

New Friends in Government?

Britain's new coalition government includes three cabinet members closely associated with ALTER, the Liberal Democrat's Land Value Tax campaign group. ALTER chairman Tony Vickers investigates what this means for the prospects of just, sustainable and fair taxation

AFTER THE most intriguing general election to be held in Britain since the Second World War, Britain now has a new coalition government. It is the first British government to include Liberals since 1945. It is also the first British government for almost a century to contain cabinet members who belong to a campaign group calling for the introduction of a land value tax.

Until 2005, ALTER (Action on Land-value Taxation and Economic Reform), a campaign group in and for the Liberal Democrat party, had no front-bench MP supporters. In 2001 the former financial journalist and founder-director of City analysts Fitch-IBCA, Chris Huhne, a Member of the European Parliament since 1999, agreed to be ALTER's Honorary President.

A decade earlier, Huhne had written in *L&L*, saying: "the economic argument for raising public revenues from the rental value of natural resources was exceptionally strong". Huhne switched to the Westminster Parliament in 2005, becoming its front-bench Environment Spokesman.

Between 2005 and 2007 the Liberal Democrats undertook a fundamental review of taxation policy, largely steered by its highly respected Finance spokesman, former Shell chief economist Dr Vince Cable MP. Early in the Tax Commission's work, a Party Leadership election took place. Cable, at that time Deputy Leader, was Acting Leader during the election. Huhne was one of only two candidates for the leadership and ALTER invited both Cable and the eventual winner Nick Clegg to join him on their letter-head: to become Vice Presidents of ALTER. Both agreed.

During the debates at two successive Party Conferences (2006 & 2007) on tax policy, all three leading Lib Dems (Huhne, Cable and Clegg) specifically spoke in praise of ALTER's work on LVT and their influence helped secure support for reaffirmation of the policy as a long-term aim. Detailed and specific measures, drafted by ALTER, relating to reform of non-commercial property taxes (assigned to local government) onto a site-value only basis, found their way into the final policy document.

All three are now members of the British cabinet. Clegg is Deputy Prime Minister, in charge of constitutional reform; Cable is

Business & Industry Secretary; Huhne is Secretary for Energy & Climate Change.

Within 10 days of the 6 May election result, the Conservative and Liberal Democrat parties signed a Coalition Agreement, which is the basis for a five-year fixed-term period of government of the UK. It makes no mention of LVT. Nor did the

Liberal Democrats' election manifesto. Yet the presence of three supposed advocates of LVT—from a Party which formally reaffirmed its commitment to LVT "in the long term" as recently as 2007—in a government of one of the G8 economies, ought to be significant for Georgists worldwide.

So how committed might Huhne, Cable and Clegg now be to LVT?

In his 1990 Penguin-published *Real World Economics* (sub-titled "Essays on Imperfect Markets and Fallible Governments"), Huhne accepted that taxes on property are more progressive than those on income and profits. He also had a section on "the merits of the land value tax", in which he explained how property markets fail when economic rent isn't collected, as well as how such failure has macro-economic consequences. In his foreword to my own *Location Matters* (2007), he again wrote: "Neither the property market nor the tax system are fit for purpose in the modern age without a carefully constructed land value tax".

Cable, like Huhne, is an unabashed believer in market economics. In his 2002 pamphlet for the Centre for Reform, *Regulating Modern Capitalism*, he quotes from his party's 2001 Manifesto: "Liberal Democrats are committed to a free market economy in which enterprise thrives". As Party spokesman for industry and treasury affairs, he has consistently

sought to reduce tax burdens on enterprise and to tackle the natural monopoly of land through taxation. He was very firm in his warnings about the dangers inherent in using property (i.e. land) value as loan collateral. He was nicknamed Dr Doom for predicting the collapse of the property bubble before

most UK pundits.

In his Institute for Fiscal Studies annual lecture 2008, he said: "Property taxes have a role in modifying cyclical instability, notably business tax bands on land values." This accorded with the first draft of the Party's 2007 tax policy paper, where he argued for a "National Property Tax", including residential as well as commercial land and noting that the proportion of an average new house price attributable to land rose from 13% in 1965 to 60% that year.

In the foreword to ALTER's 2009 *The Case for a New People's Budget*, Cable recognises that LVT is "not just another property tax", acknowledges that party policy to introduce it just for commercial property is "only a first step" and chastises the New Labour government for failing to produce practical schemes to mark any claim they might have to inherit Lloyd George's mantle.

Unlike Cable and Huhne, Clegg was never a career economist. Rather he is an extremely shrewd and likeable, intelligent politician. Like them, he is regarded as a sound 'economic liberal' by instinct, which helps make him more comfortable in a centre-right Coalition than the Party's new Deputy Leader Simon Hughes—another LVT supporter, although not part of this government. Since becoming elected Leader, Clegg has understandably deferred on economic matters to Cable, whose reputation soared since his few weeks as Acting Leader coincided with the start of the global



financial meltdown.

"Cleggmania"—the extraordinary impact on public opinion poll figures for the Lib Dems of the first televised leaders debate in the general election this year, led to the eclipsing of Cable and a rise in pulling power of Clegg's economic pronouncements. It is not known to what extent the close relationship the two men had during the development of party property tax policy may have weakened.

Clegg's portfolio in the Coalition Government (reform of the British Constitution—always a vague concept, since nowhere is it written down) leaves him little scope for interfering in the nation's financial affairs. He has begun to seem far too comfortable for the liking of some Lib Dems with the 'savage cuts' that his Conservative-led Government is now planning.

Prior to the election, it was known that both Cable and Huhne often read emails that circulated among ALTER committee members. Comments occasionally came down from 'on high'. Since entering Government, almost all their parliamentary staff have been moved and the 'great leaders' themselves have been left in peace to master their new ministerial briefs. The expectation has been that lobbying from ALTER would, at this early stage, be counter-productive.

Coalition is a new experience for all British—or rather specifically English—politicians, unless they have been councillors. Scotland and Wales have had Coalition government more often than not since devolved Parliament and Assembly were created in 1998. The rise of Lib Dems to a near-even share of votes in local elections in England has meant that local politicians are very familiar with the wheeler-dealing of coalition politics. However none of the Lib Dems in this Government have any local government background.



What we are learning in Britain is that when a Coalition is formed nobody's detailed policy package can be regarded as that government's

'blueprint'. Party policy experts are more obliged than ever to seriously study the policies of others—not just of their coalition partners but of many outside organisations. Whilst Coalition isn't a 'clean slate' situation, the excuse that "we never said we'd do that" cannot wash when dealing with sensible evidence-based ideas from beyond one's own party. Fusion of ideas and policies becomes the order of the day: a refreshing concept to much of the public, which often cries out for 'the best' people and ideas to come together for the common good.

This is especially so during a crisis of trust in politicians and their craft—and in global financial systems.

Few commentators expect the Coalition to be able to deliver the 25% cuts in public expenditure promised by George Osborne's first Budget—which he himself has admitted was "the easy bit" of the plan to cut the structural deficit by half in one Parliament. The only alternative to cuts is increased use of tax as a fiscal instrument. Rises in conventional taxes are anathema to both Coalition parties. Tax shifting is already the main plank of Lib Dem tax policy, although 'full LVT' was a step too far for them in the very different economic circumstances of 2006/7.

The hope for ALTER is that an approach by senior Lib Dems to colleagues on the Conservative side, in the months leading up to this autumn's Spending Review (where cuts to public services must be spelled out), might include "How about a Land Tax? It's worth £10bn a year in 'saved' deadweight taxes!" We know that Treasury tax officials are persuaded of the macro-economic arguments already. We know that even some Tories acknowledge its advantages, since their centrist Bow Group endorsed a policy paper that included LVT when their Party reviewed its tax policy in 2006. There are 30 LVT-supporting MPs in Her Majesty's Opposition, backed by the Cooperative Party (which endorsed LVT this year)—and there is Britain's first Green Party MP supporting it too.

The big question therefore is: can LVT become the policy which Lib Dems can sell to their Conservative allies as a means of staying in power through to the end of this 5-year Parliament? ALTER believes that LVT can



technically be implemented within that time frame—but there is not much more than 6-9 months in which Government needs to make the in-principle decision to do it. Will the fear of electoral defeat loom large enough to the Tories by then for any Bow Group aligned 'modernisers' to combine forces with Lib Dems and other LVT-supporting Parliamentarians to achieve this historic goal of liberalism?

Some Liberal Democrats of an 'ALTERnative' persuasion believe the Conservative Coalition—between that party's entrepreneurial free marketeers (potential allies of Georgists) and rentier monopolists (of The City of London, not The Shires)—could break before the Lib/Con Coalition Government falls apart. We saw, in the 1980s, how the Social Democrats abandoned Labour to join the Liberals and form the Liberal Democrat Party. We saw smaller numbers of pro-EU Conservatives drift across to join us in the 90s and 'noughties'. We live in hope that enough 'caring Conservatives' and 'Green Tories' will 'see the cat' when our Lib Dem colleagues in Government draw it for them.

When George Osborne introduced his 2010 Budget, was his "new model of economic growth" and his "enterprise led recovery, which rewards enterprise" using words that Cable (via Clegg) had suggested? Was he presaging the collection of economic rent as public revenue, as he promised to protect capital spending on infrastructure from his planned cuts?

ALTER's President and Vice Presidents may soon be earning a place in Georgist history. But I would not bank on it—yet. **L&L**