The "Tax" that Politicians Should Love!

NO TAX is more vexatious - to the general public - than the rates, the property tax levied to finance local government. The tax provokes controversy out of proportion to the amount of revenue (£43.5 bn in England, next year) raised for the public coffers.

And yet, the rates offer the most visible approach to employing policy to positively enthuse the public about the contribution that government can legitimately make to prosperity - a lesson that politicians (who love to be loved) have curiously overlooked!

For if the rates burden were shifted off the value of buildings and onto the annual rental value of land, empirical evidence from around the world demonstrates that there would be an immediate benefits. Data in the table shows what happened in Pittsburgh when the council shifted the burden off the value of buildings and onto the value of land, there was a construction boom that left other cities in that part of the world way behind! But instead of learning these lessons, governments continue to crash around the economy like bulls in a china shop.

15 midwest cities
before and after Pittsburgh's major land tax increase.
Average annual value of building permits.

Constant 1982 dollars: millions

	1960-79	1980-89	% change
PITTSBURGH	181.7	309.7	70.4
Akron	134.0	87.9	-34.4
Allentown	48.1	28.8	-40.4
Buffalo	93.7	82.9	-11.5
Canton	40.2	24.2	-39.7
Cincinnati	318.2	231.5	-27.2
Cleveland	329.5	224.5	-31.8
Columbus	456.5	527.0	15.4
Dayton	107.7	92.2	-14.4
Detroit	368.8	277.7	-24.7
Erie	48.3	22.7	-52.9
Rochester	118.7	82.4	-30.5
Syracuse	94.5	53.6	-43.2
Toledo	138.3	93.4	-32.4
Youngstown	33.6	11.1	-66.9
15-CITY AVERAGE	167.5	143.3	-14.4

Take the attempt to renew Britain's inner cities. By levying a charge on the rent of vacant sites, landowners would immediately release sites for development.

The government, however, prefers to bribe owners into using their land - with (of course!) taxpayers' money! But this does not yield good value for money. Twelve urban development corporations have spent over £3 bn in grant-in-aid. This has enhanced the value of 2,450 hectares, but has produced a paltry 27,500 new houses.

As for jobs, "over 140,000 jobs have moved to, or been created in UDC areas", according to the Department of the Environment. Research has revealed that UDC money creates precious few new jobs. Instead, the fiscal benefits of the UDC experiment biases development in favour of warehouse-based service activities.

RATES, as presently structured, are part of a fiscal weaponry designed to discourage investors in favour of landowners.

In London, for example, land values east of the City are now going to strengthen as a result of the government's determination to extend the Docklands Light Railway. The rational way to finance mass transit systems is to pay for them out of the increase in the rent of land that they induce (as has happened in Hong Kong). Rents are the measure of the net economic benefit of investment.

In a rational world, sound public investments would be self-financing. In our world, the taxpayer is forced to finance infrastructural investment, the largest part of the financial benefits of which are handed to landowners!

One way to break the chains of this constraint on economic efficiency (to say nothing of social justice) is to redesign the rates as part of a radical review of fiscal policy. In the latest budget, however, John Major's government has shown itself reluctant to employ principles of equity or efficiency.

Business properties will be revalued in 1995, which will reveal that values have increased in some areas and declined in others. The owners of 250,OOO large properties whose values have increased dramatically will not be asked to pay their full proportionate share, even though they could do so on the basis of the windfall increase in the value of their land. For no business will face annual increases of more than 10%.

This favouritism will be financed by the taxpayer (to the tune of £72m in Scotland alone), and by owners whose properties have crashed in value - for the reductions in their rates bills will be restricted to 10%. In other words, areas worst-hit by the recession will subsidise areas that are now prospering!

This is farsical economics. Geographical areas that are suffering the most from the recession need all the help they can get. Areas with a relatively low property tax would attract investment, but the government's refusal to allow them to enjoy the full benefits of their "comparative advantage" means the taxpayer will have to continue to shoulder the costs of a protracted recession.

Published by the Centre for Incentive Taxation,
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