

Land in a Liberal Democracy

"Landlords grow richer in their sleep without working, risking or economising. The increase in the value of land, arising as it does from the efforts of an entire community, should belong to the community and not to the individual who might hold title."

John Stuart Mill (1806-1873)

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1. INTRODUCTION

In this booklet, we will show that a simple reform which is based on an understanding of land economics will produce enormous and beneficial effects on many features of our society. Not only will it provide a much better system of taxation, but it will play a large part in ironing out booms and slumps; it will kill land speculation; it will help defend our environment; it has an important part to play in our transport system; it will help to develop a healthy agriculture. It will also prove a very important weapon in the war against unemployment and against homelessness.

The reform which we recommend is known as Land Value Taxation (LVT), which is intended to replace a large part of our existing system of taxation. It is a system which is based on fundamental moral principles, and is impossible to avoid or evade.

Most of our present taxes are little more than devices for pulling the maximum number of feathers from the taxpayer goose for the minimum number of squawks. Everyone is familiar with the anomalies and absurdities in, for example, the operation of income tax, or VAT, or inheritance tax, or capital gains tax. Most taxes also produce harmful side-effects, quite different from the original intentions of those who designed them.

Furthermore, the process of collecting these taxes costs a great deal both to the taxpayer and to the state. On one side of the fence, taxpayers spend much time, money and ingenuity - partly in providing information for the tax-collectors, partly in trying to dodge paying tax. Indeed, tax-dodging, whether through legal avoidance or illegal evasion, is a major national sport. On the other side of the fence, government officials spend a corresponding amount of time, money and ingenuity in attempting to thwart the taxpayers' efforts.

The alternative system of LVT has a long pedigree with both the Liberal and SDP forerunners of the Liberal Democrats. The Liberal Party repeatedly reaffirmed its support for this idea, from the 1889 meeting of the National Liberal Federation to the last Party Assembly in 1987. The Labour Party, the former home of the founders of the SDP, gave more erratic support for LVT, but in 1931 a Labour government actually put on to the statute book proposals to value and tax land. In 1991 the Liberal Democrats declared their support for a measure of LVT within the financing of local government.

2. WHAT IS LAND VALUE TAXATION?

"Man did not make the earth . . . It is the value of the improvement only, and not the earth itself, that is individual property . . . Every proprietor owes to the community a ground rent for the land which he holds."

Tom Paine (1737 – 1809)

The word "land" (like a lot of words in politics!) is used by different people to mean different things; but here it is used in the way in which it was used by the "classical" economists, which is different from the way in which it is used in English law. "Land" in this sense means more or less the same as "natural resources".

With LVT, the value of every piece of land will first be assessed. The assessment will ignore the value of all "improvements" – buildings, crops, machinery and so on, which people have put on the piece of land. When the assessment is complete, a tax will be levied on the basis of the value of the unimproved site. That value derives in part from natural attributes of the land, such as fertility and minerals, and in part from its ease of access to amenities. Thus, one house site may be more valuable than another because of the proximity of bus routes, railway stations, motorway access, shops or schools. Land in the middle of a town is often enormously valuable because people want to use it for offices or shops.

Land values derive nothing, or virtually nothing, from the activities of the owner of the land or his predecessors. If a house or office block is demolished, or conversely if something is built on a vacant site, the value of the land is unchanged. Yet if a new road or shops are built nearby, or a school is opened, the land values may be profoundly affected. These activities owe nothing to the landowner.

Our present taxation system actually discourages people from making good use of their land. A person with idle land in the middle of a town pays little or nothing for it in tax, while somebody with (say) a house on his land pays a lot in tax. Furthermore, under both the old rating system and the new Council Tax, a householder who introduces improvements, like a garage or an extra room, is likely to finish up paying more tax as a result.

But LVT is not just concerned with the value of the land under ordinary domestic residences. The value of land under shops or offices in the middle of a town is often much greater. Unfortunately, there is no full information about the overall land values in Britain – a point to which we will return later – but enough is known on the subject to establish that if anything approaching 100% of land values were collected in taxation, the yield would be of the same order of magnitude as that of income tax. So far as

possible, the expenses of both local and national government should be defrayed by a tax on land values.

CAN A LAND VALUE TAX BE PASSED ON?

Very often, the incidence of a tax does not fall on the person on whom the tax is first imposed, but on somebody else. A tax like VAT is not borne by the vendor of goods or services, but becomes an extra charge on the customer's bill. Similar considerations apply to all taxes on goods. They even apply to a large extent to "direct taxes" like income tax. If these taxes are raised, then the price of goods made, or services supplied, by the person taxed often rises. To a greater or lesser extent, most modern taxes are passed on. A tax on land values, however, is different.

A few examples will show why it is impossible to pass on a tax on land values. The simplest case is land which is not used for production. Thus, a domestic owner-occupier would have nobody to whom he could possibly pass on the tax. Is this bad news for the householder? Not at all, because if a tax is imposed on land values, other taxes will be reduced.¹

Where land is used for production, it is also impossible to pass on the tax. Suppose that two farmers are both growing cabbages. One cabbage plot is more valuable than the other. Perhaps it can grow more cabbages, or is nearer to the markets, or the local authority has scheduled it for future building development. Can the owner of the more valuable land pass on the tax to the consumer by charging more for his cabbages? Clearly not, for he is in competition with the producer who is growing cabbages on cheaper land. What determines the price of cabbages is the play of competition, not the price of the land.

Another example of the impossibility of passing on land value tax is provided by the case of two shopkeepers selling similar goods. One operates from an expensive High Street site, the other from a cheaper site in a side street not far away. Can the shopkeeper using the expensive site recompense himself for the higher land tax by charging more for his goods? Again, the answer must be no, for the two shopkeepers are in competition for the same customers. The reason shopkeepers try to acquire land in a High Street is not because they expect to be able to charge more for their goods, but because they expect to be able to sell more of them.

A somewhat different problem arises when the owner of a house lets that house to a tenant for "rent"². It is important to remember that the

[1] A number of years ago, a detailed survey was made in Whitstable, Kent. This showed that most domestic ratepayers would pay less if rates were assessed on the basis of site values rather than on the total value of the hereditament. This is not identical with the case here considered, but the principle is similar, and similar results would be anticipated.

[2] The word "rent" is here set in quotation marks because it is used in the "popular" sense, and not in the strict sense employed by economists.

"rent" of the house is really a mixture of two different things. In part, the tenant is paying for the right to occupy the land on which the house is situated; in part the tenant is paying for use of the building which the owner, or a previous owner, has erected. Plainly, land value taxation could not affect that part of the "rent" which is really payment for use of the building, because a tax on land values would not be related to the value of the building at all.

But could the owner pass the land value tax which he pays for the site on to the tenant? If land value taxation were in operation, landlords would be in competition for tenants – just as they are today – and tenants would still only have a limited amount of money available with which they would be able to pay "rent". There would, therefore, be no way in which the landlord could increase the amount of money he would be able to collect from the tenant. If there were any such way, then assuredly the landlord would raise the "rent" today! The great difference would be that the proportion of "rent" which represents land value would be paid in the first instance by tenant to landlord, and then by landlord to the organs of government in a land value tax.

The example given relates to rented domestic housing. Similar considerations apply where the land is let for offices, factories, shops, farm buildings and so forth. The landlord is in competition with other landlords for tenants, and is therefore in no position to raise the "rent".

A different situation arises in the case of leases. A lease may amount to anything from virtual ownership at one extreme to something like a tenancy at the other. Thus, a person who holds a long lease which was granted when money values were very different from those existing today is in a completely different position from somebody who has just received a lease at a rental related to modern prices. Land value taxation would automatically recognise the difference. Effectively, the relative amount of land tax payable by lessor and lessee in each case would be determined by the relative value of the interest which each of them holds in the same piece of land.

The effect of charging a tax on land values may be summed up by saying that in most cases the tax will fall directly on the person actually charged. There are some cases, however, where more than one person enjoys the benefit of a piece of land. In such a case, the burden of the tax would be shared between them, in a ratio corresponding with the proportion they own, and therefore the benefit they enjoy. Economists disagree with each other on many matters; but it is not difficult to see why one of the things about which they agree is that a tax on land values cannot be passed on.

In this booklet we consider LVT generally as a national tax. In the final chapter, however, we will say something of its relevance to local government, to regional government and to the European Union.

3. "WE CAN CONQUER UNEMPLOYMENT"

"The Earth is God's gift. No-one has the right to appropriate it, or to deprive the immense majority the use of the land."

Pope John Paul II

All too many people today seem to regard large-scale unemployment as an acceptable and permanent feature of the economy. We disagree. It is absurd as well as tragic that great numbers of people should be unable to find jobs when there is an enormous amount of work which – everybody agrees – needs to be done. In a sane society, the problem would not be to find jobs for people, but to find people for the jobs! It is in every way more sensible to pay people for doing something useful than to pay them (as we do today) for doing nothing at all.

Learning from the past

The Liberal Party has a proud tradition of war against unemployment. As long ago as 1929, it fought a General Election on the slogan "We can conquer unemployment", with a policy to match that claim. More than a decade later, when Sir William Beveridge, author of the great wartime report, "Full Employment in a Free Society", decided to enter politics, it was to the Liberal Party that he turned. The Beveridge definition of "full employment" is important to understand. It does not mean that nobody should ever be unemployed. What it does mean is that a major objective of government economic policy should be to ensure that there are more jobs available than there are people looking for jobs.

After the 1939-45 war, chronic large-scale unemployment seemed to have vanished for ever. Then, in the middle 1970s, it returned with a vengeance. There is a powerful argument for the view that this happened, at least in part, because the Keynesian medicine that had been applied to cure unemployment produced side-effects which become increasingly serious as time went on. Unemployment has not been exclusively the curse of people who live on wages or salaries, for it has been accompanied with business failure and collapse. Neither the Conservative Party nor the Labour Party has much reason for pride in its own record in the matter since the early 1970s. A firm commitment to LVT will entitle LibDems to speak once again of "Full Employment in a Free Society" as a realisable objective.

Nobody claims that LVT will – by itself – provide a complete cure for unemployment. Liberal Democrat Land Taxers do claim, however, that it is a very important element in such a cure. To understand the basis of this claim, it is necessary to make a digression.

Unemployment and the tax burden

To an employer, the cost of "buying labour out of unemployment" is far greater than the wage which the employee receives. The employer must match, in take-home pay, at least the amount which is being received in unemployment and welfare benefit. He must also match other benefits for which people may qualify when unemployed, but lose as soon as they take a job – such as income support, mortgage assistance or housing benefit, free school meals, free NHS prescriptions and Council Tax assistance. To bid successfully for unemployed labour, the employer must further add on the income tax and National Insurance contributions nominally paid by the workers, as well as his own slice of National Insurance contributions made on their behalf.

What concerns the workers, on the other hand, is what their net, or "take-home" pay will be, after PAYE and the various other charges on their wages have been deducted. By the time that all the taxes and other deductions have been met, there is an enormous gap between what the employer pays and what the worker receives. The effect of this gap is to discourage employers from offering work, and to discourage potential employees from accepting work if it is offered.

Indirect taxes also serve to discourage the provision of employment. To take a simple example, tax accounts for over 40% of the cost of the average restaurant meal. Eating out becomes a luxury, and there is consequential unemployment in the catering industry.

Something similar applies with most labour-intensive activities. Thus, British Coal's Annual Report for 1991 showed that the production cost of deep-mined coal was £41 a ton. Of this amount, £8 consisted of taxes which had ultimately to be borne by the coal industry. Not surprisingly, this means that the British coal industry is uncompetitive in world markets, despite the progress that has been made in improving efficiency. Other industries, such as steel, have suffered in a similar way. So also have particular locations, like Northern Ireland, Liverpool and Tyneside.

Taxes on wages, goods and services also bear down especially hard on the public services. The shape of the tax system explains the fact that it is very costly to employ people to do relatively menial, but valuable, tasks. Thus – to give but a few examples – there is a shortage of hospital cleaners, the apprenticeship system is all but dead, street pavements are being neglected, public lavatories are rapidly disappearing, bus conductors are scarce, and railway staffing has been pared to the bone, to the inconvenience of passengers.

What isn't taxed

The present tax system clearly acts in various ways as an obstacle between people who want to work, and the work which they could usefully perform.

But the influence of tax on the economy is more profound than that. What is not taxed is quite as important as what is.

The British tax system has no tax which falls directly on the value of land. The cost of holding land which is not in use is no more than the cost of servicing the debt, if any, and the rent foregone. At times when land values are rising quickly, as they did in the late 1980s, these costs are often well worth bearing. Hence land ownership is often a tax haven. This has distorted patterns of investment for decades, perhaps for centuries. Fortunes have been made by purchasing land cheaply, waiting until the activities of the community at large have increased that value – then selling the land and reaping the profit.

The supply of land is fixed although individual sites may change from one use to another. Every site is unique, and if land becomes the subject of speculation it is either not used at all, or it is under-used. A valuable building plot may be used as a car park; or there may be a scrap-yard on a plot suitable for a hospital or for housing. The consequences for the economy are damaging. "Land", as has been explained, includes all natural resources, and the unemployed are denied access to nature's store of raw materials. No-one can produce goods, or provide services, without access to land. No business can function without suitable premises. A site held out of use means that labour is deprived of an employment opportunity. No doubt that site will be used sooner or later, but time is of the essence. If a factory site where 100 people could work is held vacant for five years, 500 job-years are lost for ever.

The phenomenon of land speculation will be studied further later on. At this stage, however, it is essential to remember that the land market does not perform like the market in, say, tomatoes or lorries. With both consumer goods and capital goods, the pattern is usually simple. If there is a glut, the price falls. If there is a shortage, prices rise. Then tomato growers or lorry manufacturers decide to produce more, and prices tend to fall again. Alternatively, the producers or manufacturers simply move their goods from places where they are relatively cheap to places where they are relatively dear.

The land market acts in a different way. No more land can be produced to satisfy increasing demand; nor can it be moved from one place to another. If land prices rise, more people attempt to buy – just the opposite of what happens in the other two cases. When there is a big demand for land, people do not bring it into use, but hold it back from use in the hope of even greater increases. This withdrawal of land from use necessarily generates unemployment.

How LVT will help

LVT will help conquer unemployment in two ways. First, it will make it possible to reduce other kinds of tax which discourage employment in one

way or another. Second, it will make it expensive to hold land out of use for speculative reasons, and will therefore bring idle land into productive use. As will be explained later, this is not only fully consistent with "green" objectives, but it will actually help to achieve them.

4. BOOMS AND SLUMPS

"The socially produced value of the land is reaped by the speculator in exact proportion, not to the service, but to the disservice, done. The greater the injury to society, the greater the reward."

Winston Churchill, (when he was a Liberal)

For fifty years, British politics has been dominated by attempts to manage the ups and downs of the economy - 'booms and slumps', 'stop-go', 'recession and overheating' - the terminology changes, but the problem remains still unsolved. There is a simple explanation for this. Economic forecasting ignores the effect of the land market. The Treasury economic model, for instance, is made up of at least 100 equations but not a single one of them handles data which directly identify trends in the price of land. Yet land plays a key role in the cycle of booms and slumps.

When an economy becomes more active the demand for all types of commodities and services, and the demand for land, increases. But when land is scarce the economic consequences are radically different from the consequences of scarcity in other things. With most kinds of goods, scarcity and high demand lead to increased production. But there is no way of increasing the quantity of land in existence.

As has been seen, the land market behaves in a different way from other kinds of market. With trade cycles, it behaves in several ways, all of them more or less harmful to the economy.

The 1980s Boom . . .

The 1980s boom started with an artificial scarcity of land at a time of economic growth. To start with, as demand for land increased, so more marginal and sub-marginal sites were brought into use, and land already in use was up-graded and used more intensively. But as land prices continued to rise, many sellers held back in expectation of even higher profits. A scramble for land began. Builders, for instance, became so afraid of finding themselves short of land that they started to buy plots well ahead and hold them in what became known as land banks. Pressure increased for the intensive development of such land as could be found. Hence the construction of massive, and massively expensive, office tower blocks. These were considered necessary if developers were to achieve enough space in relation to the underlying site areas to make the projects pay. Land speculation took off.

In the present economic system, land is the ideal object of speculation. When it is kept out of use there are virtually no outgoings on it. Unlike capital or consumer goods, it does not deteriorate. On the contrary, in

times of boom it seems more or less guaranteed to rise in value indefinitely, without the slightest expenditure of effort on the part of its owner.

A number of different effects followed the boom in land prices:

- a large amount of capital funds became tied up in land and major property developments;
- less investment was available for manufacturing projects, and the rate of increase of production declined;
- many formerly viable small businesses collapsed in the face of rising rents; or their owners sold up in order to cash in on the rising freehold values of their suddenly valuable sites;
- house-owners, feeling rich as they saw house prices soaring upwards, went on a spending spree, based on easy credit from the banks. As the U.K. production base was no longer growing rapidly, this caused an increase in the importation of consumer goods.

The economy was now going rapidly off course and out of control. Real saving actually decreased. Consumption was further fuelled by credit, based on land as collateral. There was thus at one and the same time a fixed investment boom and a consumer boom – and both were based on the same mis-reading of what was happening to land values.

The productive capacity of the economy could not keep up with such a state of affairs. The economy was over-investing, over-consuming, over-borrowing, and over-lending. High real interest rates were now seen as necessary for four reasons: to encourage domestic saving; to hold back the trade deficit; to attract and maintain foreign loans to finance that deficit; and to hold back inflation.

. . . and the Slump

These financial policies were inevitable, but they finished the boom. The bubble burst. The slump in land prices now threw the system into reverse. It became impossible to construct a house and sell it at a price which customers could afford. Construction, whether of houses or of business property, came to a virtual standstill. Many householders with high mortgages were caught with "negative equity".

Scales fell from horrified eyes. There was now a rapid downward adjustment of expectations. Easy credit was no longer available. Rent charges and interest charges, negotiated in heady days, became a scourge.

Both income and consumption were down. Ironically, when the big, capital-intensive projects were ready, demand for them had gone. Capital had been wasted. They would never pay their way now. Other big projects were abandoned. More capital had been wasted. Entrepreneurs faced ruin. Unemployment rose.

Of course, some people were lucky enough to profit from the wild

fluctuations of boom and slump. But a boom-slump cycle is not a "zero sum game", with the gains of one group of people roughly balancing the losses of another group. To the majority of people it is an unqualified misfortune.

How does all this relate to land value taxation?

Suppose that this country had had a system of land value taxation in operation. As soon as people began to hold land out of use in expectation of rising land prices, LVT would have produced an automatic corrective. The holders of idle land would have seen that they were merely holding on to a tax. The more that land prices rose, the more tax they would pay. So land speculation, with all its evil consequences, would have been nipped in the bud.

Furthermore, LVT would have coped with a phenomenon which has not yet been considered in this analysis. In the middle to late 1980s, land values did not rise evenly all over the country. They rose much earlier, much more rapidly, and much further in some places than in others. Where land values rose, the increment would have been collected in taxation; where the land values remained stable, so also would taxation have remained stable.

As the economy expanded and the demand for land grew, the value of marginal sites, and under-developed central sites, would increase and so would the tax. Owners would be thus encouraged to make the land available for use so as to bring in an income to pay the tax. If the economy then went into decline, owners of marginal sites would find they no longer commanded the same price; but at the same time they would no longer attract the same tax. LVT automatically adjusts to smooth out the wilder fluctuations in an economy. Without it, the land market plays a disastrous, destabilising role.

Two or three years before the slump of the late 1980s, supporters of land value taxation were about the only people who correctly predicted that a slump was coming, and furthermore got the timing of it right.

The tragic experience of the past must be taken as a warning for the future. If land value taxation is applied at a high level, then land speculation will disappear. Wild profits and later losses, which derive from speculative land dealing, will cease. The economy will grow in an orderly manner, consolidating productivity gains and ensuring the rewards of enterprise and effort go to those responsible for producing them.

5. HOUSING AND HOMELESSNESS

Why are so many people homeless today, and why do so many other people live in inadequate accommodation? Just as housing questions have played a large part in the generation of booms and slumps, so also has the boom-and-slump cycle exercised a harmful effect on both the availability and the quality of housing, which has itself produced indirect effects on other industries as well.

During the period of rising land values, land prices were forced beyond their affordable levels. Builders decided to squeeze more, and smaller, units on to each site and to skimp on quality of construction. Eventually, land prices rose so high that few people who did not already have a house to trade in could afford to pay the price of a roof over their heads. Paradoxically, booms as well as slumps can produce homelessness.

Then came the crash. It is well known that the construction industry is often the first to signal an economic crisis. Hundreds of thousands of building workers lost their jobs in the three or four years which followed the crash of 1989. Their skills went to waste, while families were homeless.

Nor was the construction industry the only victim. There was a fall in activity in the housing market as a whole, because no-one would willingly sell at a loss. This had an adverse effect on industries such as the manufacture of furniture, domestic appliances and building products, because most people embark on home improvements and furniture purchases shortly after they have moved house. All of this generated more unemployment. The unemployed people could not buy as many goods as before and fell behind with their mortgage repayments; so there was even still more unemployment.

Many householders found themselves with "negative equity", which discouraged them from buying any goods which were not absolutely necessary. This generated more unemployment.

Yet – and here comes another paradox – in these slump conditions banks tended to refrain from foreclosing on building companies, knowing that those companies' assets, particularly their assets in land, would be difficult to sell. In the same way, building societies were not anxious to foreclose on mortgagors, for they could not expect to realise much on the property when there was widespread "negative equity".

The miseries and wastage of the slump did not end the story. As Keith Banbury, Chief Executive of the Chartered Institute of Building, observed, "Statistics suggest there is a link between land values rising and firms going out of business at the end of a recession"³. The way in which this

(3) "Builders worry on recovery." *Daily Telegraph*, 25 January 1993.

result occurs is not difficult to understand. With first glimmerings of a revival in the housing market, land prices begin to harden. Then the banks proceed to bankrupt loan-defaulting builders, and recover their money either from the sale of assets, or by actually acquiring the land itself, at a time when it is rising in value. Building societies may be expected to behave in a similar way towards mortgagors.

The rôle of housing developers

The building industry, like any other, requires a steady flow of work, and therefore an assured supply of substantial sites on which to build. "Green field" land is therefore sought. Thus the practice has grown up of acquiring "land banks", often many years in advance of intended development, to which reference was made in the previous section. Very often, such land is situated on the urban fringe, and is acquired whilst in agricultural use, without any consent for residential development having been granted. When making purchases of this kind, the companies are gambling on the possibility of eventual re-zoning for residential use. Thus development companies play the land market speculatively, with the prospect of big profits if they gamble successfully, or bankruptcy if they fail.

Taxation and Housing.

Post-war taxation policy has turned home ownership into a kind of tax haven. When "Schedule A" Income Tax on owner-occupiers was abolished in 1963, the interest relief remained. When Capital Gains Tax was introduced, owner-occupied housing was exempted, further enhancing its privileged status. These two measures increased the effective demand for housing, while doing nothing for the supply. The overall result of the taxation policy was to divert personal savings into houses rather than other investments, such as equities. This naturally helped to bid up house prices generally.

Yet, paradoxically, the tax system has tended to discourage the construction, improvement and maintenance of housing. Under the old local authority rating system, nothing was payable on a derelict site or building, while a well-appointed modern property in good condition was heavily assessed. Exactly the same objection applies to the modern Council Tax. The position was further aggravated by the introduction of Value Added Tax, which imposed a direct tax on building repairs and materials. We deride the 18th Century window tax because it led to bricked-up windows; but a government wishing to bring about neglect of the country's stock of housing could hardly have done better than impose the taxes we have!

The tax system also discourages the smooth operation of the housing

market. The fact that well-used land is taxed and vacant land is not, encourages land hoarding and speculation. Land prices do not fall to market clearing levels, and if market conditions are unfavourable, sites with planning permission are often withheld in the hope of higher prices.

Homelessness

Homelessness is the most tragic manifestation of the housing problem. In boom conditions, it was widely claimed that housing shortages are caused by planning restrictions. Would more relaxed planning policies ease matters? Is the human problem of homelessness so severe that it is necessary to abandon environmental concern in order to overcome it?

Surely not. There has always been inner-city land, suitable for housing, which has been kept out of use for speculative reasons. If land values were taxed, the owners of that kind of land would soon develop it or bring it onto the market. After all, they would pay the same tax on their land whether it was used well or badly.

As has already been seen, during boom times – as in the late 1980s – many ordinary householders see their “houses” – really the land under their houses! – appreciating rapidly in value. Other people are less fortunate. Young people who want to set up home see prices rising beyond their reach. When house prices rise, the prices of rented property, flats, bedsits and all other kinds of accommodation rise as well. At the peak of the market, many people cannot afford even the cheapest kinds of accommodation. People living in the big cities will recall that the number of homeless people who could be seen on the streets was greatest at the very top of the boom. In other words, the moment when rich, and even moderately “comfortable”, people were most prosperous was also the moment when the poor were most deprived, and when homelessness was most acute.

Eventually, the bubble of wildly inflated land prices bursts. The so-called “house” prices first falter, and then plummet. At this point, homelessness may be affected in either of two different ways. Some people who had been homeless may now find that they can just afford some of the cheapest accommodation. Other people, who have become unemployed because of the recession, drift into homelessness.

Housing and Land Value Taxation

It is always necessary to remember that the value of a “house” is partly the value of a building and partly the value of the site on which it stands. Identical “houses” may differ widely in value according to where they are situated. As the value of bricks and mortar is more or less the same everywhere, this difference is due to the different values of the sites. A site – that is, the land – still retains value, even if the house burns down.

As has already been seen, land values are established by the infrastructure: by such things as the proximity of employment, schools, parks and transport, and the general attractiveness of the area. These things are provided either by private initiatives or by the public bodies who give services which are paid for out of taxation – like highways, schools, police and fire services. Thus, as land owners, the owners of houses effectively appropriate a “public good”. The value of this “public good” they may either enjoy personally, or sell, or lease. In any case, they benefit from something they have not produced. If one person gets something for nothing, then another person gets nothing for something.

Land value taxation would alleviate many aspects of the housing problem, particularly if the tax rate were suitably high. The tax would act as a holding charge, and thus discourage land hoarding and holding property vacant. Owners would bring sites forward for development and into occupation, in order to pay their tax liabilities. There would be competition between landlords, since the option of leaving property empty would be far more costly than it is at present. This competition would bring about a reduction in rents and house prices, together with an improvement in standards.

As homelessness is clearly related in many different ways to fluctuations in land values, a cure for homelessness must involve the creation of a more stable market for land, which would be brought about by land value taxation. Homelessness may therefore be reduced dramatically, and perhaps ended altogether, as part of a process which will also cut the huge and shameful levels of unemployment which we experience today.

One of the principal reasons why housing policies introduced by both Conservative and Labour governments have consistently produced evil side-effects which nobody intended is that the housing problem has not been recognised as a land-market problem. The housing problem would be greatly alleviated by the replacement of many existing taxes by land value taxation. Indeed, it is difficult to see how any satisfactory solution is possible in the absence of LVT.

6. PLANNING

There are many rules which restrict landowners in the use to which they may put their land. People are forbidden to build in Green Belt areas, or on Sites of Special Scientific Interest. They are required to preserve certain trees and buildings from destruction for conservation reasons. Certain trades may not be followed in particular areas, and there are many rules governing the discharge of effluents from land. Sometimes landowners are even compelled to surrender their land to the organs of government, for purposes like road construction or slum clearance.

These rules naturally affect the land values of the owner of the site directly affected; but they often affect the land values of a great many other people as well – sometimes positively, sometimes negatively. A new road by-passing a town may be a great benefit to the land values of local householders who are freed from traffic congestion; but it may have a catastrophic effect on the land values of shopkeepers or caterers depending on casual trade. An order forbidding a landowner to develop his field as he wishes, for conservation reasons, may have a profoundly adverse effect on the value of that field, but it may also enhance the land values of householders living nearby. Even a very minor change which can hardly be dignified with the name “planning” at all – like moving a bus stop fifty metres along the road – may have important effects, favourable or adverse, on the land values of local shopkeepers.

Capturing “betterment”

It is clearly unjust that particular people should reap great rewards, or suffer great disadvantages, as a result of such decisions. From time to time attention has been given to ways of capturing “betterment values” created by the community. Less attention has been given to the other side of the medal: recompensing people for losses which they sustain as a result of planning decisions which do not actually result in seizure of their property.

Today, however, only one way of capturing “betterment values” remains: what is called “Planning Gain”. It applies when a developer obtains planning permission for a project on condition that he provides some specific public service or facility. Thus, a developer might undertake to construct a public library in order to be allowed to build an office development.

Not only is there no recompense for planning losses, but planning gain does not work very well. What it fails to recognise is that all land values, and not just certain land values, are due in part to natural resources and in part to the activities of the community. They are not just due to some human action which took place at some particular moment in the past.

Thus, the value of a piece of land in Brighton does not derive from the fact that the railway arrived in 1841, but rather from the contemporary position: trains are running today and will be running tomorrow. It would therefore be illogical to attempt to tax merely those land value increments deemed to have taken place after some particular date. It is equally inconsistent and arbitrary to attempt to collect increases in land values subsequent to individual actions of planning consent, whilst ignoring all existing land values and all increases arising from other causes. Plainly, a concept like planning gain is a hit-and-miss, random, affair, not a methodical means of ensuring that publicly-created land values are regularly and reliably captured for community benefit.

How Land Value Taxation would collect betterment values

Under a system of LVT, the valuation would be based on the full rental value of the site, at its optimum permitted use. Thus, betterment arising from planning decisions would automatically be collected as a revenue stream, along with existing land values and betterment arising from all the other causes which influence land values.

Furthermore, the system would also contain a built-in compensation mechanism. Where the value of land was depressed by – for instance – planning blight, traffic noise, or the presence of listed buildings or other restrictions on its use, this would naturally be reflected in the valuation, and the landowner would be relieved accordingly.

Thus, LVT is a payment for benefits actually received, and falls only upon values which can be enjoyed or realised. If planning restrictions prevented more intensive or rent-enhancing use, e.g., requiring preservation of a garden, or limiting a piece of land to use as a golf course, or for agricultural purposes, the land value would be assessed accordingly. The introduction of LVT would not conflict with the existing system of planning controls; on the contrary, it would greatly reinforce the planning process by removing, or at least reducing, the financial incentive for overturning restrictions on development contained in existing statutory plans.

Land Values as an aid for planning

LVT would be a great help to people who need to plan public works and the like. If a system of LVT were in operation, land value maps and valuation rolls would be available. Planners and responsible political authorities would thus be in a position to gauge the effects which any one of a series of options might be expected to have – and so, too, would the public. The likely consequences of planning policies could be more accurately appraised. Again, the mere awareness of anomalies in patterns of land values would direct the planners' attention to consideration of appropriate remedial action.

LVT would also resolve automatically a great many arguments about who should pay for major public works. Why should a Londoner pay for a motorway in the north-west, or why should a Mancunian pay for a motorway in the south-east? Many of the arguments about selective favours to one area or another, and about possible indirect benefits, would be swept aside. With LVT, it would be the beneficiary who would pay, and the amount payable would be determined not by some meticulous and dubious calculations, but by the visible changes in the values of the beneficiaries' land. Compensation for those who lose from planning decisions would be equally automatic.

7. CONSERVATION

Since the middle of the 20th Century, there has been growing public concern for conservation: conservation of nature; conservation of our archeological and historical heritage; conservation of places and things of beauty. At the same time, there has been growing concern to ensure that the ordinary environment in which people live should be improved. Rightly, we demand clean air, pure water, a pleasant ambience in which to enjoy life. People are no longer prepared to tolerate the ugliness, the smells and the unhygienic conditions which existed in the past.

Various kinds of legislation reflect the modern concern for conservation, and require landowners to behave in ways which are designed to assist that conservation. Thus, local planning authorities have a statutory duty to identify and designate as Conservation Areas those locations which it is considered should be preserved and enhanced. Within Conservation Areas, consent is required for demolition, and planning applications for new development are submitted to specialist advisory committees. The designation of SSSIs, and Ancient Monuments, such as prehistoric burial sites, and the operation of Tree Preservation Orders, produce effects analogous to those applying in urban Conservation Areas.

These rules have not always produced the effect intended. Legislation has had only limited success in preventing the destruction of historic or beautiful areas, and the erection of harmful developments. This has happened for a number of reasons. In some cases, owners of listed buildings have neglected them to the point where demolition has become the only option; and have then pressed local authorities to be allowed to redevelop and intensify the use of their sites. One may also guess – though this is difficult to prove – that many landowners have discovered something of interest or importance on their land, and have deliberately held back from disclosing this to the appropriate authorities, fearing that they would find their use of that land restricted in the future. It is said that others have acted in a different way, but one equally inconsistent with planners' intentions. They have bought in the hope that it would be declared an SSSI. They have then put in a development plan, and claimed compensation for the inevitable refusal. In other cases, pressures for relaxing conservation provisions have arisen because land values were approaching a peak in the boom-slump cycle.

So, while some landowners have been helpful and cooperative with the authorities, others certainly have not. Nor are we entitled always to blame them for their attitudes. The owner of a site which is inhabited by a rare insect, or one which carries prehistoric remains, may well fail to appreciate why conservationists are so concerned to preserve it. Even if he does

understand the importance of the site, the owner may well feel that it is unfair that he should incur financial loss because the economic value of his site would diminish if it were declared an SSSI, or an Ancient Monument.

LVT would be of great value in assisting conservation, both in urban and in rural areas. A landowner would no longer have so much incentive to resist having restrictions imposed on use of his land. If the value of the site was reduced by such restrictions, so also would the tax to which he was liable. A system of LVT would automatically allow for the economic disadvantages of having to protect particular trees, or wildlife habitats, or sites of archaeological importance.

"Green" issues

Insofar as "green" policies are put into operation through actual legislation, they will necessarily affect business incomes and costs – and, by so doing, they will affect land rents. If the application of "green" policies restricts land use, this will lower land rents; while if "green" policies make other kinds of land use cheaper – e.g. by subsidising re-use and recycling – this will raise land rents. Other "green" policies are likely to affect transport costs. Some people, for example, propose that public transport should be subsidised, or that the tax on fuel used for private transport should be increased. Both types of policies will affect land values – raising those values in one case, lowering them in the other. Land value taxation would ensure that people neither derived undeserved windfalls, nor suffered undeserved losses, as a result of "green" policies.

Towards a better environment

Attention has already been given to problems of "inner city decay", in the context of housing. It has been shown that, despite the acres of derelict sites within our cities, sprawl still occurs in the outer suburbs, and there are sometimes pressures to turn the countryside over to development.

This outward sprawl, however, has other consequences as well. It goes hand-in-hand with high costs for services like water, sewerage, gas, electricity, telephone and other amenities, which must be extended away from the centre. This presents further difficulties in siting schools, libraries, hospitals and the like, and gives rise to all manner of attendant travel problems and costs.

If LVT were applied, landowners would immediately acquire a strong incentive either to develop the derelict inner-city areas themselves, or to pass them on to somebody else who would. If that undeveloped or underdeveloped inner-city land were fully used, the pressures for re-classifying Green Belt land for housing and commercial development would be reduced.

Objections to LVT

Although LVT would operate in general in support of conservation, some critics have nevertheless expressed fears that LVT might sometimes work the other way. Would there be a danger, for example, that small businesses would be squeezed out of town centres because the proprietors could not afford the tax, or that a houseowner with a substantial, but not enormous, garden would be forced by economic pressure to part with much of that garden, which would then be parcelled out into tiny plots?

There are two kinds of answer to that argument. The first is to consider what happens at present to small businesses in town centres, particularly when they are held on lease. When the lease expires, landlords usually ask for much higher rents. The lessee often cannot afford the new rent, and closes down his business. Even if the landlord cannot immediately find a tenant willing to pay the revised rent, the business rate currently payable is insufficient to provide an effective incentive to bring the vacant premises promptly into use again. Thus we find businesses driven to extinction whilst the premises they previously occupied stand empty. With LVT, owners could not afford the risk of having their property stand empty. Far from killing off small businesses, LVT would in most cases protect and encourage them.

But this does not solve the problem of the residential owner-occupier, and there are some cases where it does not meet the problem of the small business either, notably in areas where land values have risen sharply.

Here the answer must be the application, and perhaps the extension, of planning law. If, for example, development plans do not permit house-building at a high density in a residential suburb, the land value on which the householder will be assessed will be the value of his site at its current permitted use, not the hypothetical value of the site if some other use were allowed. In the same way, planners might be authorised to insist that a particular corner site may only be used for a shop, which would reduce the value at which it is assessed for LVT. On the other hand, if the need for houses or retail space is such that the site has been zoned for high-density development, LVT will encourage the landowner to comply with that zoning policy. Planning policy and LVT would operate together, not in opposition. LVT would at last provide planning policies with the necessary financial teeth.

8. TRANSPORT AND LAND VALUES

Examples have already been considered which show the influence of road facilities on land values. Such examples may be multiplied to an almost limitless extent. Nearly everything which happens to roads is likely to have some effect on people's willingness to live or to shop or to work in particular places, and therefore on the land values of those places. Not only a major new road, but quite small variations like a new road layout, or a one-way system, or yellow lines on roads, or changes in parking charges, or a set of traffic lights, or the establishment of pedestrian precincts, will have their effect – as local shopkeepers are vividly aware.

Land values are similarly influenced by transport facilities. This is evident in the advertisement pages of property journals such as the *Estates Gazette*, which contain advertisements for sites, emphasising the advantages of the location in terms of road and rail access and – where applicable – proximity to facilities such as airports. The ordinary house purchaser will be aware of exactly the same thing. Notices of houses for sale draw attention to features such as the closeness of bus stops and railway stations, and the convenience of access to nearby towns, shopping centres and so on. If a new bus route or railway station is opened or an old one closed, this will affect a prospective purchaser's willingness to buy a particular house, and therefore its value on the market. Yet transport operations do not enhance all land values; a flight path overhead, or a busy road adjacent, is likely to have an adverse effect on land values in a residential area.

It is important to remember that what is being affected in all these cases is not the whole value of the property, but simply land values. The value of the bricks and mortar is not affected by what is happening outside the site.

Although most people are familiar with residential land values and the way in which they are affected by transport facilities, the effect of transport on the value of land used for commercial purposes is often much greater. A small businessman such as a newsagent would prefer a shop close to a bus stop or a railway station. An important consideration for anyone proposing to set up a shop, office or factory would be the ease with which staff, customers and suppliers can reach the site.

At present, the owner of a site will derive advantage, or on occasion disadvantage, from decisions taken by public or private bodies responsible for transport operations. These effects may be extensive. Construction of the M25 affected land values throughout south-eastern England. The Channel Tunnel has affected land values in Britain, and in northern France and in Belgium too. Some rose, others fell, and no-one, not even a specialist, was able to forecast what would happen except in the most general terms.

From the present reputation of the M25 as "the biggest car park in the world", and the enormously expensive and protracted road-works which have been occasioned by the need to widen it, one can easily see that nobody expected it to be used as much as it was when the original designs were made.

Transport subsidies affect land values in a similar way. These subsidies are usually introduced and maintained for environmental or social reasons. Typical examples of recipients are the London Underground, and rail services in the north of Scotland. One of the aims of such subsidies is to influence the "modal split", by encouraging the use of public transport rather than private cars. A side-effect of such subsidies is to enhance land values in the areas where they apply. As a result, some of the value of the subsidy passes indirectly to individuals - landowners - whom no-one intended to benefit.

It is unjust that the advantages of transport investment should pass as a windfall gain to some landowners, while in other cases people are paying the price in the way of disturbance, pollution and traffic noise for householders, and sometimes ruinous loss of custom for shopkeepers. At present, no satisfactory mechanism exists for collecting the money gained by the beneficiaries, while compensation for the losers is often inadequate or non-existent.

The problems of extracting the promised funds for the Jubilee Line in London from the developers of Canary Wharf are well known, and no consideration was given to the desirability of collecting contributions from the other landowners who will benefit along the route, and over a much wider area. Furthermore, the various landowners will all continue to enjoy the advantage for at least as long as the Line continues to operate, and a single contribution cajoled from an obvious beneficiary before starting on the project is not an acceptable substitute for properly-constituted annual LVT payments thereafter.

LVT will provide a fair and straightforward way of collecting the revenue from infrastructure improvements, and for compensating the losers also. It will produce a more equitable system than the present mixture of windfall benefits and catastrophic losses which accompany all important changes.

9. AGRICULTURE

Ill fares the land, to hastening ills a prey
Where wealth accumulates, and men decay.

Oliver Goldsmith, *The Deserted Village*

There are many features of modern British agriculture which are widely deplored both among agriculturalists and among urban dwellers who look at matters from the outside. Big farms are constantly swallowing smaller ones. The huge fields which characterise those big farms become monocultures with very limited numbers of wildlife species, and receive vast applications of pesticides and artificial fertilisers. Co-operative farming is rare. Rural houses are often unaffordable by farm workers and the sons and daughters of traditional village dwellers. Entry to farming is very difficult for people who could be expected to succeed if they became farmers; while the general drift out of agriculture continues. Despite the CAP handouts, hill-farming and crofting are still largely conducted at barely subsistence levels, and agricultural wages are among the lowest for any sector of the economy.

The main beneficiaries are the holders of rich agricultural land. Before Britain joined the European Community, those people cajoled massive subsidies out of the British taxpayer; since Britain joined, they have capitalised the right to receive the European subsidies and have largely incorporated them in the asking price when their farms come up for sale or rent.

These features are not the necessary and unavoidable price of "progress" and agricultural productivity, but are artificial products of bad economic policies, which frequently operate against high productivity and not in favour of it; which often entail adverse environmental consequences, and which could largely be remedied by the application of land value taxation in agricultural areas. Most of them are associated with the high price of land.

The trend towards bigness

In some kinds of agricultural production, notably with cereals, there are obvious advantages for big fields and big farms. In others this is not the case. The big farm usually produces less food per acre, measured in terms of selling price, than the small farm on similar land. Yet farms of all kinds are growing in size.

The character of a "farmer" has changed dramatically in the course of the 20th Century. Once, he was usually a tenant who worked long hours, often in unpleasant conditions, to earn a living. Today he is much more

commonly the owner of many acres, who could – if he wished – sell out at a high price, and live the rest of his life in comfort on the proceeds.

Current tax laws encourage farmers to maximise the land they own, rather than to generate income. Often, farms are not sold intact, but go in several lots, so that adjoining farmers purchase a few fields, and the farmhouse can be sold separately as a residence or holiday home, probably for several times the price which could be afforded by a farm-worker or local tradesman. Thus the total selling price is substantially increased.

With Land Value Taxation, however, farmers would be taxed on the value of the land they occupy, omitting all buildings and other improvements. This would reverse the trend towards bigness, and would give the small farmer the chance to return.

Entry into Farming

Without money from outside agriculture, this is today almost impossible. A fifty-acre farm (which used to be the starting rung on the ladder) is likely to cost far more than a potential entrant who is not already well-off can hope to provide or borrow.

This state of affairs is largely related to artificially-inflated prices which derive from land speculation, subsidies and favoured tax treatment. The source of these inflated prices has been discussed elsewhere, and is the result of the failure to collect the economic rent of land. The effect on agriculture is disastrous. A farm house at the centre of the small farm is detached, with an acre or less of land, as the dwelling of somebody with a job in the nearest town, or as a weekend and holiday home for someone living further afield. The remainder of the farm then becomes swallowed up in a much larger farm.

Rural Housing

The provision of affordable housing in the countryside is often seen simply as a rural problem; but a solution cannot be found without considering housing in urban areas. The high price of urban houses plays an important part in making rural prices high. The boom in house prices in the 1980s has already been explained, and it has been shown that most of the rise in house prices was in the value of the land rather than in the bricks and mortar.

Many people with jobs in urban areas now commute from the countryside. Some do this because they wish to, but a lot of them do so because they cannot afford urban prices. The amount such people can afford to pay for rural property is, nevertheless, far more than that which agricultural workers could pay. With no taxes on bare land, land for building in urban areas can be kept in short supply by its owners who can

hold land from the market so that prices remain high. LVT, applied nationwide, would make urban housing more affordable, and thus reduce the pressure on rural land.

Here is the root of various rural problems. Its relevance to the small farmer has already been seen. Farm workers are even less able to afford market prices for their houses. These houses are usually subsidised in one way or another: by the farmers who employ them, or by the local authority. Farmers who find themselves obliged to subsidise their tenants' housing in this way are disposed to switch from human labour to additional mechanisation, whether or not this would otherwise have been the optimum method of production from an economic point of view.

Co-operation

The small farmer could often benefit from co-operation with other small farmers in a variety of ways - e.g., sharing expensive capital equipment, and marketing produce. In continental Europe, producers' co-operatives are common, yet there are few successful co-operative farms in the U.K. Co-operation can only be successful between partners who are equal and have similar aims. There is little hope of co-operation between the tenant and the owner-occupier, who often farms on a much larger scale, and whose outgoings and costs of production are so different.

Towards a Solution

Many of the problems of contemporary agriculture could be solved, or at least greatly alleviated, by a policy of land value taxation applied nationally, and including agricultural areas. It is also important to reflect on another aspect of the matter. Land value taxation is related to unimproved site values, and urban land is usually much more valuable than rural. The more strongly LVT is applied, the more it will be possible to abate other taxes which bear on agriculture.

10. THE WAY FORWARD.

"Solving the land question means the solving of all social questions .
.. Possession of land by people who do not use it is immoral – just
like the possession of slaves."

Leo Tolstoy (1828 – 1910)

1. Summing up

It has been shown that LVT is relevant to many current problems. Some of these problems would not have arisen at all, or would have arisen in a much milder form, if Britain had had LVT long ago. LibDem supporters of LVT do not propose it as the complete solution to everything – far from it. What they do claim, however, is that LVT is relevant to the treatment of many economic, social and environmental problems. At the same time it would deal with other problems posed by the present system of taxation:

- (a) Unlike existing taxes, the tax on land values would not impede production – indeed, it would encourage production by ensuring that idle land is brought into use.
- (b) The tax on land values would be impossible to evade or avoid, and, by comparison with most taxes, would be easy and cheap to assess.
- (c) Because ownership of land would no longer provide a private income, capital would necessarily be raised from the savings of wage earners, and the ownership of capital would become much more widely distributed. This would give effect to the idea of "ownership for all" for which LibDems and their Liberal Party predecessors have been calling since the 1930s.
- (d) Valuable land would be fully and creatively utilised. As discoveries and inventions boost productivity, the increased rent which would arise would not be collected by private landlords, but would provide government with a buoyant source of revenue from which to meet its commitments.
- (e) The landowner would have to pay the same tax on his piece of land, whether he put it to good use or not. This would kill speculation on land values. The landowner would have no incentive to withhold his land from use, or to keep it in less than the most productive use which was permitted by planning law.

2. How do we get LVT?

Suppose that we get a LibDem government, or a government over which the LibDems have real influence. What needs to be done?

The first step is to value all land, without exception. This must be started early in the life of the government, and conducted as a matter of urgency, or else it is unlikely that the electors will see sufficient of the effects of LVT to judge the policy at a future election. In all valuation, the question must be, "What is the site alone actually worth at present?" Allowance must be made for all planning restrictions on the use of the land.

The assessed land values should then be made available for public inspection - for example, on large-scale maps in local government offices. It would then be open to anyone to object to the valuation of his own - or somebody else's - land, before a properly-constituted tribunal. It is important that revaluation should take place frequently (not less than once a year), because land values often change - sometimes rapidly.

Meanwhile, the basis of the taxation should be decided. Thus, as with all kinds of taxation, Parliament might decide to grant exemptions or remissions in certain special cases. Eventually the rate of taxation for the first period would be announced, probably in a Budget speech which would also announce reduction of some existing taxes. At the beginning, the taxation rate would probably be moderate, to allow "teething troubles" of the system to be met. Thereafter, the rate would be increased, and other taxes further reduced or abolished.

3. Where does LVT fit in?

LVT as a national tax would play an important part in providing revenue for the central government of the United Kingdom. But LVT can operate in other ways as well.

The LibDems are officially committed to the policy of using Site Value Rating - which simply means LVT applied to the special needs of local government - as a substitute for the existing Uniform Business Rate which is paid on industrial and commercial premises. In addition, many LibDems see Site Value Rating as a useful system to replace the existing Council Tax.

LVT may also have a place in financing regional government. The LibDems propose to set up regional authorities with devolved powers in different areas of the country. These authorities must be financed somehow - why not by LVT?

The European Union is another direction in which LibDems might usefully look. There is nothing to be said for the main existing "Euro-tax", which is VAT. It operates at different levels on different items in different countries, and everywhere it serves as a brake on useful activities. It is also extremely difficult to decide, on the basis of VAT, what individual countries ought to contribute to the EU.

LVT would simplify matters. Land values are the best available measure of the capacity of individual member-states to contribute, and would not serve as any impediment on trade, whether internal trade in the individual countries or trade between EU members.

The ideas which underlie land value taxation are also relevant to the directions in which Britain should give overseas aid. Although one can hardly stipulate that a recipient country should have something like LVT in place, it is possible to insist that there is an effective system for ensuring that any aid given is not syphoned off into the pockets of landlords or politicians. In other words, we must have an effective guarantee that the money goes to the people who need it.

4. Why didn't LVT come long ago?

There is no simple answer. The idea of land value taxation attracted huge public attention, particularly among Liberals and Socialists, in the late 19th and early 20th Centuries. However, from 1886 to late 1905, governments were mostly Conservative. The Liberal government of 1892-5 had no overall majority in the Commons, and was in a tiny minority in the Lords. When the Liberals secured a thumping majority in 1906, supporters of LVT expected great things.

Before land can be taxed, it must be valued. As LVT was particularly popular in Scotland, the government twice brought forward a valuation scheme for Scottish land. This was wrecked by the overwhelmingly Tory House of Lords. Then the Liberals tried a different tack. Lloyd George's 1909 budget proposed some curious little taxes which would operate when land was transferred. These taxes, however, were little more than a device to slip in a general valuation of land. There was a huge furor, in course of which there were two General Elections. The Lords were first forced to accept the budget, then had their constitutional power drastically reduced.

The government proceeded with land valuation, but with nothing like the sense of urgency required and the process was much more complicated than practical valuers considered necessary. When war came in 1914, it was still not complete. Rightly or wrongly, the government thrust LVT aside, along with other controversial issues, in the interest of "national unity".

During the 1914-18 war, dramatic changes took place in the Parties. When peace came, Lloyd George was Prime Minister of a Coalition government, but one in which the Conservatives predominated overwhelmingly. For most of the inter-war period, the Tories remained much the largest party. Labour had two brief spells of office, and in the second of these periods plans for valuation, and eventually taxation, of land reached the statute book. The government fell almost immediately afterwards for reasons unrelated to its land tax proposals, and the scheme was scrapped.

After 1945, the prospects of land valuation and eventually taxation

might have looked better. Unfortunately, influence of the idea of land taxing within the Labour Party had much diminished, as a result of the party's preoccupation with socialism, while the landed interest remained an important force within the Conservative party.

Now, however, everything has changed. Socialism, as once interpreted by the Labour Party, and Conservatism as understood by most of the post-war Tory governments, have both been thrust aside by events. The way is wide open for Liberal Democrats to lead the country forward to land value taxation. Today the main obstacle to LVT is not active opposition, but widespread ignorance.

5. Have others tried it?

There are many overseas examples where a greater or lesser measure of LVT has been collected either for local or for national purposes.

One of the clearest examples came from Hong Kong, when a British colony. All land, except that occupied by the Anglican Cathedral, was held from the Crown, and leasehold rents paid by the occupiers acted somewhat like LVT payments. These rentals ensured that the land was not held out of use, and a vigorous enterprise culture developed, with living standards vastly higher than the adjacent mainland.

A measure of LVT is in use in several cities in Pennsylvania, USA, for purposes of local government, although a different system operates in parallel with LVT. Current indications show that the application of LVT produces substantial benefits for cities which use the system, and its use is spreading rapidly to new cities.

Many cities in South Africa, including (from 1997) Cape Town, have LVT for local purposes. In Denmark and in parts of Australia (especially New South Wales and Queensland), a measure of LVT has long been in operation. None of these places uses LVT to the full degree that we propose, but all of them illustrate its practicality, and some of the advantages which even a small measure of LVT provides.

6. How much revenue would we get from LVT?

This, of course, would depend on the level at which the tax was set. But what would be the yield of a tax at the maximum level which is theoretically possible – that is, 100% of the annual land value collected in tax every year?

Alas, we have no authoritative information on the subject. As has already been noted, no official statistics of U.K. land values are published (although some countries do publish such statistics), and we strongly suspect that this is because none exists. However, the Valuation Office collects information about the value of all property sold, and passes this on to H.M. Land Registry. This information is obtained compulsorily, on

condition of confidentiality, for statistical purposes, and for the assessment of Capital Gains Tax. It should be possible to use this as a basis for initial net valuation, and for forecasts of revenue from LVT.

In the run-up to the 1991 Lib Dem Report "Financing Federation" (Federal Green Paper No. 24) figures were submitted though not published in the final document, which estimated the capital value of land as follows:

Housing	£850	thousand	million
Commercial	£270	"	"
Public services	£200	"	"
Farm/woodland	£45	"	"
TOTAL	£1365	"	"

An unofficial study was published in 1989³, which sought to estimate what the annual value of land in Great Britain had been in 1985 – that is, just before the sudden rise in land values which produced the "boom" of the late 1980s. That assessment suggested that the annual value of U.K. land which was potentially available for collection through LVT was £58.2 thousand millions. A more recent, but provisional, calculation by Professor Frederic Jones of Cardiff is based on a miscellany of official statistics, mainly from 1995-96. This gives the potential annual LVT revenue from England and Wales alone as £45.4 thousand million, which corresponds fairly closely with the 1985 figures.

The various figures are not exactly consistent and there is some reason for thinking that all of them underestimate the sum available for collection by LVT by a large margin. Be that as it may, the potential yield is certainly enormous.

For comparison, the officially anticipated yield of income tax for 1997-98 is £72 thousand million, VAT is £51 thousand million, and all other taxes individually fall far below that figure.

Yet it must be remembered that the overriding importance of LVT is not so much the revenue which would be produced thereby, but rather that LVT would release land currently withheld from use, which would have an enormous effect on problems like the boom-slump cycle, unemployment, transport, housing, planning, "green" issues, agriculture and so on.

6. What can you do about it?

The LibDem Land Value Taxation Campaign seeks to promote the idea of LVT, and to study the relevance of LVT to other items of concern to the Party and its members. If you agree with these objectives, we hope that you will join the Campaign and help in its work.

[3] Ronald Banks (editor): *Costing the Earth* Shephard-Walwyn, London, in association with CIT, 1989.