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Tax England's green and pleasant land

By Samuel Brittan

“Roads are made, streets are made . . . electric light turns night into day. . . To not one of those improvements does the land monopolist. . . contribute, and yet by every one of them the value of his land is enhanced. . . ”

Who do you think said this? Karl Marx? Paul Krugman? Ed Miliband? Myself in a bad mood? The correct answer is Winston Churchill as a minister in the pre-first world war Liberal cabinet. He was speaking in support of the controversial Lloyd George Budget of 1909 – the one that was thrown out by the House of Lords and led to the Parliament Act that permanently clipped the powers of that House.

The most disputed part of that Budget was not the income tax or social security measures, which captured historians' attention, but the proposal for a land tax which is being bruited again, in particular in British political circles. Back in 1909 preparations for such a tax duly went ahead, including the necessary survey of land ownership. The work was suspended by the war and never resumed. Meanwhile Lloyd George had been thrown out of office and Churchill defected to the Conservatives.

Half measures to capture the “development value of land” were attempted by the 1945 Labour government but abandoned in the face of legal obstacles. The much-vaunted mansion tax of the Liberal Democrats, the minority partner in the UK's ruling coalition, is merely an adjustment to existing local taxes.

Yet, far from being an outrageous Bolshevik idea, the case for a land tax is one of the oldest and least disputed propositions in economic thought. The underlying theory was developed at the beginning of the 19th century by the highly respectable David Ricardo. Many chancellors have said that they would jump at a tax that had no disincentive effects on work or enterprise but had a strong redistributive element. The problem was that the amount of preliminary work required would take more than one parliament and any credit for the measure would redound to their successors.

A land tax is one of those subjects – basic income is another – which divides commentators into a great majority who never mention it, and a minority who talk of nothing else. The result is to give supporters a cranky appearance, while the eyes of chancellors of either main party glaze over if you as much as mention the subject.

The basic point is that the supply of land, with rare exceptions such as reclamation in the Netherlands, is fixed. But because of its scarcity owners can command an income

over and above the normal return to the enterprises placed upon it. Gross UK trading profits of non-financial and non-oil corporations are running at over £200bn per year or about 20 per cent of gross domestic output. Some part of this – we do not know how much – [is not true profit](#) but the return on land. There is one way in which the supply of usable land can increase. That is when land, previously off limits, is newly released by local authorities for development. The consequent increase in value, say some land tax campaigners, is created by “the community”, which is entitled to a share of the increment. But to argue in this way is to sell the case short. The case for a land tax is valid even for land which always was available for development or which remains in agricultural use.

The [Mirrlees review of the tax system, commissioned by the Institute of Fiscal Studies](#), accepted the case for a land tax, but worried that it was difficult to distinguish between the value of the land and that of buildings placed upon it. The difficulty is exaggerated. Property developers within a mile of the Financial Times building tell me they have no worries on the issue. After all if two buildings with very similar characteristics sell at very different prices, the difference can be reasonably attributed to land values. The Mirrlees review recommended that a land tax should be used to replace business rates.

That is a reasonable place to start, but not to finish. Properly thought through, a land tax should appeal to both main political parties, let alone Lib Dem backsliders.

Whatever one thinks of fiscal austerity, governments will need a new source of income in future if only because of demographic trends. The elderly are projected to rise as a proportion of the working population in most western countries to a frightening extent. Land taxes of a modest kind exist in several countries, but do not yield nearly enough to replace all other taxes, as envisaged by the 19th-century reformer Henry George. It is only worth the upheaval if it is a major revenue raiser.

Doubtless some of the tabloids would present a land tax as a threat to the ordinary homeowner with a modest garden. We need to prepare for this in advance. Just as income tax is only levied above a threshold, there would have to be similar thresholds for a tax on land. If politicians really want to think about the unthinkable, as they sometimes claim, here is a place to start.