LAND&LIBERTY

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message from the honorary president

Natural resources are finite and free but when individuals compete for exclusive possession of any of them the economic phenomenon of rent arises and government consent and protection is required. Competition means that rent is limited by the amount people and firms are able to bid which, in turn, is reduced by government taxes. One might expect a link!

The atmosphere's capacity to safely absorb carbon dioxide emissions and electromagnetic wavelengths are two important examples of finite natural resources but here I shall consider just one - land.

When land rent is allowed to be collected or enjoyed by individuals, plots acquire a speculative sale price that reflects an estimate of the present value of an assumed future stream of rents. These fictional values would not arise if land rents were collected for the community whose consent and protection creates them. The natural harmony between the necessity to control land use and the need for public revenue would then be clear. The arrangement would also be in accordance with the biblical injunction: 'the land shall not be sold forever', *Leviticus 25:23*.

This invites a question: if the rental value of land were collected as public revenue in place of taxes levied on employment, production, trade and the earnings of labour and capital, would it yield enough money to fund needed public expenditure? In answer we need first to remember how these taxes double public and private sector employment costs and the free market price of the goods and services people and firms produce and buy.

GDP as a measure of economic activity includes only money transactions, and in recent (non-covid affected) years around 42% has been spent by the government while the remaining 58% is spent by consumers, charities and firms and on net imports. *Abolishing existing taxes would halve public sector employment costs to 21% of GDP and increase that available to be spent by the private sector to 79% of GDP.*

When tenants rent properties they pay for both a building and the land upon which it stands. What they must pay for the building reflects its replacement cost but what they must pay for the land, which bears no supply cost, reflects only the demand of others for it and their ability to pay. Today, each of these two components represents about 50% of the combined rent for a typical UK property, but the proportion of land rent increases with increasing urbanisation, economic development and population.

According to the National Accounts and despite being squeezed by existing taxes, residential and commercial rents combined (actual and imputed) now represent about 18% of GDP so land rent represents about 9% of GDP. If the impact of removing employment and trading taxes were to reduce building costs by 50% and overall property rents remained the same the land component would increase to 75% of the total i.e.13.5% of GDP. But property rents would not remain the same, they would increase as tax cuts increase net private sector incomes and enable and oblige tenants to raise their bids. National statistics indicate that a typical UK household spends about 30% of their gross income on housing but this becomes more than 50% of after tax income. If also, similar proportions apply to businesses and commercial property, then, as reasoned above, 75% of this might go in land rent and 25% on better buildings. The land rent component of UK property rents might then be more than enough at around 30% of GDP (79 x 0.5 x 0.75 = 29.6).

Too good to be true? Please check it out and let me know.

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