COMMUNITY FOLLY

By Geoffrey Lee

THE PARADOX of a property slump that offers tens of thousands of houses to people who need but cannot afford them, or the sight of thousands of empty flats rising above the thousands of homeless sleeping rough on the streets of London, seems not to have exercised the minds of politicians of any party sufficiently to make them do more than utter platitudinous expressions of concern.

To attempt a fundamental examination of the causes behind the problem is something beyond the will and wit of government or opposition. We should be grateful therefore to John Muellbauer's *The Great British Housing Disaster and Economic Policy* (Institute for Public Policy Research, £7.50) for having a stab at it.

Unfortunately there are lots of important but secondary issues to cloud the picture – financial liberalisation, the entry of banks into the mortgage market, easy credit, the blunder in the 1988 budget which delayed the implementation of the restriction on mortgage interest tax relief until August, and so on. These helped create the boom that lead inevitably to the slump.

However, John Muellbauer cuts through to the heart of the matter: "Ultimately, it is the rise in the value of the underlying land that is the problem. Between 1981 and the second quarter of 1988 the price of an average building plot, relative to personal disposable income per head in the UK, rose from 1.6 to 4.1 in England and Wales and from 2.3 to 7.2 in the rest of the South-East".

If you can see that you can also see a solution – tax the land. Mr. Muellbauer suggests taking an imputed annual income of 4% of the site value and taxing it at the standard rate (currently 25%). These values would be indexed annually to local house or land price indices.

Of course, putting a tax on land would reduce its value so affecting the following year's tax intake. Unless land prices are running at the high level of general inflation (which is not the case at the moment) then your tax intake is going to fall substantially.

A further disadvantage is that a tax of 1% is not going to lower land prices to any significant extent. But dramatic results would follow if you were to impose a tax equal to the full annual rental return. Land would then have a nil value and houses of similar construction costs would sell at exactly the same price in Mayfair as they would in Maidstone or Muggleswick.

Muellbauer wants to treat site value rent as a private income and tax it as such, but the whole of the site rent was created generally by the existence of the community and in particular by local and central government expenditure on schools, roads, hospitals, parks libraries etc.

The object of the exercise should be to return to the community that which the community created. The rent of the house, factory or office on a site is a private income rightly due to the owner of the building. The rent of the site itself is a public income and belongs to the community.

This may not be a palatable

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income of £8,400. The purchaser will need to find £2,500 deposit.

The manager then checks the return on the diocese's equity. The Trust will handle all administration, rent collection, etc; for which there will be a charge of 10% of the rent paid to the diocese. The total rent paid on the land at 6% of social value = £4,400. The diocese receives £4,000 per annum. The Trust takes £400 per annum and collects £23 per unit per month.

Since there is no subsidy of any kind, and the diocese has charitable status, there is no automatic right to buy the land equity. The Trust retains first option on any house sale, valued to take account of improvements. For example, the first house buyer could sell after two years, having made £2,000 worth of improvements as valued at the original building cost. Current value is house + improvements, multiplied by inflation calculated on *building cost index* and not on fluctuating market value.

New value of house equity = (£25,300 + £2,000) + 12% = £30,600. The buyer would have paid off, say, £500 of his mortgage capital, which gives him an outstanding mortgage of £22,800 − £500 = £22,300. The present value of his house is £30,600. His original deposit has therefore grown to £8,300 from £2,500. He has paid £2,000 in labour and materials, and £500 capital repayment, giving a clear profit of £3,300. The Trust has a saleable asset at, say, £31,000.

And the diocese still owns the land.

truth to landowners but it is an indisputable fact. One must hasten to add, for the benefit or irate farmers, that we are talking about a site or unimproved value of land. Any improvements that a farmer makes to his land create a private income which is his. Unimproved land is the bare site to which nothing has been done. No-one has laboured on it so why should its owners expect a reward?

As Sir Henry Campbell-Bannerman, the Liberal prime minister, said in 1903: "Let the value of the land be assessed independently of the buildings upon it, and upon such valuation let contribution be made to those public services which create the value.

"This is not to disturb the balance of equity, but to redress it. There is no unfairness in it. The unfairness is in the present state of things. Why should one man reap what another man sows? We would give to the landowner all that is his, but we would prevent him taking something which belongs to other people."

JOHN Muellbauer has opened up an old debate that comes to the fore whenever we have a pro perty boom and a slump, which is a cyclical event caused by our failure to have an economic policy that is related to the land question.

The Tories are saddled with their wretched poll tax which they cannot drop because Mrs Thatcher is too stubborn to ever admit she has made a mistake. But drop it they must unless they want the country to drop them.

John Muellbauer's paper points out that the Tories recognise the economic effects of public works. For example they have negotiated a contribution from property developers towards the extension of the Docklands Light Railway. The Uniform Business Rate also acknowledges the workings of such factors.

The paper goes on to examine Labour's proposed "Roof Tax". Because it is based on property and not on land it has all the disadvantages of the old rating system – improve your house and you pay more tax. If it were based on land values you would not pay more.

Indeed, because the site tax would also fall on land not in use it would stimulate the release of such land for development. So the sooner Labour's Jack Cunningham and John Smith come off the roof and on to terra firma the better.

John Muellbauer favours integrating the tax on imputed land rents into the national income tax system. An alternative would be to collect it locally, as with the old rating system, and redistribute it using an equalisation scheme.

A bolder move would be to take the whole of the site rents (some £118.8 billion in 1990 according to *Costing The Earth*, by Ronald Banks) and scrap the income tax system altogether. The revenue would cover all existing local government expenditure including education and a sizeable chunk of national expenditure as well.

Perhaps the Institute For Public Policy Research would like to commission a study on the practicability of such a proposal - surely a vote winner if ever there was one?

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lack of real demand for many development projects fuelled by land profit expectations. Some spectacular company failures have left a legacy of derelict building sites and unfinished tourist resort developments – and some residual environmental scars.

The expectation of and assumed entitlement to an "incentive" land value profit has been a key factor. It is therefore interesting to note that in the Australian Capital Territory (A.C.T.) – the 900 square mile Commonwealth enclave in which Canberra is located – the development industry's alleged need for an incentive has in effect now been challenged by an increase in the betterment levy from 50% to 100%.

All land in the A.C.T. is held in leasehold, and land use planning is effected by lease purpose clauses which stipulate the permitted land use. When a change to a higher intensity land use is approved by the planning authority, the increase in land value is subject to a betterment levy which until recently has been fixed at 50%. It is this percentage which has now been changed to a graduated scale rising to 100% in the case of leases extant for less than five years.

While "Canberra" is synonymous in the Australian media with the national government – and never more so than in relation to economic management and taxation policy – this significant change in Canberra's local administration has attracted very little attention outside the A.C.T.

On another front, however, more or less contemporaneously, a committee appointed by the Lord Mayor of the Queensland capital, Brisbane, one of the world's largest local authorities, reported after an exhaustive inquiry that a rate on the unimproved value of land was not only the "most efficient and equitable" source of general revenue for the city of Brisbane, but was in principle "a logical and appropriate basis for revenue-raising irrespective of the level of government".

Reverting to the question implied at the outset, if the 1990s see some long overdue recognition of the special nature and significance of land, there could be an element of symbolism in the timing. Ominous symbolism, perhaps.

It is now a century since the Australian colonies experienced the notorious land booms of the 1880s and the disastrous financial crash of the early 1890s. It is a century or so, too, since Henry George visited Australia in the lead up to federation and influenced the infant Commonwealth's choice of leasehold tenure for its federal capital territory.