This Inflated Isle

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THE WORD "land" is one of the most emotive words in any language. When land prices rise as suddenly as they have in the last two years, it is not surprising that many people become emotional.

Land has value because it can earn rent or interest, or pay a dividend.

When farm rents are close to the economic level any rise in producer prices can push up land values and rents. This is fine for the landlord and owner-occupier for rent is part of their revenue. But the tenant can find himself paying a higher rent as a result of his higher income.

In the late 1940s British farm buyers were pessimistic and land prices represented about one-third of the land's capitalised revenue. In the 1950s the mood changed and land prices moved up to about three-quarters of capitalised revenue. Values must now be approaching twice the capitalised revenue.

Clearly, factors other than the agricultural earning capacity affect land prices—capital growth and tax concessions, social status, and amenity provided by land ownership for the landlord or owner-occupier.

This can make difficulties for the farmer. Farming needs a higher investment of fixed capital in proportion to working capital than any other industry.

This puts a millstone of debt round the neck of the young, enterprising farmer and absorbs a high proportion of the nation's capital that should be used in industry or as working capital in farming itself.

On the land which agriculture loses to development, the capital gains tax roll-over and estate-duty concessions have left £1,000 million each year urgently seeking land.

The farmer selling development land for, say, £10,000 an acre does not want to pay capital gains tax. Recent evidence shows that he has been prepared to pay £1,000 an acre for farmland with no hope of planning consent.

For each acre he sells he must buy ten acres. Even using these low figures the owners who sell 50,000 acres a year are trying to buy 500,000 acres. An area the size of the Isle of Wight is being sold; the money is trying to buy an area almost as big as Hampshire.

Yet last year the vacant possession land on the market did not exceed 400,000 acres. Here is the classic inflationary situation—too much money chasing too few goods.

The changes in land prices, producer prices and farming costs in the last two years make assessment of the present true value of farm land difficult. Back in 1964 when the best land made £300 an acre, about half this sum was being paid for amenity or expectation factors rather than for straight agricultural value.

Now, after two good years, but with rapidly rising costs and the prospect of steady or lower returns, £400 an acre is the highest reasonable price that could be justified for investment in commercial production of food. And that's what farming is, or should be.

Those now paying £1,000 an acre for farmland are therefore investing £400 for the farming value and £600 in the hope that prices will rise further and give them a gain on which tax can be reduced or avoided altogether, and for the social, sport and amenity provided by land ownership.

A hefty proportion of land prices has at best a tenuous connection with the laws of economics.

Politics and Taxation

The anomalous position of land in relation to estate duty and capital gains tax and the effect of inflation on land values make investment in land a matter of politics as much as one of economics.

For or because of political considerations, agriculture is bearing a capital burden that it cannot afford. Farming and industry are being denied access to desperately needed capital and this capital has avoided taxation altogether or in part.

This situation cannot be justified on economic grounds, even less on social or political ones. Those who see land nationalisation as a solution might remember that an owner of land is not the outright owner he may think he is. He holds the land as tenant in fee simple of the Crown. Nationalisation would be a political gesture that would solve few if any of the present problems.

Clearly a totally different attitude to taxation is required.

The fair and practical way is to tax the value of land. The idea may strike terror in the hearts of farmers, but it might bring them considerable benefits.

The philosophy of land- or site-value rating was

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first presented by economist Henry George at the end of the last century. Several feeble attempts have been made to introduce it in this country. It became law in Denmark in 1922 largely at the insistence of the farming community.

The wealth of a nation—capitalist or communist—comes from land, labour and capital. Buildings and improvements are part of capital, not of land.

At the moment capital produces wealth in the form of interest to the owner of the capital and tax to the State. Labour produces wealth as wages to the worker and tax to the State. Land, on the other hand, produces wealth as rent but little as tax to the nation.

So work and investment are penalised more than ownership of land. The creation of wealth for the benefit of the community is severely restricted.

Farmers may still feel taxing land values would harm them. But tax would be levied on that proportion of the value of land that is conferred on it by the community.

Sites in city centres would therefore pay very high taxes, because the existence of the community gives them the high value. Furthermore, these sites would be taxed on their value irrespective of the use to which they were put. Wasteful under-use would be eliminated.

Suburban sites are less valuable than city centre sites, but their value is related to distance from the city and the facilities available, which taxation should take into account.

Farther out, where town and farmland meet, land will be developed. As the community gives planning permission and so increases the value of the land and the prosperity of the owner ten- or twenty-fold, the community should receive taxes on that land whether it is used for building or not. Hoarding by speculators would thus cease overnight.

The components that make up the price of farmland can be expressed in diagrammatic form (see chart). They total a selling price of £1,000 an acre for land currently attracting a rent of £16 an acre and giving the landlord a return of 1.6 per cent on his investment.

The tenant farmer, and the owner-occupier in effect, pay this £16 an acre for the use of the land for growing crops or feeding livestock—the agricultural business value. A small part of the £16 an acre is paid for the amenity value of living in pleasant surroundings and pursuing the life-style of a farmer, for the independence, social position and perhaps the sporting assets.

Hope Value

If this £16 an acre rent is capitalised at an arbitary figure of four per cent we arrive at a capital value of £400 an acre. The remaining £600 an acre making up today's price of £1,000 an acre is created by the other factors in the diagram.

The "hope value" of land is tied up with the inflated value of development land. Farmland near towns makes high prices because it may itself one day be designated for development. But as the example of the Isle of Wight and Hampshire shows, this effect will be shared by every landowner in the country and present prices demonstrate an absolute faith in future inflation of land prices.

What would be the effect of the rating of land or site values? People will not or cannot pay higher rents or prices for houses or factories. But rating land brings all land into full economic use, increases availability and brings down prices.

This has been demonstrated beyond doubt in countries where land is rated, notably New Zealand and Denmark.

The increase in land values in the UK, some of which can be attributed to our entry into the Common Market, has been almost equalled in Eire, which joined the EEC with us. But land prices in Denmark, which also joined at the same time, have gone up by no more than 10 per cent.

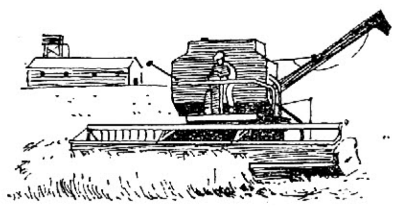
There is no justification for roll-over relief on capital gains tax levied on land sold for development. If a man is fortunate enough to sell twenty acres for £10,000 an acre, a total sum of £200,000, let him by all means have roll-over relief on the purely agricultural value of £400 an acre or £8,000. But paying gains tax at 30 per cent on the remaining £192,000 would leave him with about £135,000—hardly a crippling hardship.

The estate duty concession for agricultural land is a hoary old chestnut which has been argued to a standstill. High on the list is the argument about the break-up of large estates. But many still survive.

The most-used argument is the advantage of dividing the provision of capital between two people, the landlord and the tenant. The landlord, it is argued, is prepared to let land to give him a return of 1.6 per cent, a figure that the owner-occupier cannot consider as a return. The tenant is a business man; the landlord is seen as a long-term investor.

The argument is valid only in the context of exorbitantly high land prices. The factor discussed here is the cause, not the effect of high land prices.

If the price of land were the same as its agricul-



tural value, £400 an acre, to argue the benefits of landlord-tenant systems would no longer be valid and the estate duty concessions would be unjustifiable, provided that the threshold was raised very considerably so that estates or farms were not broken up into uneconomic units.

The availability of loan capital has a big bearing on the economy of the nation as a whole. The relaxing of hire-purchase restrictions may at times give a boost to the economy though its effect is temporary.

Long-term capital for land purchase is a different matter. The money is going into a low-yielding investment and does nothing, and can do nothing to stimulate production. A field that produces two tons of wheat an acre will do so whatever price the farmer pays for the field.

The practical effect of land rating on farming is worth stating.

Take a farm of 200 acres that would attract a rent of £16 an acre. Two important factors to remember are that, as with property rating, rates must be based on the rental value of the land. Secondly whether for farmland or city building sites, land rating must be based on the unimproved value of the land.

More valuable

Improvements include houses or any buildings on the land, and other investments such as drainage. The house on this hypothetical farm would have a rental value according to its size, condition and situation. If it was worth £12 a week, £600 a year, that amounts to £3 an acre.

The buildings on the farm may be more valuable, perhaps £5 an acre a year. These two bring the value of the land in its present state back to £8 an acre. But the state of the land is in part a result of the investment of capital and labour by the farmer which may amount to £2 an acre. So the unimproved value of the land is £6 an acre a year.

If rates were levied at 40p in the £, the rates payable would be £2.40 an acre on 200 acres or £480 a year. The next-door farm, on the same type of land, would pay the same amount no matter what the state of its house or buildings, or its state of cultivation.

The farm up the hill would perhaps pay half as much and the amount paid by mountain farms with a low rental value would be negligible.

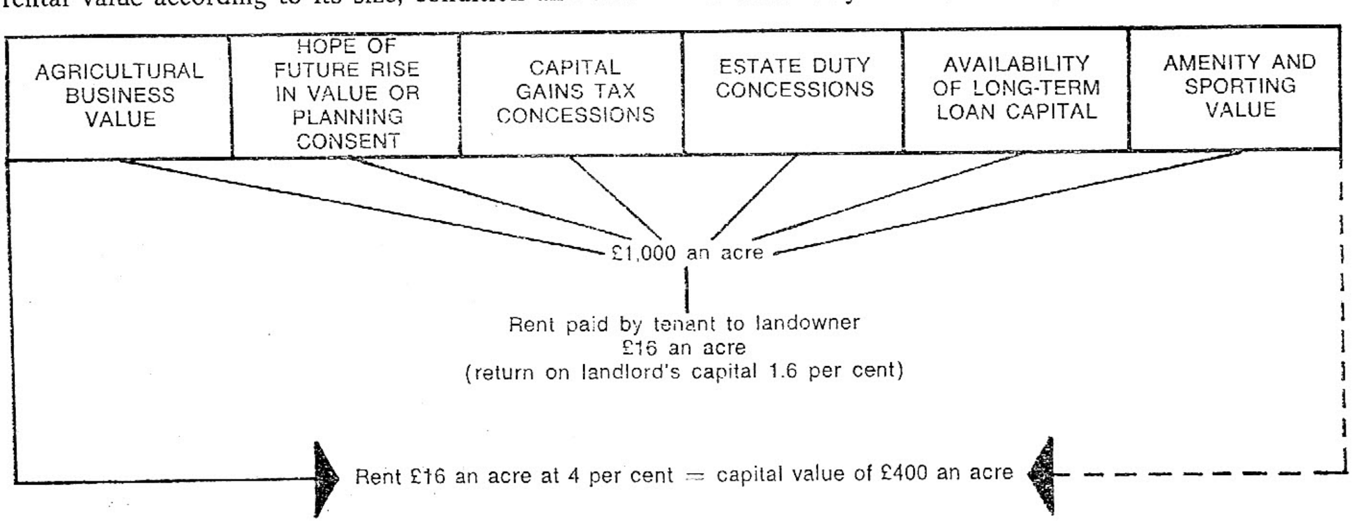
The farmer with the first-class 200-acre farm will, quite rightly, ask where this £480 a year is to come from. The rating of land is not intended to be punitive. It is intended to channel capital out of land into productive investment.

It is accepted that rating of land would allow the reduction, or even elimination, of rates on houses and buildings though this would at most reduce the sum by £100 a year in the example given.

The rate would be allowable against tax but, because it is intended to encourage productive investment, there would have to be further tax allowances on improvements and investments. In countries where land is rated it has been possible to reduce personal taxation.

Another objection to land rating is that rents would go up. This would be true for artificially low rents. Some adjacent and directly comparable farms pay significantly different rents and some people, even landlords, may argue the benefits, even the munificence, of a low rental.

But a landlord can afford to accept a low rent for a farm only because of the anomalies of the tax



system. The taxpayer, through the landlord, subsidises the tenant who pays a low rent.

For farmers now paying a full economic rent the figure would not increase. No matter how high the annual tax on land, rents cannot go above their economic level.

Yet another objection would come from the owners of land, landlords or owner-occupiers. Their investment in land would be falling in value. Many would not like the news though many landowners think today's values are thoroughly unhealthy.

Some, however, would take exception to a fall in land prices, which is one of the prime objectives of rating as it concerns farm development and already-developed land. Those who recently bought at £1,000 an acre might even expect some Government compensation.

The history of 3½ per cent War Loans, however, shows that an investor backs his hunches without any guarantee for the future.

For the State a land-tax would bring a steady, regular annual income from land values, easily collected and unavoidable, in place of the present tangle of estate duty and gains tax.

Experimental valuations of urban and rural land in Whitstable, Kent, showed that site-value rating produces few anomalies. Once the basis for valuation has been established the task is quick and easy.

We have Danish figures on cost. Every square yard of land in Denmark is valued for value-tax purposes every four years at a cost of about £1 million, that is to say £250,000 a year, and State revenue from land-value tax is more than £50 million a year.

Restructuring and simplification of our tax system is long overdue. Taxing land values could bring immense benefit to the community and allow hard work and enterprise to be justly rewarded by reducing other taxes.

And it could bring the same benefits to the farming industry.