

Land value taxation: a genuine alternative

By Mark Braund

The Guardian / 25 September, 2010

LVT should form the centrepiece of a radical Labour party strategy for transforming the economy

As a [long-time](#) supporter of [land value taxation \(LVT\)](#), it's encouraging finally to see such positive coverage of this neglected idea [in the mainstream press](#). For many years, those advocates of LVT brave enough to put their heads above the parapet were routinely subject to derision. Mention the American economist who did so much to popularise the idea in the 19th century and the usual response was, "[Henry George](#), he was mad wasn't he?"

Not so mad, it now seems. As well as several recent Guardian articles, [the Times](#), [the FT](#) and [the Spectator](#) have all recently carried pieces supportive of LVT. Politicians have begun to take note too. While Vince Cable and Chris Huhne have chosen to hide their LVT credentials since joining the government, [Andy Burnham](#) has made it a key plank of his vision for future Labour party policy.

Burnham's claim that LVT is a "true Labour" policy may rankle with some, but it was a Labour chancellor, [Philip Snowden](#), who made the last abortive attempt to get onto the statute books in his 1931 budget. And from a social justice point of view, Labour would seem to offer LVT a natural home.

Next week, Labour will finally get down to the business of opposing a government whose approval rating is already flagging, even before its key policies have begun to bite. But it will have a choice to make: either to mount a conventional opposition to coalition policies, or to adopt a more radical approach.

The first would involve circular arguments about the timing and extent of the deficit reduction programme. The second would echo much of the press coverage in the immediate aftermath of the financial crisis, and acknowledge the need to address the underlying causes of boom and bust, the housing shortage and the inability of the state to reconcile demands for public spending with the need to raise revenue in a sustainable way.

If the Labour party is to have any purpose going forward, it needs to present itself as the distinctive and unique party of social justice. To succeed in this aim, it must be

prepared to explain why current economic arrangements cannot deliver the degree of social justice that most voters expect, and offer an alternative that can.

This is where LVT comes in, but not just as another tax and not as a quick way of plugging the deficit or raising revenue to fund a growing welfare bill. LVT should form the centrepiece of a strategy for transforming the economy so that more people have access to genuine economic opportunities.

Such transformation cannot happen within the lifetime of a single parliament. It may take a generation to implement fully. But the case for transformative change could be made between now and the next election. An opposition coalition between a revived Labour party and disaffected Lib Dems could face down the Tories by refusing to play by the old rules. Tell them the truth: "The system you defend is immoral and unjust. We will put in place an economy that serves the interests of all citizens, not just a wealthy minority."

I won't repeat the arguments for LVT here, but I will offer five points of guidance to the new leader of a progressive opposition setting out on this bold new course:

- 1.** LVT should be sold as a tax on unearned wealth. The gains made by landowners, are, as Martin Wolf put it recently "the reward of owning a location that the efforts of others have made valuable".
- 2.** By extension, LVT should be part of a package that targets other forms of unearned income, notably the super-profits enjoyed by the shareholders and senior executives of banks as a result of their being allowed to issue money; and the returns accruing to the already wealthy through speculative investments that otherwise serve to destabilise the real economy.
- 3.** LVT should be adopted as an alternative, not an additional, means of raising public revenue. As incremental changes to the tax system are implemented, nobody in the bottom 80% of wealth holders should be taxed any more heavily than under current arrangements.
- 4.** Measures must be put in place to prevent the financial markets scuppering the project before it is underway. This will require international co-operation in advance of implementation and possibly emergency legislation. With a strong democratic mandate that should not be a problem.
- 5.** Finally, be aware that in shifting taxes away from work and enterprise and onto unearned income, you will be striking at the very foundations of elite

wealth and privilege. This is not something to be afraid of. Indeed, in a democracy, it should be a very strong selling point.

<http://www.guardian.co.uk/politics/2005/dec/03/debtrelief.development>

Must try harder

We will never make poverty history until we rip up the tax system



-
-
- [Mark Braund](#)
- [The Guardian](#), Saturday 3 December 2005

Despite the prime minister's resolve, the year in which Britain was to lead the world in making poverty history has achieved little. This month there is one last opportunity as the World Trade Organisation gathers in Hong Kong. But even if this meeting throws up some surprises, we will end the year little closer to ending poverty. Increased aid, debt cancellation and fairer trade would certainly have some impact, but they would not address the underlying causes of poverty.

To their credit, Tony Blair and Gordon Brown seem genuinely committed to reducing poverty in the developing world. But commitment is not enough. Their ambitious plans were doomed from the start for political and economic reasons.

Any strategy to reduce poverty in poor countries based on aid, debt relief and trade justice has to be paid for by rich countries, and this has consequences for their economies. Britain may be able to absorb the costs, but other countries cannot. Try telling France's disaffected youth that more taxpayers' money must go to Africa, or their struggling farmers that more food must be imported from the developing world. But even without this considerable political constraint, the strategy is unlikely to succeed because it does not take proper account of the economics of poverty. All the governments of rich countries remain committed to current global economic arrangements and believe a solution to poverty is available within that framework. They see poverty as a side-effect of economic advance, a problem to be addressed through policy adjustments, and refuse to accept it is part of the system.

One can see that the neo-classical economics that currently dictates policy, and that has driven globalisation, has little to offer when it comes to tackling poverty. It is reasonably effective at promoting economic growth. But growth does not assure the equitable distribution of wealth, and often appears to have the opposite effect, especially in the developing world.

If the objective is reducing poverty, then economic progress should be judged by measuring not growth, but poverty and economic exclusion. This reveals that after several decades of steady improvement, the situation in sub-Saharan Africa has deteriorated every year since 1984. Despite this, it seems never to cross the minds of the world's finance ministers that the theoretical basis for the global economic revolution of the past three decades might be fatally flawed.

The forces that cause deepening poverty in poor countries are also at work in the rich. This is why Labour's commendable targets for reducing child poverty have been so difficult to achieve. Poverty in the developing world can be successfully tackled only by removing its root causes. This requires us to return to economic first principles and to look to the founding fathers of worldly philosophy. It was clear to Adam Smith that any philosophy for a fair society needed to acknowledge the economic forces that determine the distribution of economic opportunities and therefore wealth. It was Smith's near contemporary David Ricardo who made explicit what was becoming obvious: if the ownership of land and natural resources is grossly unequal, then wealth and wellbeing will be the privilege of the minority. And as the economy develops and more wealth is created, the gap between rich and poor will widen. This is an inescapable conclusion of classical economic theory, and although the world has moved on since Ricardo's day, the fundamentals remain the same.

Consider Mozambique, an African success story where the economy is growing at 10% annually. The capital, Maputo, boasts one of the finest colonial hotels on the continent. But as the new indigenous elite enjoys London-priced cocktails in its sumptuous bar, only a few miles away their fellow citizens are still living in the iron age. Fairer trade would increase the wealth-generating capacity of countries such as Mozambique, but without measures to address the root cause of poverty, the poor majority would feel little of the benefit.

Neo-classical economics is considered to be a minor updating of its Enlightenment predecessor. But in the process of that updating, key aspects of the earlier version have been discarded. Only those elements likely to serve the interests of minority privilege have been preserved. If a small group of wealthy citizens set out to devise an economic system that would enable it to expand its wealth and entrench its advantage, it is hard to imagine a better system than the one we have today.

It is reasonably easy to make a moral case against the obscene wealth of the super-rich, and for a more inclusive and just global economic order. But that moral argument must be presented alongside a sound economic strategy. If our present minority-favouring economy is based on a false understanding of economics, then a revised understanding is needed in order to create an economy which serves the interests of the majority.

The early economists set out to find a means by which individual freedom and social justice could be reconciled. The evidence of the intervening two centuries suggests that not only were they ahead of their time, but also ahead of ours. Far from trying to emulate their attempts to reconcile freedom and justice, we assume them to be irreconcilable. As a result, politicians and activists divide into two camps: those who prioritise individual freedom, but fail to acknowledge that freedom is worth little without economic security; and those who prioritise social justice, but struggle to come up with a sound economic strategy for promoting a more equitable distribution of wealth.

Arguments about freedom and justice often centre on taxation. Those on the right argue that taxing personal income is a disincentive to individual enterprise, while taxing corporate profit undermines the ability of firms to invest for the future. The left counters that as private enterprise and free markets are unable to provide economic security for all, the redistribution of wealth through taxation is imperative if a sizeable part of the population is to avoid destitution. Both sides have a case. Taxation does limit wealth creation. But, without some redistribution, millions more would fall into extreme poverty. Taxation of personal income is an infringement of people's right to keep what they earn. But that infringement is as nothing compared to the experience of those denied viable economic opportunities.

Instead of arguing over how much we should tax, we should be asking why an economy based on free markets and private enterprise is so incapable of delivering opportunities and security for all. This brings us back to classical economics. If access to the land and natural resources upon which economic activity depends is concentrated in the hands of the few, the many will struggle to find adequate life-sustaining opportunities. This conclusion drove Ricardo to despair. Two centuries ago there was no possibility of persuading the aristocracy that wholesale changes in land ownership were needed to reduce poverty. After staggering economic and technological advance but still no end to poverty, we may be more receptive. But we still need a mechanism to widen access to economic resources without threatening individual freedom.

A neat solution was proposed more than a century ago by an American economist named Henry George. Today, his followers are subjected to unfair accusations of

intellectual naivety by the economics mainstream. But his ideas deserve a hearing because they adhere to the essential truths of classical economics, and because they promise an economy in which individual freedom and social justice become co-dependent rather than mutually exclusive. For George, the key to transforming the economy lay in the tax system. He argued that instead of taxing effort and enterprise through taxes on incomes and profit, we should tax ownership and the exploitation of natural resources.

Currently, people who own land are entitled to keep the full amount of any increase in its value. As land generally rises in value, their wealth increases regardless of how much work they do. If this income were taxed, there would be no incentive for anyone to amass large landholdings, and land ownership would be spread more widely. Supporters of such land-value taxation suggest it could ultimately replace traditional taxes as the source of public revenue, thus increasing the capacity of the economy to generate wealth, as well as ensuring its more equitable distribution.

By reforming the tax system to reward effort rather than ownership, many more people would gain access to economic opportunities. Admittedly, the super-rich would have less freedom to amass huge personal fortunes, but if our democracy is working as it should, they would eventually have to accept that their privilege comes at too great a cost to wider society.

Look at the argument for such change: the promise of an economy that encourages private enterprise; that is dependent on the free play of market forces; that reduces the role of government to that of provider only of those services not suited to private provision; and that provides opportunities for everyone prepared to take responsibility for their economic welfare. It is a no-brainer.

Such revisions to the tax system would have to be accompanied by other similarly motivated policies if the economy were to be transformed from a servant of minority privilege into a provider of majority justice. These would have to include reform of the global monetary system which allows banks to create unlimited credit for large corporations while denying small loans to those who need them to help themselves out of poverty. It would also require an end to the kind of casino capitalism that allows the rich to speculate on financial markets, sometimes causing whole economies to collapse, forcing millions into poverty. What these reforms (of the tax system, the monetary system and financial markets) have in common is they all target unearned income.

In poorer countries the pace of economic liberalisation makes matters worse. Russia is a perfect example of how rapid deregulation causes land and natural resources to fall into the laps of a fortunate few. It now rivals Mexico as the country with the largest

gap between the rich elite and the poor majority. And it does not require corrupt government for assets to be scooped up by the likes of Roman Abramovich. It happens anyway, as those who are wealthy borrow money to acquire more land and the rights to exploit mineral resources.

In the developing world the situation is more serious. In these mainly agricultural economies, the only way for most people to make a living is by growing their own food. If, as in Africa, the most productive land is taken over by cash crops for sale to rich countries, then the life-blood of ordinary people dries up. This may be happening because of the need to repay crippling international debt, but even if that debt were written off these businesses would continue to flourish. As they became more successful they would use more technology and employ fewer people. No jobs, no land to farm and no social security system. More than anyone, the people of the poorest countries need a mechanism to ensure they have access to land.

The long-term redistribution of economic resources through a reformed tax system that targets unearned income promises an end to poverty in rich and poor countries alike, because it strikes at the root cause. We have a choice. We can arrange the global economy so that only a minority have access to it, and then tax their earnings to mitigate the poverty of the rest. Or, we can arrange it so all have access to economic opportunities. The first will relieve the worst of today's poverty but do nothing for tomorrow; the second could eradicate poverty once and for all.

For too long we have accepted the argument that there is no alternative to current arrangements. If growing numbers can be persuaded that there is an alternative, one that is morally desirable, likely to promote individual freedom and social justice, and that is backed by sound economics, then we might succeed in making poverty history.

• [Mark Braund's](#) book, *The Possibility of Progress*, is published by Shephard-Walwyn.