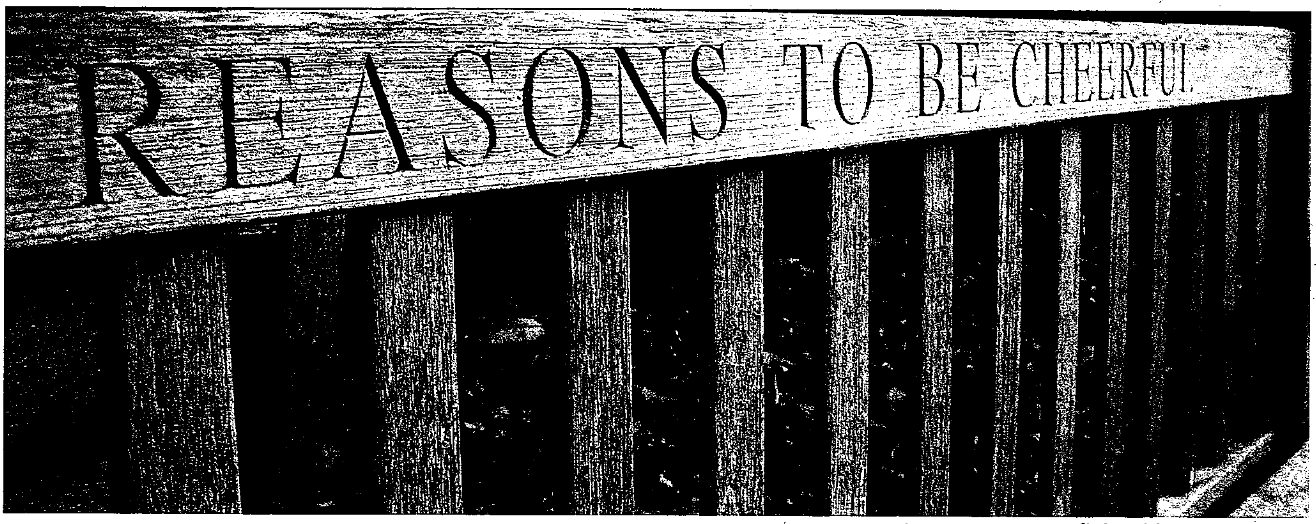

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Cashmore on Ed Milliband's show

Ed Milliband is a British politician who was leader of the Labour Party and opposition leader between 2010 and 2015. He describes himself as a new type of politician – looking to move beyond divisiveness. He is a socialist who calls for 'responsible capitalism'.

Recently Ed started a podcast with radio host Geoff Lloyd to talk with smart thinkers from around the world. They've already exceeded 200,000 downloads.

Not surprisingly, when it came to talking about the very smart idea of introducing land tax – even though they're in the U.K - our Prosper President Catherine Cashmore was the person they thought of for comment. They also spoke with Joe Sarling, a UK based housing economist.

Ed: Today on the show we are talking about the Land Value Tax and how we tax land in this country. Now I want to make a confession here. I am a nerd, and yet I've always found it incredibly hard to get my head around this idea. It's been around more than a hundred years, It started with Adam Smith and Henry George. But I've always found it hard to get my head around, but this is the week of the break through. Today we'll be speaking with Joe Sarling who knows more about this topic than most people and can explain to us why taxing land might be a good idea. But then also an Australian called Catherine Cashmore, because they have land taxes in Australia. I hope that by the end of this discussion I completely grasp land tax, because I'm beginning to now.

Geoff: Is the basic premise of land tax about taxing wealth rather than income?

Ed: That's the basic thing behind it, but I think beyond that; at the moment, there is no penalty for sitting on land and not doing anything with it. But here is the other thing: in the late 1800's we knew who owned 98% of the land in England. We now only know who owns 75% of the land in England!

Geoff: So, it's become more shadowy?

Ed: It has. But fundamentally this is about taxation of wealth, the housing market and the shortage of affordable housing in England. We're now joined by Joe Sarling, a consultant on land and tax issues and an economist who has written extensively on land value taxation. Joe, its great to have you on the program – can you start by describing, very basically: what is a land tax?

Joe: Yes, absolutely. It's an annual charge based on the value of the land. Not the property or asset that sit on top of it – just the value of the land. And the owner pays the charge, not the occupier or tenant.

Ed: Just explain that distinction between the value of the land and the value of the property on top of it.

Joe: Yeah sure. It's really about locational value, because land has a locational value. An asset like a property has value in and of itself, because it can be used productively – whereas land has a locational value. So, an example of this, land in the middle of nowhere has a lower value compared to land that is right by a station or a road, but that has lower value than land in the centre of the city. So locational value is expressed as access to services - this increases the value of the land.

Ed: So then why might it be preferable to have a land value tax compared to our current system of property taxation?

Joe: Well there are lots of different types of property taxation at the moment, some of them try and claim some gains in asset value, but a lot of them are unfit for purpose. Some examples are the council tax or the capital gains tax and stamp duty. If we took council tax for example, that's a charge to the occupant – not the owner, based on the value of that property in 1991. Now that's fine when markets don't change, but the London market has changed dramatically since 1991. This is clearly not fit for purpose. Stamp duty is another example, where your adding another charge to the buyer of a property. You don't want to restrict the transaction of properties in an open market, you want people to buy and move quite freely and frequently to best allocate those resources. Stamp duty doesn't necessarily do that.

What land value tax does, is try and capture some of the unearned value or locational value as it's known. So, an example of this – imagine the house in the middle of nowhere and the state comes along and invests in road and rail, right by the house which now has access to the city. The value of the area rockets. So, what you're trying to do is capture some of that gain in locational value that's stimulated from public investment that would normally go to the private individual.

Ed: So, it's an ongoing tax? A yearly tax?

Joe: Absolutely, it's an annual charge on the owner of the land.

Ed: So are there other reasons for this tax. Is it more progressive for example?

Joe: Yes, you're right.

There are actually loads of reasons economists love land value tax. It's known as the ideal tax. For example, it's very efficient, it doesn't harm economic activity. It doesn't incentivise people not to invest in something. It's fair and significantly more progressive because wealthier people tend to own more land than poorer people.

It has a revenue raising potential - because you can't hide land tax, avoidance is minimized. It rewards public investment, because as the state invests in infrastructure, land values rise, which in turn generates more public revenue. Perhaps most importantly, it shifts the burden of tax away from earned income toward unearned wealth.

Ed: So, you've just described a tax that people from across the political spectrum can get behind. It's an idea that's been around for 150 years or so. Why don't we hear more about it? Why isn't it a thing?

Joe: A good question and there a few reasons. It can be very difficult to implement.

Ed: In terms of the transition to it?

Joe: Yes – there is a transition period which is very important, but there are three main reasons I'd like to point out:

1. Public perception – people don't like new taxes and fear mongering by tabloids is easy to incite opposition with lies about 'the big land grab' or 'garden taxes' etc.
2. The general perception of increasing taxes with regard to property, because property ownership is so aspirational. People work hard to

buy homes and now they have it, you're taking a chunk away from them. People have come to view their homes as a pension fund. So, they may not be saving today, because they've got a house and they believe they can sell it at a higher value. This is a really difficult implication because the question is "why are you taking my pension?".

3. In terms of application, how do you value the land? Which mechanism do you use, so that when you buy a house you can get an accurate value of the land. At the moment, no one gets a price for the house and a price for the land separately, so what you need for a land tax is a valuation system that prices the land on its own.

Ed: Is that doable?

Joe: It is. There are two ways to do it. The expensive way is to have an army of valuers up and down the country constantly valuing land, day in day out.

Ed: What about Google maps and all the data we have at our fingertips these days?

Joe: Well yes, you could use an algorithm and estimate land values, but the other way to do it is with 'self-valuations' – which sounds completely ludicrous but hear me out. If you were going to have self-assessed valuations you wouldn't have an incentive to put a high valuation on your land, because you'd be paying more tax. But if the policy was in place that the state could buy the land from you at the price you've listed, you certainly wouldn't put the value too low. In a Utopian world, this is the system you'd use, because it is the most efficient, but it doesn't really fit into the world we live in right now. The financial system is so entwined with the land market that if we introduced a system like this immediately, leverage would collapse and cause a crash.

Ed: Given there are so many advantages to land value taxation, what is a version that is likely to work? If you were an advocate for this tax, what proposal would you championing?

Joe: A transition period would be useful. So, I would start with land that the public understand could be put to better use.

Ed: Could you start with the big land owners?

Joe: I would start with incremental policy change, for example if you owned land that was used as a carpark in the city centre – is that the most efficient use of that land? Sure, you can keep it as a carpark, but you're going to pay tax on it as if it were the highest use.

Ed: The way to generate support for the policy is to use it to solve a very big or very obvious problem. We've got this massive housing affordability crisis in this country. Presumably this policy could be used effectively?

Joe: Economists, including myself certainly believe land value tax would incentivise more homes being built and better use of land. I think the most important factor is that it would incentivise densification. In the city centre, if you own a three-story block – in order to recoup enough money to cover the tax – you'll certainly consider going up to six stories.

Ed: A side effect then might be protecting green belts, and you might stop sprawl?

Joe: Right. Land tax is very much a market intervention and it becomes very interesting to consider the role of planning with this system in place. If it was the case you needed to build twenty story buildings in the centre of the city, as opposed to five from an economics perspective, that is absolutely what we want in terms of efficiency. But is that what the public wants? From a human perspective, there needs to be balance.

Ed: Bloody humans interfering in economics! Thank you so much Joe, you are now our official land tax explainer at 'Reasons to be Cheerful'. Now to hear about how the land tax might work in practice – so we're joined by Catherine Cashmore, president of an NGO called Prosper Australia that was originally founded as the Henry George League, one of the early proponents of the land tax. She works in real estate as well and is joining us from Israel today. Let's start with the basics Catherine, I'm trying to use this as my education – land tax exists in some parts of Australia. Tell us about your view of the Australian experience and what we might learn from it?

Catherine: Australia has a rich history of land taxation, although the history is probably a little better than what we have at the moment. We do have land tax for investors, where properties over a certain value threshold have to pay a land tax. During Australia's history though, we had a federal land tax that was implemented specifically to break up large estates. These were people who owned acres and acres of land that was unused and effectively locking small farmers out of the market on the outskirts of cities. The federal land tax was implemented and was very successful at breaking up the large farming estates. So, Australia does have a land tax, and we've also got that historical structure in place if we wanted to use it more widely again.

Ed: As the President of Prosper Australia, why do you think land tax is the right policy measure for the public to support?

Catherine: Right, well land taxation is absolutely essential if you want to create a market of affordable housing. Land tax is the only tax that has no deadweight loss. The reason for that is land is fixed in supply. When you tax goods you either reduce supply, or increase the cost of production. With land, it is always fixed in its locational supply so you can't reduce it. So what happens when you tax land? You reduce its price. Also, because you're paying the charge annually you can't really afford to leave the land idle. So not only will it reduce the price people will pay for the land, and what the banks will lend for the land, it stimulates the market for development and increases supply so that the rental market comes down (as well) as more properties are offered for lease.

There are only benefits to the economy with land tax, as there is no deadweight loss.

Ed: I've listened to you, I've listened to Joe, you both make very compelling cases for land tax. But then – in different ways you basically say it's a political nightmare. This show is called *Reasons to be Cheerful*, but I'm struggling to find one here. What is the way forward?

Catherine: The reason it's incredibly difficult to implement is people are used to buying a house, they're used to it going up in value each year and they're using that money to retire on. This is where you have a problem changing policy. If you want to create a fair and just society, then you don't tax peoples' earned incomes, working hard at jobs or investing in business, from their innovation and the small start-ups. You don't tax earned incomes and instead you tax money they don't earn. The government builds a station near your property and the value goes up. This is where you have a problem in the economy.

Ed: Which country could you point to and say, 'they're doing it pretty well' in regard to this policy?

Catherine: I would point to Singapore. The most income tax you'll have to pay is around 7% and you'll get most of that back. Singapore finishes each year with a surplus and they have a 90% home ownership rate. Of course, no country is perfect, you can always find problems within them, but what they have been able to do is create affordable housing and affordable land and that is absolutely vital if you want a thriving economy.

Ed: Catherine thanks so much for joining us!