

LVT FOR FAIRNESS

NIGEL Lawson would have laughed at anyone who warned him that the land market was about to send his economic experiment through a time-warp, back into the stop-go era of pre-Thatcherite Britain. But it has happened, a timely reminder that land can exercise an extraordinary and largely undetected power over our lives. The Conservatives have vigorously rearranged the labour and capital markets. It is therefore strange that they have ignored the problems of the supply and price of land.

The Chancellor's choice of high interest rates as his sole policy response suggests a continuing failure to analyse the source of his problems. The debt burden has more than tripled since 1980. The principal cause (and also one of the effects) has been the rise in residential land prices. Families have to borrow up to the hilt to buy their homes. Existing home-owners, exploiting the wealth effect of rising house prices (it is actually the value of the land under their homes that has risen), borrow heavily using the value of their land as collateral.

From this has flowed the speculation in the housing market and the growth in consumer demand that is generating the critical imbalance in foreign trade. Lawson's high interest rates are pushing up inflation, so employees are encouraged to seek compensation through higher wages. The higher cost of borrowing money and a high exchange rate is hitting investment and exports. The Chancellor has trapped himself into a vicious circle, because his only answer to these pressures is yet higher interest rates.

These immediate issues only touch on the long-term implications of the Government's failure to act, never mind on the exciting possibilities of reform. Consider the consequences of the vast amount of vacant land in our cities - one third of it privately owned - which is displacing people into the countryside. The costs of commuting include a fall in the quality of family and social life. The taxpayer also suffers: the capital costs of infrastructure are driven up as the boundaries of towns are pushed outwards. There is increasing pressure from developers on the green belt, at the same time as urban blight is encouraged by the fact that there is no cost incurred by holding land.

Changes in the Common Agricultural Policy also suggest that reform will be needed. A million or more acres of agricultural land will fall out of use as rising productivity enables farmers to grow our food on less land. This offers a wide range of new possibilities for the conservation of endangered species, recreation and experiments with growing food using methods that are less dependent on chemicals.

The experience of the Enterprise Zones confirms the penalties of not considering land values

By PADDY ASHDOWN

The author is leader of Britain's Social and Liberal Democratic Party. In a paper presented to a seminar on industrial policy at the London School of Economics on January 19, he advocated the need for land value taxation as part of a 10-point plan for the 1990s. He elaborates on the proposal in this article, which first appeared in The Independent on February 17.

in policy decision. Tax breaks offered to investors were supposed to encourage the creation of jobs: they actually enriched those whose land was within the designated areas. Likewise, within areas controlled by Urban Development Corporations, owners of property have in some cases seen their assets rise in value to astronomical levels (from £50,000 to £5m an acre in London's Docklands).

What passes for the Government's regional policy may well become another victim. Oxford economists have already established that high residential land prices in south-east England impede mobility in the labour market and force up wages. This year, the rising price of industrial land in the regions may deter firms from relocating in areas of high unemployment.

So how can the price of land be restrained? Mrs. Thatcher's Government has so far resorted only to institutional and bureaucratic mechanisms. Its approach has comprehensively failed to meet the problem. A Civic Trust study has found that more than a quarter of vacant urban land has been idle for more than 20 years. The Government, while unlocking some land in the inner cities, has done so in combination with other policies that have more than outweighed the impact of this increase in supply. We need a policy that sits well with the price mechanism of the market place, and which is powerful enough to compel the constant recycling of land and the renewal of the built environment in response to evolving needs.

The recent report by the Confederation of British Industry on urban regeneration brought to mind one of the traditional Liberal Party policies: an annual tax on the rental value of land. It pointed out that "the prospect of higher land prices, however remote, has attracted speculative investors who can afford to resist purchase offers for years in the hope of reaping very large profits".

A tax on the value of land would represent a cost that would induce people to put their valuable sites to full use, within the constraints of the planning laws. The benefits of this change in the way



Paddy Ashdown: a plea for reform

that would raise tax revenues are high-lighted by ecologists who have adopted the idea as one that fits in with their environmental goals.

The suggestion that people should share the benefit that they derive from the increased value of owning land is one that is likely to meet with general approval. Other taxes which do not have beneficial spin-offs could be cut, giving greater room for tax reform and some balancing tax reductions.

An additional attraction is that any increase in the value of land due to community activity, whether because of re-zoning for a different use or because of infrastructure investment, would be shared within that community. Windfall gains would become more measured. One effect of the tax would be to reduce average land prices, so drawing people - especially first-time buyers - back into the housing market.

Unfortunately, the Government is currently going in the opposite direction. It is about to raise residential land prices still further through the abolition of rates on property at a time when the high price of land is by far the most serious problem confronting builders who are trying to provide homes which families can afford. The switch to the regressive poll tax will hit the economy as well as the poor.

A land value tax would be free from the charges of inequity often thrown at local authority domestic rates. Categories of land (agricultural, say) could be exempted if desired. The tax need not be looked upon as additional taxation but as a restructuring in the direction of fairness and enterprise. It would well facilitate much needed reform in other areas of the tax system.

The British economy is facing some difficult years ahead. A radical government should by now have noticed this gap in its thinking.