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OF SUBSIDIES AND TAX CONCESSIONS - IN TOWN AND COUNTRY

Even if for the most part its actions give no clue to it, Government does know the folly of subsidies and tax concessions. Thus in section 6.2 of a recent DETR consultation paper, "Modernising Local Government Business Rates", suitably scathing reference is made to proposals to exempt or charge a lower rate on a first tranche of rateable value: "Although these measures would provide an initial reduction in the rate bills of small properties, over time, rental values would probably adjust to partially offset the redistribution of the rates burden." More bluntly, such rebates are a pointless gift to landowners. This issue was discussed at length in a research paper, "Local Fiscal Policy and Inner City Economic Development", by R. M. Kirwan, Department of Land Economy, Cambridge.

Hobby-farmers face hard times. Budget changes could depress farmland prices. Big earners aspiring to be gentlemen farmers have been able to "use the reinvestment relief loophole to defer capital gains tax by reinvesting profits in property-based businesses, such as farmland" (Maggie Urry, "*Financial Times*", 21st March). In the opinion of a land agent, removal of that relief would "take the froth out of the land market". Ending favourable tax treatment for agricultural land lowers the price of such land. The EU's ghastly Common Agricultural Policy meanwhile operates to keep prices up, making certain sectors of agriculture artificially attractive. It enriches country landowners and mocks would-be entrants to farming.

Enterprise Zones, owing to the availability of 100% capital allowances, attract private and corporate investors. Examination of an article by Allan Sandison on industrial land in North East England ("*Property Week*", 9th April) reveals who really profits form the concessions. "Generally, land in the north-east can be acquired for between £40,000/acre and £100,000/acre. In the EZ, industrial land is commanding around £130,000 - £150,000 although a Sunderland EZ site recently sold at auction for £175,000/acre."

Landowners win again; any benefits from capital gains allowances end up as increased leasehold rents paid for the sites used for new businesses.

THE LAW, RENT AND TAXATION

Sir Kenneth Jupp practised at the Parliamentary Bar and became a Judge of the High Court. He has now written a book, "Stealing Our Land: The Law, Rent and Taxation" (Othila Press Ltd., 1997), tracing the development of land law and government revenue in England since Saxon times. Here are two extracts from the later pages.

(i) "That direct taxation of the rental value of land, both rural and urban, is not at present contemplated amongst politicians seems to be the most remarkable defect in thinking shown by any survey of our fiscal history. It is implied in the structure of the land law of today, and yet seems to go unnoticed, that ownership of the land of England is in the Crown, and that users of the land are tenants, who in the course of history have been able to shed the duties of a tenant in respect of the owner (the Crown), whilst retaining the right to take rent from their under-tenants as if they were the owners. They have also with the acquiescence of parliamnet and the courts gradually acquired the legal right to sell their landholding without regard to their duties, and free of those duties. This occurred, and could only occur, before the establishment of fully representative government in the 19th and early 20th centuries . . . By this time, however, any amount of land could be held without having to pay anything for the privilege beyond the initial consideration for acquiring it. That once paid, whether eight centuries before in Norman times or at any time since, there was nothing to lose by holding land under-used or indeed altogether idle for no matter how long. Taxation on production and consumption was replacing much of the Crown's lost rent. Under the burden of taxation, only the most enterprising - the entrepreneurs - could contrive to buy their way into the land monopoly."

(ii) "If the land has been monopolized into the hands of fewer than the whole population, then those left out have nowhere to live and nowhere to work . . . The physical division of land is impossible in developed countries. The diversity of itsyield to those who work on it is startling. A day's work in a few square feet of office on an upper storey in Lombard Street can earn thousands or even millions; while a whole year's work at the margin of society on an extensive acreage, may sometimes scarcely afford a living wage. It is therefore the difference in yield of land that has to be shared. There is no difficulty in this. It is precisely measured by the market rent (i.e. the ground rent) of the land . . . (It is) the duty of governments to ensure that the publicly created revenue goes into the public purse."

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HOUSING FOR ALL

"The biggest cost of housing is not the construction but the price of the land" (Bryan Avery, quoted by Allan Gill, [London] "*Evening Standard*", 20th February). Whilst in some instances in London, land has been as much as 60% of the cost, elsewhere it is high enough. A bar chart in "*Property Week*" on 16th April, uses data from FPD Savills to show land price as a proportion of total house price. In Scotland, Wales, and the North of England, it averages between 25% and 30%. In East Anglia, the East Midlands, and the North West, it is one third. In Yorkshire and Humberside, the South West and the West Midlands, it is 35% and more. In the South East overall, the percentage is in the low 40s. Do mortgagors know how much of what they borrow is not going on the actual house?

Site value is a function of the demand for a particular location. The user, the occupier, expects to pay for the advantages he receives. Full collection of the annual rent for the public revenue, would eliminate the buying and selling price for bare land. Land values would fund the exchequer and today's taxes would be lifted or substantially abated. A homeowner would own his house as personal property, and he would acquire exclusive right to occupy the site in return for making over the rental charge (land value tax). Buying a house would mean paying only for the structure, fences, perhaps for exceptional garden improvements. Borrowing would be hugely cut by removing the need to finance land purchase. Mortgage repayments would thus be lower, council tax would have gone (along with much else), and all that would be required is payment of site rent. An owner could of course let his house to others and retain the income from it.

PAYING TWICE OVER: IS IGNORANCE REALLY SO BLISSFUL

Land value has arisen from population growth and from intensified economic activity. In big cities, where the highest land values are found, massive infrastructure has been put in place, notably water and sewerage, power, transport, telecommunications, and police, fire and hospital services. With commercial developments of all kinds, go public administration, housing, and leisure facilities. The owner of land, purely in his landowning capacity, does, can do, nothing to create, maintain, or enhance that value. Land value is truly a community value. Giving it away instead of using it for essential public expenditure, means we have to raise the money a second time from taxes on production, wages, savings, and spending on capital and consumer goods. What a way to run a great nation!

DISTRIBUTIO SITES ALONG THE M6 CORRIDOR

The value of land for industrial development in the North West at Haydock is around £120,000 - £130,000 per acre. However, "Land values in Warrington are around £225,000 per acre even though you're only two or three motorway junctions away from Haydock. But it's the crucial M62-M6 interchange there, with the M56 close by, and that makes the difference" (Andrew Pexton, surveyor, quoted by Mark Moore, "*Estates Gazette*", 21st March0. Gracious, what a revelation - and we all thought it was because of the exceptional cleverness of Warrington landowners!

A site at the junction of Mosley Road and Ashburton Road East in Trafford Park "is thought to have been sold for over £230,000 per acre" (Simon James, another surveyor, op. cit.). "It would probably be the highest price paid for a single parcel of land in the North West, but it is still some way behind land values in the South East." Explaining why the South East tops the North West in this regard couls make a most interesting question in an economics examination paper, at any level. Assuming the examiners themselves were up to marking it, a supplementary might call for an exposition of fiscal implications of the reply.

REELING FROM THE REAL

Some commentators do not know about land. Some know but do not understand. Some know and understand, but shy away from it. "While our leaders, and those who advise them, are trapped in their concept of political reality we are condemned to the spectacle of our Chancellors dishing up our £1.28 a week [a reference to reduced National Insurance contributions - Ed] and boasting about it. That is what I call living in dream world" (Roger Bootle, "*The Times*", 23rd March). In an otherwise challenging article about the taxation burden and government expenditure, the author did not once mention or otherwise refer to land. A case of "Give me reality, but not yet!" do you think?

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