

## Bob Kiley eyes land tax for his tool box

Bob Kiley, former CIA officer, saviour of New York and Boston's subway system and now Commissioner of Transport for London, tells *Land & Liberty* why he supports a tax on land to fund public services

LONDON'S TRANSPORT commissioner Bob Kiley supports creative changes to local government financing.

In an in-depth interview with *Land & Liberty*, Kiley – who has taken on the might of the Treasury in his opposition to plans to privatise a chunk of London Underground – identifies the sectors that would benefit from land revenue.

He says: "Logical candidates for land tax funding, or incremental tax financing as it's called in the US, in addition to transport funding, would be affordable housing, education and arguably health." *Would you favour this if you had the power to do it? This touched on a weakness in the British system of municipal finance.*

"I am believer in local government having a variety of tools in the toolbox. Not just one or two big ones, because then the tendency is to really overuse a useful tool. All things are subject to abuse, so if a mayor has many options and if he is transparent about what he is doing, then there ought to be a variety of ways in which to get it done.

"Land taxes are important because the

value on which they're based historically has always been increasing. Arguably the entire community should be the beneficiary of part of the wealth that has been accumulated, because of that."

*The philosophy and theory behind a land value tax is that it replaces other taxes. Could this act as the main tool in the tool box?*

He agrees that it "might be", but that he isn't sure that he subscribes totally to the theory. He cautioned against overburdening the land value tax. The government would have to look at methods other than the present system for financing infrastructure, because a "massive investment" is now required for the transport system.

*Would you favour a "land levy" on owners whose land values soar following investment in transport infrastructure, as documented in Taken for a Ride by Don Riley? [See page 16]* He says he does and that a land levy would be "an ideal way to go" to fund Crossrail – the London rail project now under consideration.

*Would you consider this as a one-off payment to finance the scheme?*

"I don't see how it can be a one-off. Let's take the Jubilee Line [extension] as an example, as we know what the values are. As Riley points out, if a small fraction of that increased value had been captured at the outset and securitised you could have built the entire Jubilee Line without central government assistance. You could have planned it and designed it in a far more rational way."

Backed by Ken Livingstone, Kiley has vigorously challenged the government's plan to use private enterprise in the running of London Underground.

This, he admits, when asked about his relationship with Gordon Brown, Chancellor of the Exchequer, has left him somewhat "out of favour".

*There is a long history of land tax in the Labour*



### How Bob Kiley says the Henry George Foundation can help

- Beating the drum
- Being noisy about using land as an asset
- Being persistent
- Building links with those in the middle of the argument
- Developing common cause

If a system of LVT was implemented along the route of the Jubilee Line extension, the whole project would have been completed with no need for public funding – and would have been instantly profitable



## Time to build on solid ground

The fairest system for raising local government revenue lies under our feet. **Dave Wetzel**, vice chair of Transport for London, argues why it is right that the windfall gains of land ownership should be returned to the community

TONY BLAIR'S government has had the courage to create new forms of local administration in Scotland, Wales and London. What is needed now is for ministers to have the courage to stand up to Whitehall and to give these bodies a new, radical and modern way to finance their activities.

Most taxes, like sales tax (VAT in the UK) and income tax, harm local economies. Sales tax pushes prices higher and income tax induces workers to seek compensation through higher earnings.

Taxes on buildings (business rates and Council Tax in the UK) deter the development of new and more modern structures, especially in areas crying out for regeneration. The UK system of levying half rates on empty commercial properties encourages people to use sites inefficiently. Charging no rates at all on empty sites or buildings that can't be occupied is nothing less than criminal. It rewards owners for inactivity and even exhorts some to smash the roof of their building so it's impossible to use.

Tax on investment income is passed directly to borrowers, who have to pay higher rates on their borrowings. Unnecessarily high interest rates on business loans can be damaging for entrepreneurs, frustrating them from putting new ideas and business plans into practice. Of course, public services need to be paid for, but is there a way of raising revenue without damaging individuals and firms?

If we look at the effects of public services we find a clue to the solution. Don Riley, a London property owner, has written a book examining the effect of the Jubilee Line extension on the capital's underground rail system (see page 16). As well as opening up new opportunities for travel, according to Riley, this new line has also increased land values by £13 billion – far in excess of the £3.5 billion it cost to build.

Other services also add to land values. Who wants to live or work in an area with no schools, health service, police, fire brigade, refuse collection, or street repairs? If the financing of local services was shifted to land values not only would the economy benefit but also a new fairness would be introduced into national and local affairs.

Land is a natural resource that existed before mankind walked the earth. Every

person on the planet has a right to share in its wealth. It would mean that for the first time landowners would have an incentive to make better use of their sites – encouraging local enterprise and trade.

Investment funds would be diverted into industry and commerce instead of sterile land speculation. The cost of homes and commercial premises would fall, helping everyone to improve their position and providing housing for key workers. Increased trade and essential jobs would add to everyone's happiness and well-being.

LVT would provide a broader tax base for local government. It would cover empty properties and underused sites. Unlike Section 106 agreements, whereby developers give a one-off payment for a local facility at the time of receiving planning permission, LVT is totally transparent.

A public register of land values, with no deals behind closed doors leading to

## The cash economy that flourishes to avoid existing taxes would vanish

accusations or suspicions of privileged treatment, would include all landowners who benefit financially from the planning gain. LVT is a sustainable tax – it provides for public spending every year without damaging people's lives.

The cash economy that flourishes to avoid existing taxes would vanish at one stroke if site values were taxed. Placing a charge on land values would also enable the banks to lower interest rates as the supply of money for real investment increases, and the banks would not be concerned by lower rates feeding into land/house-price inflation.

The British government auctioned exclusive use of the mobile airwaves, raising over £20 billion. It is an approach to natural resources we should all applaud and encourage the government to extend to other areas such as land values, and even landing slots at airports.

If Gordon Brown is concerned about protecting the economy from the international crisis, he might just realise the answer lies under his feet.

*Party, so might a land tax bridge the gap between Kiley and the Treasury?*

"I would like to think so, yes. The reason why is that here you have a government that has chosen to say to the people at the last election: 'We are prepared to rise or fall on the basis of whether we can turn round this dreadful system of public service delivery in the UK. That's why we said we want to come to power, consolidated power, now we have committed ourselves to delivering it'

"There is fundamentally a problem of economics at the heart of this. Can we afford any of this? If the answer is yes, then how are we going to raise the capital?

"As long as the Treasury is in this mood of extreme frugality where nothing beyond 12 months seems to be fair game because of this concern about it going on the Public Sector Borrowing Requirement charts, then we're stuck in a cul-de-sac from which there is no real way out. The Treasury is obviously not beyond making major exceptions to its rules otherwise the Channel Tunnel would not have been



built. This is another way in which they're using the value of that land as a kind of collateral for permitting the builders of this huge infrastructure project to go to the market place to raise capital through bonds. They recognise it, but they don't admit it, and therefore it's not really part of their policy toolkit."

*So, do you have a meeting with the Treasury at some point?*

"Crossrail will be a good excuse for having a meeting because there isn't anyone who has come up with a better idea for financing it than the use of land taxation."

Kiley has seen the land tax work and been a part of it, but he feels there is a problem in selling the idea to the public. The idea needs to be shaped "in a way that the ordinary person can feel more comfortable with it. That means bringing the argument down to earth a little bit and putting it in terms that people can relate to. I am a big believer in being able to show people what the benefit is and worry less about the mechanism and theory."

"Concentrate on the real problem, which is insufficient investment capital to serve real community needs and purposes. We have a classic dilemma on our hands in

London, in that we have allowed our physical plant to deteriorate. We have been devouring our seed capital, the country has done well and is in relatively good shape. So if it's not too late, get access to the one tangible asset which undergirds all the other assets – land. The community has a right to do it, almost an obligation to do it."

*So how can the Henry George Foundation and friends help you win this argument for change?*

"Well, I think by beating the drums, being noisy about it and having good links with those, like myself, who are unavoidably in the middle of this, so that some common cause can be developed. We don't necessarily even have to agree on every aspect of what it is we are talking about as long as the essential idea is one that we're comfortable cooperating with. This is a struggle about ideas, as well as how you squeeze value out of scarce space. We can't be so consumed in getting the idea perfect that we're never getting around to actually winning the political fight."

Kiley believes that funding public services needs to be tied into a new

approach to local democracy.

During a Liberal Democrat fringe meeting recently he turned the cry of American independence "No taxation without representation" on its head, saying London had "representation without taxation".

"There is a newly devolved government here and it really has almost no authority to

## Bob Kiley's road to London

- Jan 2001** Appointed Commissioner of Transport for London
- 1995-2001** President and CEO, New York City Partnership and Chamber of Commerce
- 1994-1998** Principal, Kohlberg & Company, New York
- 1994** Chairman, Fischbach Corporation, New York
- 1991-94** President and CEO Fischbach Corporation, New York
- 1983-1990** Chairman and CEO of Metropolitan Transportation Authority, New York
- 1975-1979** Chairman and CEO of Massachusetts Bay Transportation Authority, Boston
- 1972-1975** Deputy Mayor of the City of Boston, MA
- 1967-1970** Executive Assistant to the Director of CIA
- 1963-1967** Manager of Intelligence Operations, CIA
- 1962-1963** Harvard University, Graduate School of Arts & Sciences
- 1957** BA University of Notre Dame, Indiana

### Tube Trade-off?

WHITEHALL SPIN doctors are floating stories about a deal that would resolve the conflict over the future of the London Underground. It would involve Ken Livingstone giving up his congestion charge for London in return for the government yielding on its insistence that private consortia should be used to run the Tube trains.

Transport minister John Spellar says the government could use special powers to block the mayor's plan. Congestion charges have been tested in cities like Bristol and Leicester, and Livingstone wants to introduce his scheme by February 2003.

But the Department of Transport publicly rejects talk of a deal as "nonsense". But the Treasury is more cautious, and states: "Wait and see."

## Brandon's view



**This is a struggle about ideas, as well as how you squeeze value out of scarce space. We can't be so consumed in getting the idea letter perfect that we're never getting around to actually winning the political fight**

raise revenue. There is the precept, there is the council tax and the mayor would ride on the back of the borough councils, so he really has no direct ability to raise revenue in a flexible way."

London, he points out, "is roughly the same size as New York". He adds: "The mayor there raises somewhere between \$20 billion to \$25 billion of tax revenue each year. Then he is still a bit of a mendicant monk in that he has to go all the way to federal government to get other resources. But the thrust of government is financed by local tax through a combination in New York City of the property tax, the city income tax and the state legislature grant on committed taxes. Here the mayor has no direct ability to do that – he only controls the fares of the underground and buses."

*Is this constraining your ability to act?*

"Yes, I think it's circumscribing, constraining. One of the ideas behind strengthening local government is based on the premise that people who are elected to local government are more attuned to what voters want at a local level.

"Ken Livingstone is not necessarily attuned, by virtue of his office, to what British policy is in Iraq. By the same token the minister at a national level doesn't necessarily know what people in Wandsworth are thinking about. That's the whole idea, but if you are able to act on the basis of what your constituents would like you to do or not to do, you should have the ability to deliver the goods, which means you have got to be able to finance what people want, and that's missing."

*The mayor favours congestion charges to alleviate the pressure on the roads in London; this would bring in income?*

## Edging towards the frontier

LONDON MAYOR Ken Livingstone's new plan for the capital; the Spatial Development Strategy, aims to bring a holistic approach to the governance of a world-class city.

The plan provides the mayor with an opportunity to lead the world in creating and formulating sustainable policies. At present it lacks a vital measure – an environmentally-friendly land tax to replace harmful income and sales taxes.

In May 2001 the mayor published *Towards the London Plan*, setting out for consultation a vision for London and the broad policy direction for the preparation of a full draft strategy that would:

- provide the plan for an integrated social, economic and environmental framework for London's development in the context of the wider south-east region and continental Europe
- integrate the physical and geographic dimensions of the Mayor's other strategies, providing a framework for land use management and development
- be expected to address sustainable development, transport, housing, waste, the River Thames, the natural and open environment and major cultural and community facilities
- offer proposals for implementing and funding the strategy
- outline the context within which individual boroughs would set their planning policies through Unitary Development Plans
- provide London's response to European guidance on spatial planning (the European Spatial Development Perspective)
- define the policy framework for the mayor's involvement in major planning decisions.

The responses to this consultation document (and the mayor's views on these responses) will be considered by a

government-appointed panel, which will examine the strategy for its effectiveness and consistency with other initiatives and government policy.

This is one of the most significant documents in decades for the people of London. It provides an opportunity for the mayor to show what radical measures are required if a sustainable city is to be created. Yet Livingstone is still to acknowledge the need for ensuring that landowners contribute to London's wants.

He has indicated that he would like landowners to contribute their gains, but this will not be enough to meet the requirements of the London Plan. If he really wishes to create a healthy and wealthy capital he will need a more radical approach.

He could consider – as Peter Mandelson's grandfather Herbert Morrison did in 1939 – the simple but effective policy of site value rating, naturally modernised. Not only would it provide a means of raising revenue to fund transport projects, it would also act as a device to release land held out of use.

This would stimulate the economy and tackle the housing crisis and poverty. It is the second half of these measures that would prove more significant for Livingstone's London plan.

This friendly and sustainable tax acts as an incentive and encouragement to better use finite and scarce natural resources. User fees ensure land is employed most productively.

The mayor also recognised this with regards to his road rent congestion charge scheme – saying that he considered it "not a tax, but a price mechanism".

Let's hope Livingstone, who lacks the powers to raise more revenue, can lobby the government and achieve urban land reform for London.

Paul Brandon

"Actually we don't have the congestion charge. There is a specific mandate, but that's what is crazy about this: central government said, yes you may charge, provided the revenue is used in a certain way. That just underscores the point. Why should it take a national statute to enable the mayor to do congestion charging?"

With Gordon Brown inviting a debate on whether people are willing to pay higher taxes for improved services, the land tax option is a story that could run and run.

## Brown backs road rent charges

Chancellor of the Exchequer Gordon Brown has backed Ken Livingstone's plan for a £5 charge for motorists driving into central London.

In a speech to the Local Government Association on December 20, 2001, he declared: "Already the option of congestion charging is now available and being implemented in London. I believe we should be prepared to consider further radical options to ensure devolution of power and responsibility go hand in hand so that the public can get the best possible services."