may be the local income tax, as the Layfield committee recommended. But the politics of a new income tax are likely to be just as difficult, if not worse, than the politics of a tax on potential land rents.

Moreover, if local authority spending is genuinely to be financed locally, with only a minimum of redistributive transfers from central government, a local income tax system would at least need to be supplement-

1. Chisholm, M. and P. Kivell, 'Inner City Wasteland' Hobart Paper 108, Institute of Economic Affairs.

2. Fred Harrison, 'The Power in the Land' Shephard Walwyn.

ted. Some will suggest a revival of the rates. It would be better instead to rely on a tax on land rents: or if you prefer, rates with the buildings derated.

Some sort of tax on developed land values has been close to the statute book in this country on a number of occasions, most recently when it was championed between the wars by Sir John Simon and later by Herbert Morrison's LCC. The consistent charge against it, albeit a cloak for vested interest, has been impracticality. It cannot be made to stick. In Britain, a pilot valuation study was conducted in Whitstable in the early sixties which showed that the surveys need be little more complicated than the assessment of rateable values. More to the point, several overseas cities, including Pittsburgh in the United States

and many in Australia, tax site values rather than buildings, as well.

The effects of site value rating, even when the rate is levied at relatively low levels, are persuasive. One study which compared 27 cities in Australia which use site value rating with 15 which also tax buildings found that the SVR cities saw a 2.8 per cent rise in new private dwellings compared with 1.9 per cent rise elsewhere during the upswing of the housing cycle. The SVR cities also had smaller declines in house-building on the down trend of the cycle.² Taiwan, one of the most successful of the Asian Newly Industrialising Economies, has long had a land value tax, introduced at the instigation of Sun Yat Sen who was one of Henry George's most influential admirers.

Land value taxation can hardly be called a new idea, but it certainly has a fresh relevance to today's problems. The contrast between the development pressure in the green belt and the existence for years on end of wasteland in the inner cities makes a nonsense of concern for the environment in which most people live. The Government has no solution to the erosion of the green belt: indeed, the Environment Secretary is part of the problem.

As for the inner city wastelands, the Government's statist solution is to impose an organisation like the Docklands development corporation and to marry big business and big development. A graduated tax on potential rents, which might rise with each year a site was left vacant, would be a more elegant and liberal solution. It is more likely to lead to a multiplicity of developments on a human scale, rather than the new giantism favoured in docklands. And in many cases it might stop blight arising in the first place.

Lost to reform



• Will Lissner



• Perry Prentice

NEW YORK: The campaign for social reform in the United States has lost the services of two top journalists.

** Will Lissner, who founded the American Journal of Economics and Sociology 47 years ago, has retired as Editor-in-Chief. His journal favoured an interdisciplinary approach to social issues. While insisting on the highest degree of theoretical rigour, the journal displayed a commitment to develop policies that would have a practical effect on the world.*

"The policy goals of the social sciences - applied science, if you will - can only be achieved with realism if we study problems as

they exist in the real world, usually calling for the expertise of several of the sciences and of philosophy for their understanding," explained Mr Lissner.

** Perry Prentice, a former top executive of Time Inc., died at the age of 89. He became convinced of the need to reform the property tax - with the burden falling on land values - when, as editor and publisher of House and Home magazine, he published a special issue on housing.*

Mr Prentice retired to Florida, which he called "the land of boom and bust [which] is notorious for giving a free tax ride to land investors who don't earn the gains on their land values."