Qs AND As LVT

JOHN JAMES replies to questions on the economics of land taxation

Q So far all we've discussed is taxing land and resource values. Surely, in order to protect people who have taken on a loan to buy land, it would be better all round for the government to buy the land with a publicly raised loan or mortgage and thus in effect nationalise it. The rent will pay off the government debt and it's possible that increasing land values will see the debt paid off sooner rather than later. Wouldn't that achieve the same result as taxing land values?

A Yes, it would certainly relieve newly mortgaged landowners who would then be able to repay the loan on their land and pay rent instead; and, yes, it would indeed restore the land and all its value to the public domain.

There are also other considerations that need to be born in mind when considering this "whole hog" approach.

There would be the cost of a mass capital valuation assessment to be added to the borrowed purchase price. This might prove expensive where leases, sub leases and tenants improvements are involved.

Will the capital valuation reflect future hope values as land prices often do, or existing use value? Do you pay nothing to the speculator who holds land out of use because it has no existing use value? The price paid is the capitalisation of all future rents and these are often the subject of speculation, which often results in higher than normal prices.

Would the rental income in the first few years be sufficient to pay the interest on the public loan and repay a portion of the capital sum borrowed? In other words, will annual rental values be higher than interest rates? If not the debt will not be repaid in the early years and will defer any promise of lowering job destroying taxes. Of course, one way of easing the cost of purchase would be to incorporate a special capital gains tax as part of the purchase procedure but that's not exactly in keeping with the general idea.

If the loan is set to be repaid over 25 to 30 years, and it may prove sooner, is it fair that only one generation of workers should carry most of any burden and see the least of the benefits compared to future generations? Of course, the state could perhaps buy up sites as they came upon the market and thus spread out the burden of debt over several years but the state would eventually have need to take mass compulsory action.

Is it practical to acquire the land alone and leave the buildings and improvements in private ownership? They're more than just joined at the hip! Usually, if you own the land you also own the buildings and improvements. Owning land usually goes hand in hand with its development and redevelopment, will private initiative be replaced by centralised planning instead of both of them working in harness? Will the provision of expensive capital equipment also end up being provided by the state if the usual providers lack the confidence to do it?

If it doesn't seem practical to exclude the buildings, then the cost of their acquisition, the publicly raised loan, will be substantially larger. More pertinent perhaps, would the state be able to manage so much property efficiently? The state would be involved in the management of housing, farming, commerce and industry. So much control, is it healthy? It seems like a road to socialism.

Sites might initially remain with their original owners on a perpetual tradable lease with regular rent reviews. Assuming the full annual rental value is charged, (to charge less would defeat the whole *raison d'etre*) will it be as easy to make the required regular rental re valuations when there is no real free market as we know it?

Will political pressure, influence or special cases keep some rental charges lower than they should be? Will it need the sale or surrender of leases to prove the rental value is over assessed, the use is inefficient or merely that the occupier needs social assistance?

By contrast taxing land concentrates on the issue of land value alone.

The "whole hog" approach would need a great deal of public and political conviction.

Is it, or will it ever be there? Moreover, who's to say an opportunistic political party might not, some time afterwards, re privatise land in order to finance windfall tax reductions or large spending programmes in order to remain or get back into power?

By comparison, as LVT is gradually adopted, other bad taxes can be reduced leading to fuller employment. Any pressure to decrease the rate of LVT will be offset by the fear of increasing other taxes that cause increased unemployment. LVT fits into the market as it finds it, using "existing use" and/or "permitted use" values and it also helps the market run smoother by diminishing speculation and encouraging proper land usage. It isn't cluttered with the same sort of baggage as the whole hog approach.

LVT is flexible. You can start at the shallow end and adapt its impact as circumstances dictate. You can introduce it via split rating, you can introduce it slowly or quickly, at low rates or high rates. Each region could choose its own pace of introduction.

When all is said and done, why should Joe and Jane Public pay for something that really belongs to them anyway? We're talking about the ethics of property rights and the right of all to enjoy their common inheritance. These rights are stolen from every child as it enters the world! Should Joe compensate the thief that regularly robs Jane and her child of their portion of nature's bounty? The answer must be no.