



**Labour Land Campaign**

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# **WELFARE FOR THE RICH**

## **WHO REALLY RECEIVES THE BIGGEST SUBSIDIES IN THE UK?**

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# ***WELFARE FOR THE RICH: WHO really receives the biggest subsidies in the UK?***

**For how long do we accept a system whereby the poorest subsidise the richest?**

**This paper sets out to challenge not only the current economic system, with its inefficient and discriminatory tax system, but also to challenge the myth that the poorest people in the UK are the most heavily subsidised and thereby demonstrate that land owners are the most heavily subsidised.**

**Familiar problems but also familiar inadequate solutions** - The same set of problems face so many people today as they did yesteryear – growing poverty; high levels of unemployment particularly amongst young folk; low wages; homes unaffordable to rent or buy; increasing prices of food and other necessities; high energy bills; overcrowded classrooms; unfair taxes; public service cuts; crime and a growing division between rich and poor.

On top of this, numerous development sites with planning permission for homes and businesses standing idle for years; blocks of flats sold to rich UK and overseas buyers - sometimes before they are even built - creating a bigger shortage of homes and pushing up the cost of renting or buying a home and a government giving subsidies to “first time buyers” on mortgages up to £600,000 that has resulted in inflating the next property bubble.

We must ask the question, if the current economic system works, why did the 2008 recession hit us? Why didn't economists, politicians, their advisors or academics even see the economic downturn coming? Those who argue for an annual Land Value Tax and the few economists who understand the importance of land in the economy did see it coming - and predicted it years ago<sup>1</sup>. When they warned politicians, bankers and others of this approaching catastrophe, they were ridiculed and ignored by the ‘experts’ who, as we now know, based their incorrect decisions on an economic theory that is fundamentally flawed!

**The never-ending treadmill of economic Booms and Busts** - In the UK, we see the repetitive cycle of property booms and busts always followed closely by business booms and busts. We see the gap between rich and poor not only continuing but also widening. We see a growing number of people unable to rent or buy homes in areas where they want to live because their incomes are inadequate to do so. We see our schools and hospitals under-

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<sup>1</sup> See Fred Harrison “The Coming Housing Crash” in “The Chaos Makers” (1997) and “Boom Bust: House Prices, Banking and the Depression of 2010” (2005).

funded. We see businesses closing down and jobs disappearing because of the distorted costs of providing goods and services that land speculation causes. We have seen the world banking system crumble because it was based on inflated land values that were due to sheer speculation and without any sound economic foundation. We see families struggling to survive. We see valuable town and city sites left idle thereby increasing pressure to build in the countryside and on green belt land resulting in more and more urban sprawl and long distance commuting – with the resulting waste of valuable time, pollution and accidents. We see our world environment increasingly being destroyed and our natural resources and natural resource wealth being squandered on personal planes, fleets of luxurious cars and over consumption etc by a few.

Today, we see more and more rich overseas speculators (most of whom have already filched their own country's natural resource wealth) joining the UK speculators in buying up properties in major cities in the UK – including Leeds, Liverpool, Manchester, Sheffield and London - knowing that as the economy grows so land prices will increase and they will get a huge unearned return on their 'investment' thanks to the workers and worthwhile investors in our trade and industries. Because their mission in life is to cash in on future land price rises, these non-productive parasites create a further shortage of affordable homes and force up property prices, compelling local folk to live further and further away from the areas where they want to live because they cannot afford the rising rents and home prices.

Land speculation, fuelled by banks deliberately offering loans to those wanting to cash in on the rising land prices and those who could not possibly pay back their debt, was the underlying cause of the 2008 world wide crash that saw numerous families lose their homes, businesses close, banks collapse and the resulting economic crash that affected not only the UK but the US, Europe and other economies. Today we can observe China heading for an identical catastrophe because they too are making millionaires out of exploitation of their natural resource wealth including land wealth.

The ownership of the world's natural resources in itself does not create a single penny's worth of wealth. If the land in Mayfair owned by the current Duke of Westminster was in exactly the same state as it was when leased by William the Conqueror to Geoffrey de Mandeville after 1066, the land value would be equally as high as it is today because of all the public transport and other public and private investments on and around the Grosvenor Estate that others have contributed to with their capital and labour and not because of any work or effort by the Grosvenors over the centuries. As land owners, the Grosvenor Estates have contributed nothing to either land values or the GDP of the UK.

Economic booms and busts are an intrinsic part of our current economic system and will continue to exist until politicians recognise that they allow a minority of the population to own, control and even waste our land and other natural resources. Why allow this minority to receive their enormous unearned income that they take and keep because we don't question their right to "own" the earth's natural resources and keep for themselves the economic return that we all create through our need to use them to survive.

**Why do we accept a level of poverty and poverty wages as being the norm?** - The level of pay and better working conditions we enjoy in the UK is only because of struggles led by trade unionists, past and present, and political activists. Under our Capitalist system there is the constant friction between the needs of workers and the needs of the capitalist. This gets reflected in our industrial relations, our political parties and trade union membership and other political activities. Today, with the current economic collapse, we observe unacceptable levels of unemployment and people being forced to work for lower and lower wages. Our hard-fought-for benefit system intended to support lower income families and those unable to work for health reasons etc is being steadily dismantled and more and more families are being driven into poverty and resorting to foodbanks.

**An inbuilt injustice exists in our economy for tenants whether residential or commercial (including farm tenants)** - When we experience economic development, the built-in injustice of our economic systems automatically rewards those that own our natural resources and penalises those who do not. In the UK, we have the obscenity whereby tenants (residential and commercial) actually pay a hidden subsidy to freeholders of properties and it goes by unchallenged. For example, why shouldn't a family, who happen to be residential tenants and who pay their share of taxes that will be used to fund the new Crossrail, not also benefit from the increases in land values that will arise as a result of such investment? Why should these families and businesses that pay rent subsidise the land owners that will benefit from this and other public (or private) investments? Why should the banks of the world be allowed to fuel land speculation and make enormous profits at the expense of others?

Those who campaign for a fair and just society rightly highlight the problems so many face but they also need to identify the key solutions that are needed to enable local and national governments to permanently eradicate poverty and deliver good quality public services provided by well paid staff. If we want a fair and sustainable economy where the whole of society has access to affordable well insulated homes; full employment; good education; healthcare that is accessible to all and enjoys high quality public services, we need to ensure that our land and natural resources are used for the good of today's population and also for the benefit of future generations.

A growing number of politicians, academics and commentators are recognising the economic significance that land and other natural resources play in the economy. These decision-makers and influencers recognise the economic fact that as public and private investments are made so the increased surplus of production that arises as a result, is diverted to land owners for no other reason than they claim ownership of the land that our homes, jobs, public services etc are sited on. This 'Economic Rental Value' of land becomes the unearned income of land owners instead of being returned to the public purse to be used to maintain and develop our public services including transport, education, healthcare and affordable homes.

Sadly, most compassionate politicians readily identify the problems but the solutions they offer do not address the causes. We are distracted from the real causes of the problems with so many simply blaming the bankers; tax avoiders; immigration; older people who keep working after retirement age; outsiders buying properties; benefit scroungers and so on.

## Let's consider WHO really subsidises who?

The manner in which the UK's tax system is structured means the poorest people actually subsidise the richest. All taxpayers subsidise tax avoiders and evaders, farmland owners through CAP (the EU's Common Agricultural Policy), freeholders benefitting from the government's 'Help to Buy' schemes and wealthy businesses paying poverty wages.

Tenants and other non-property owners subsidise land owners and freeholders and we all subsidise land speculators and big land owners now including the super-rich from overseas.

Our tax system benefits the richest at the expense of those on low and middle incomes.

**Tax avoidance and evasion means a bigger bill for taxpayers** - When national and local government budgets are set, decisions are made based on estimated income and expenditure. Many individuals and companies avoid paying their taxes, using legal means and exploiting unintended loopholes in the system, and others illegally evade paying their full tax bill. This means the tax collected locally and nationally is being paid by a much smaller tax base than is fair. In 2013, the UK government estimated that £35bn worth of taxes were not collected due to illegal activity and mistakes etc (7% of the total tax bill). A report by Tax Research UK, estimated that this tax gap could be as big as £120 billion a year<sup>2</sup>.

**Housing Benefits paid to private landlords** – A survey undertaken by the GMB trade Union<sup>3</sup> shows *“taxpayers spent £9.028 billion in the year to end November 2013 to subsidise rent to private landlords for 1.65 million privately owned dwellings that they rent out to households in Great Britain.”* GMB name the top twenty landlords in each of the 318 local authorities out of 380 that replied to them and the list includes some of the same recipients that also collect Common Agricultural Policy subsidies including the Grosvenor Estates (Duke of Westminster); Cadogan Estates (Earl Cadogan); Buckminster Trust Estate (Tollemache family descendants of the 9<sup>th</sup> Earl of Dysart); Yattendon Estates (Baron Iliffe and family) and Blackshaw Holdings Ltd. Years of successive government policies of starving councils and other providers of 'social housing' of the necessary funding for sufficient affordable rented homes has resulted in a growing number of families forced to rent from private landlords – some of whom are good and responsible landlords but many of whom are not. 'Buy to let' mortgage schemes together with land hoarding, empty homes and idle sites have all fuelled rising land prices thus forcing up market rents. Private landlords will naturally charge market rents for their properties, but if housing benefit subsidies currently paid to them, were instead, allocated to councils, housing co-operatives and housing associations to enable them to build homes at affordable rents it would be a much better use of public monies. Starving social housing providers but subsidising profit motivated private landlords is another example of how land owners are getting more subsidy from all of us as taxpayers. Landlords are entitled to a fair return on renting homes to tenants but under our current tax

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<sup>2</sup> <http://www.taxresearch.org.uk/Blog/2010/03/11/tax-justice-and-jobs-the-business-case-for-investing-in-staff-at-hm-revenue-customs/>

<sup>3</sup> <http://www.gmb.org.uk/newsroom/landlords-hit-housing-benefit-jackpot>

system this subsidy actually fuels land price rises even further and that is not a sensible use of our taxes.

**The Common Agricultural Policy (CAP) is mostly a subsidy for big land owners** – The European Union is considering changes to CAP subsidies paid to farmers because they recognise that the subsidies become capitalised into land value and therefore give unearned income to the land owners but the CAP also enables land owners to charge tenant farmers higher rents. CAP subsidies encourage larger land holdings, factory farming, intensive non-organic farming, the destruction of wild life habitats and prevent smaller, organic and new farms from being started. Subsidies paid in 2012 went to the biggest land holders in the UK many of whom, like the Duke of Westminster, are the same families who have “owned” huge tracts of our land for generations and include Sir Richard Sutton’s Settled Estates who received £1.4m; the Earl of Plymouth who received £642,808; the Duke of Buccleuch who received £563,092. Anonymised recipients got £3.9m, £3.4m, £2.4m each and many got around one million pounds. Other big businesses also get these subsidies including Serco Regional Services Ltd that received £1.79m and land owners Frank A Smart & Son who received £2.5m in subsidies. Interestingly, this company sold 18 building plots and six building properties on one of its farms for £1.3m, (the farm was originally bought for £300,000 in 1991). Furthermore, the company made a profit of over £3.1m in 2008, and in March 2009 sold 24 plots of land with planning consent for more than £2.9m<sup>4</sup>.

On 31 December 2013, the FT Property and Mortgages<sup>5</sup> publication reported on rising farmland prices that are due to an increased demand for food caused by growing populations. It explains how farmland is considered to be a safe ‘investment’ because of CAP subsidies and tax benefits that include “exemptions from inheritance tax and capital gains tax under certain circumstances, the ability to offset any losses from the farm against profits made elsewhere, and benefits by way of value added tax”. The so-called investment in farmland in the UK is in fact speculation in further rising land values due to population growth and future incomes from CAP and tax avoidance.

We all, as taxpayers, contribute to the CAP but again, generally it is NOT the farmers who benefit but once again it is the land owners – aristocracy, businesses and individuals – that reap the benefit of this huge subsidy; new farmers are deterred by high land prices or high rents. How can this be just, fair or politically acceptable?

**The “Housing Ladder” is a myth that penalises tenants and benefits freeholders** - Why do commentators see it as a “good thing” when property prices rise yet criticise petrol price increases, higher fuel bills, food prices rise or increases in the price of consumer goods? How can we be happy that the cost of a home to buy or rent soars thus excluding many from being able to rent or buy in the area they wish or need to live? The media and politicians regularly talk about our desire to get on the ‘housing ladder’ when what they are really saying is that people, who are already struggling financially, are in fact trying to get on the ‘land speculators roller-coaster’ of land price booms and slumps.

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<sup>4</sup> Kevin Cahill New Statesman 11 March 2011 <http://www.newstatesman.com/life-and-society/2011/03/million-acres-land-ownership>

<sup>5</sup> <http://www.ft.com/cms/s/0/0246138e-7165-11e3-8f92-00144feabdc0.html#axzz2pWBqSfcG>

There is no housing ladder because it is **NOT** the house or flat that increases in value, buildings are like any manufactured goods and for example second-hand cars that because they need repair and maintenance depreciate in value over time – it is the **cost of the land** on which the buildings are located that actually rises. It is only the land (or location) value that increases when we “celebrate” property price increases and that land value is created because of our combined demand for land for homes; for jobs; for public services; for leisure activities and so on.

**Land costs us nothing to create** - Land is different to manufactured goods; we require no labour and no capital to create land as it is a free gift of nature, provided at no cost - and is in fixed supply. However, when new investments in our public system are announced, normally land values in the areas affected will increase and this was observed when Crossrail and the London Underground Jubilee Line extension were announced and also when other good major transport improvements have been introduced. Land owners demand a higher rent for business premises located within the catchment area of good transport networks because of the benefit businesses receive from that public investment – workers can more easily get to work; customers wishing to purchase goods and services enjoy easier access and by locating close together, businesses benefit from the economies of agglomeration. Taxpayers and users pay for the public transport but it is land owners who gain from the increased rents they can demand from business tenants. Similarly, the rental or purchase prices of properties located close to or in the vicinity of parks, schools, health care, places of natural beauty all reflect the location values that have been created by all of society and nature and not from the act of “owning” land.

**The wealth gap not only continues but it grows** – In 2008/10 the wealthiest tenth of households owned more than 40% of overall wealth and were over 850 times wealthier than the least wealthy tenth of households<sup>6</sup>. 1% of the population own 70% of our land<sup>7</sup>. In its document published in February 2013, the GLA identified that “In Great Britain, the richest ten per cent of the population own nearly 45 per cent of the country’s total private household wealth, whereas at the other end of the spectrum, half of the population own less than ten per cent of the household wealth between them.”

Quite rightly much is said about the growing inequality between the richest 10% in society and the poorest 10%, however, one of the reasons for this inequality is not addressed. Most people on low incomes are tenants, live with family or friends or are even homeless; yet all tenants (residential and commercial) and other non-property owners in fact subsidise the richest land owners of the UK as well as all other big and small commercial and residential freeholders. To tackle low incomes, poverty and this terrible economic and social inequality that persists in the UK, we first need to tackle one of the most fundamental causes of this disparity.

**Just one of the richest people that the poorest of us subsidise** - The Duke of Westminster holds land valued at £6bn. He did not create that land value – the value of his huge urban

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<sup>6</sup> Office of National Statistics ‘South East has biggest share of the wealthiest households’ December 2012

<sup>7</sup> Kevin Cahill ‘Who Owns Britain’

and farm landholdings arises from their location value which is dependent upon natural factors and all of our activities – soil fertility; services both public and private such as transport, clean streets, or shops; population size; policing, views of rivers or access to public parks etc and from the tax subsidies he receives from housing benefit and the Common Agricultural Policy (CAP) every year - £888,456 in 2012.

Of course, the Duke of Westminster did not create the land he holds. His ancestors acquired his estates through a lease from William the Conqueror, through marriage and through theft via the enclosures. He filches the land wealth that we all create and gets this unearned “gift” we have endowed on him and his family without any effort on his part.

Land is essential for our very existence, and purchasing land should give no moral right to claim exclusive ownership of land rent, any more than trading the sun’s rays, the air we breathe or slaves.

How is it right that the poorest in society subsidise the richest? Why don’t politicians or the media look at who really receives the biggest subsidies in our society?

### **Tax the rich yes but tinkering with existing taxes doesn’t work**

We are conditioned to accept the present system of taxation on incomes as being the best one to provide good public services and a system of adequate financial support for those who, for whatever reason, are not able to get an income through paid employment. The “left” call for greater taxation of the rich, ignoring the fact that, apart from them negotiating extra high salaries to cover their income tax and national insurance contributions, the rich are best able to take expensive measures such as overseas residence and creating off-shore companies, requiring clever accountants and lawyers to avoid and even evade our taxes whilst poorer taxpayers are left behind to pick up the bill. Even if the highest rate of income tax were increased to 99% then those on the highest salaries would negotiate even higher rewards to pay their higher tax bills which means higher priced goods and services leaving consumers to pick up the bill thus subsidising those richest wage earners even more than we do at present. The French socialist government elected in 2012 has not created more jobs and prosperity by introducing higher personal taxes, instead youth unemployment has grown and as a consequence, the far right won the French 2014 Euro elections.

If there are opportunities to avoid or evade paying taxes, there are individuals and businesses that will do so.

Many corporations pay little or no taxes in any of the countries where they operate by any means possible, for example by setting up subsidiaries and using hideous tax laws in different countries. However, by taxing the rental value of land governments would not only ensure that companies contribute for the benefit of public services they receive but also, because you can’t take your land in a suitcase to an offshore tax haven, make it impossible for companies to avoid their responsibilities.

It is only recently that local authorities have charged a full Council Tax levy on second homes and empty homes. Property owners deliberately make commercial premises uninhabitable by smashing roofs etc thereby avoiding paying Business Rates.

Instead of tinkering with the current unfair, inadequate, avoidable and unsustainable tax system, this paper argues that we need to think afresh about how the economy works, how human-made and natural wealth are created, owned and controlled and what are the flaws in the current system that mean we have, in varying degrees, constant poverty, hardship, inadequate rewards for work, suffering, inequality and economic, and therefore social, injustice in the UK and in all other countries of the world.

***We still fight over the crumbs that fall off the table instead of demanding changes that will result in us all sharing what is on the table – it is time to look at the problems facing us all and seek a permanent solution to their causes.***

## **The Economics behind why we need a change to what is taxed**

In order to produce all goods and services, we not only need land and natural resources but also workers and relevant equipment or tools whether it is for building a home, mining for oil, growing food, making consumer goods, delivering food to shops, running a bank, providing medical care, educating our children, providing transport and other public services or leisure activities etc.

Of the three factors of production – labour, capital and land (land is the economic term used for all natural resources) – the UK tax system purposely taxes labour and capital despite the many opportunities to avoid and evade paying them. However, land as such is not taxed.

**Just to clarify a few terms** - The word “capital” has many meanings in the English language usually associated with money, bank deposits, investments etc. These are not “capital” in the economic sense. Wealth is created by human labour (mental and physical) being applied to land and other natural resources. Most wealth is used to satisfy our immediate needs but capital is created when we set-aside some wealth in order to produce more wealth. So for example, the plumber’s tools are capital; machinery, trains, roads, business buildings (factories, shops, warehouses, offices etc), computers etc are all capital when being used to create more wealth. So land, which is not created by human labour, cannot be capital. The returns to capital are interest paid on loans and profit paid to the business investor.

Labour means any form of physical and mental effort by humans employed in the production and delivery of goods and services and the return to labour is wages.

In economic speak, land includes all natural resources including land itself whether it is used for farming, leisure, transport, homes or commerce and the return to land is economic rent.

The 'economic rent of land' is the surplus income generated from a site after the costs of production are paid, that is payments for wages, interest on loans, taxes and a reasonable return on the investment. The selling price of land averages around twenty times the economic annual rental value but artificial scarcity (eg empty homes or house builders refusing to build on their "land banks") and speculators wanting to buy farm land on the urban fringe, creates an artificial "scarcity" or "hope" value that is added to the price. A small element of the economic rent of land is inefficiently collected through current property taxes and some economists even argue that all taxes come from land rent but those latter arguments are for another discussion. Land is of a fixed supply and land owners will always charge the highest amount of rent possible for the use of their land and premises and that is why any form of subsidy or grant will always capitalise into land value after a period of time.

- ❖ The **demand** for any site depends on the permitted activities any individual, organisation or business is carrying out or is planning to carry out in an area.
- ❖ The **value** of a particular site will depend on its location; neighbouring services and facilities, its permitted or intended use and its usefulness to the current or potential user in carrying out their business.
- ❖ The **economic rent** of a site (or use of another natural resource) is the surplus income generated from the use of that site in producing goods and services after the costs of labour and capital and a normal profit have been paid.
- ❖ The **price** a site is sold or leased for is the lowest price the owner is prepared to sell or lease the site for and the highest price a user is prepared to pay for the exclusive use of that site and it may be in the form of a rent or a lease (with or without rent renewals) or a freehold. (nb we are only concerned with the site value and not the building value of a property).
- ❖ **Speculation** that land prices will rise, together with freely available credit, is what forces up the price of a site above its true economic value creating a 'bubble' that will eventually burst leaving havoc for so many households and businesses in its wake.

**The greater the surplus income that is generated by labour and capital so the greater the amount of unearned income is filched by those claiming ownership of land and other natural resources. Clear evidence of this law of economics is observed throughout history and throughout every economy in the world.**

**Land and Natural Resources are not "Capital"**. The first flaw in modern (neo-classical) economic teaching is to describe natural resources as being a part of capital and not a separate entity with specific features that humans cannot replicate. Land, air, minerals, oil, water, forests, the spectrum, airwaves, the sea, sunshine, airport landing slots, the laws of nature and so on - are all gifts of nature – we need them, we harness them, we use them and unlike capital they are essential for our very existence.

Natural resources are not created by humans. Land owners do not produce the land we require for our farms or our towns and cities; mining companies do not produce the minerals

in the ground; oil companies do not deposit the crude oil or gas below the surface of our planet; mobile phone companies did not invent the spectrum; airline companies do not create time and space on which airport landing slots depend; farmers do not make farmland.

Not one of us has created land or natural resources and yet we allow a few privileged individuals and companies to benefit financially from our need to use these free gifts of nature.

So, who should own Natural Resources - as we all depend on the use of the world's natural resources in providing us with our homes, our food, our clothes, our consumables etc, why do we allow a tiny fraction of the world's population to own the economic wealth that nature has provided for all of us to enjoy rather than share the economic benefit we all gain from their use? It is not simply owning a natural resource that gives power to a few, it is the unearned income they take as theirs that gives them such a huge and unfair privilege and advantage over most of the population.

By accepting the premise that a minority of the UK's and of the world's population have a natural right to take 'ownership' of our natural resources and the economic benefits they generate, we are accepting an economic system that can only ever be one where inequality, unemployment, inadequate housing, low wages and poverty are the norm.

### **Land speculation is a root cause of economic instability and poverty**

The **supply** of land is finite. So, when we see a site deliberately kept out of use, it effectively reduces the supply of land available to those wanting and able to use it. We don't have to look far to see empty or derelict offices, factories, houses, brownfield sites or waste land that usually have hoardings and rubbish dumping and rats and raves and graffiti and fires and drug trading being the only activities taking place on them. These sites are kept out of use for a reason. Either the owner is inefficient or they are waiting for the maximum return they can get by selling these sites at a higher price to a speculator or developer. These unused sites are an asset that the owner can borrow against for another financial venture, until they are ready to sell the land for a profit or give their permission for the site to be brought into use. The consequence of this inaction can be seen where an unused site changes hands several times over many years. Whilst the site stands empty the local community is denied homes, jobs and/or services whilst each departing land owner leaves with a handsome profit gained by extracting the land wealth actually created by the local community. Everybody, except land owners and speculators are left poorer.

The pressure by developers and others to have new homes built on greenfield sites in the countryside is encouraging urban sprawl and more long distance commuting. Such a policy means increasing car use with all that entails in terms of pollution, road injuries and deaths.

Allowing the unused and underused sites that exist in all towns and cities to remain unused and underused encourages the misuse of our natural resources and add to the problems of global warming and pollution of our planet. In 2010, there were over 190,000 acres of unused land in England and Scotland that had been developed previously but which lay idle

because of speculation in rising land prices by the owners<sup>8</sup>, many sites laying idle for decades whilst people need affordable homes and business premises.

## **We need a fairer tax system that does not penalise workers and savers**

The political establishment and academia may differ in their political views but could be united on one common principle – **that the economic rent of land and all other natural resources should be collected** and used to replace some or all of the negative taxes that deny workers the full return on their labour and which distort the spending power of us all as consumers or providers of all goods and services.

The arguments in this paper focus on land wealth - how it is created, who collects it, how it is collected and examines its effect on the economy. However, the same arguments apply to all other natural resources including oil, minerals, airwaves, the spectrum, water, solar and wind power and so on.

**Why do we accept a bad system as being OK?** – Owning land appears normal to us, but it is a fairly recent invention in the term of humankind's 200m+ years existence on this planet. Until relatively recent times, land was shared by all and owned by no one. In the UK this only changed after 1066 when William the Conqueror became the sole owner of land leasing out parcels of land to his supporters in return for providing armies when required and other dues. Today, many of the descendants of these Barons still hold that land, though without any financial or other obligation to the Crown or the Treasury – taxation was shifted off land and on to trade, production and wages.

Because we have accepted the historical theft of our natural resources, we have also accepted a terrible injustice whereby the surplus wealth - which we all create through our work, economic and social actions and decision-making – goes, without question, to land owners. This means that no matter how much we increase our economic output, land owners will always take the surplus wealth we all create and wages for labour are kept low.

- ❖ Why do we allow this hideous and immoral situation to continue?
- ❖ Why don't economists, academics or politicians call for this injustice to be corrected?
- ❖ Can we do anything to stop this theft of the wealth we all create from going to a few simply because they lay claim to part of the surface of the planet?
- ❖ Are there lasting solutions that will eradicate poverty - whether in poorer or richer countries?

So long as our economic and social policies are based on flawed, distorted and inaccurate economic theory, we can never be free of poverty or economic or social injustice in the UK or in the world. Those who create the wealth of the nation will always be subsidising the owners of land and other natural resources.

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<sup>8</sup> <https://www.gov.uk/government/statistical-data-sets/live-tables-on-land-use-change-statistics>

## So, what is the solution?

This paper argues we need a **fair tax system** as well as other progressive policies to make fundamental changes that benefit all of society permanently.

We need to have a tax system that is transparent, fair and just. One that shifts taxes from wages and production to unearned income; one that protects our natural resources from over-use; one that cannot be avoided or evaded; one that rectifies the historic wrong whereby land and other natural resource ownership and wealth has been taken by a few and left the rest of us subject to their repression.

Assuming it is too unrealistic to hope for all natural resources to be taken back into public ownership and the full economic rent charged for their use, then we should at least call for a levy to be applied to the annual rental value of all land and to all other natural resources including oil, minerals, the spectrum, airwaves, wind and solar energy, fishing in our seas, landing slots at airports etc. As natural resource taxes are introduced there should be a reduction in negative taxes including income tax and VAT. These and most (but not all) other taxes actually depress the economy, increase unemployment and do not allow other positive economic and social policies to be properly implemented.

***This paper argues that we should be looking to charge for the use of all of our natural resources firstly to ensure we use them sparingly and usefully; secondly because natural resource wealth is created by our collective efforts and thirdly because such charges are unavoidable.***

**Land:** By taxing the annual rental value of all land and reducing taxes on incomes and production, there will be immediate benefits to society including:

- Decrease in land speculation, a reduction in the enormous number of valuable unused or underused sites that blight our towns and cities;
- Reduction in the demand for urban sprawl by land owners and developers;
- Reduction in commuting with the environmental and social damage that causes;
- Increasing the amount of land being made available for homes, start-up businesses, recreation and leisure facilities etc;
- Providing a sustainable income that is free of the economic distortions caused by property market booms and busts;
- The opportunity to use land rent to improve public services and to reduce negative taxes that actually act as a drag-anchor on the economy;
- New small start-up enterprises encouraged to grow and expand with lower property costs;
- Lower tax bills for all, especially in areas of high unemployment and low land values;
- Re-distribution of the wealth we all create - morally fair and economically just;
- Encouragement for people to use their skills and talents in positive ventures.

Tenants and other non-property owners benefiting from the natural wealth they too create rather than being penalised and forced to pay an unfair and hidden subsidy to land owners.

Lower income tax and VAT encouraging saving and investment.

Reduction of unemployment reducing the social welfare bill that has to be met by taxpayers.

There are situations where transition to this system of taxation may need consideration; the 'asset rich but income poor' payer is often raised. However, given that LVT would need to replace and/or reduce existing negative taxes including current inefficient property taxes, it is likely that most taxpayers will pay less in LVT than their current business or personal taxes, but where there is a genuine problem of hardship the simplest solution is for their LVT bill to be rolled over year on year (with interest) until ownership of the land changes hands.

***(Go to [www.labourland.org](http://www.labourland.org) for a list of FAQs which provides answers and solutions to questions and issues people interested in a better understanding of LVT have raised.)***

**Oil, coal and other minerals and ores:** By taxing the 'economic rent' of all other natural resources, the wealth these resources generate will give local and national governments a sustainable and naturally growing income for public expenditure on health care, education, transport, housing, social services, leisure, investing in new sources of renewable energies, improved insulation etc. rather than go to obscenely rich institutions such as De Beers or to new multi-billionaires such as overseas football club owners. An example of such is the levy applied to oil in Alaska whereby the residents of the state each receive an annual dividend from oil revenues through the Alaska Permanent Fund.

**Landing slots at airports:** These permissions to occupy our skies at a particular altitude and time can exchange hands for millions of pounds. The peak time slots obviously give the airline that owns it a tremendous commercial advantage. The landing slot should be paid for but each slot's economic rental value should be collected by the government and not by the airline concerned. The revenue collected should be used for the general good and not to subsidise airline shareholders.

**Airwaves and the Spectrum:** In 2000 when the Labour government auctioned off five 20-year licences for third generation mobile phone services, they raised £22 billion (government advisers thought £5 to £6 billion would be raised) and in doing so they collected the economic rent for the twenty years of the licences. So long as those parts of the spectrum are needed at the time, the next auction in 2020 will provide income for the government of the day, again collecting the economic rent for the use of the spectrum for the next 20 years. This method of auctioning the use of a natural resource means the nation benefits of the natural resource wealth and not a private company or individual and should be applied to all airwaves and the spectrum.

**Wind and solar energy, fishing in our seas and use of other natural resources:** Again, by taxing the economic rental value of each of these and other natural resources, the economic income that arises from our demand for them in their natural state will provide a sustainable source of income to be used for research and investment into, for example, developing renewable energies. One of the biggest costs for providing wind farms is the high payment to land owners for the use of land which may be scrub land with no real economic value.

It is essential that economists, academics, politicians, journalists, trade unionists, business, think tanks and the general public become concerned with examining this land reform.

## Some ways to collect the economic rent of land

**Arguably the most just way** - We could bring back land into public ownership, without compensation and collect all land rent for the public purse. This would mean a plentiful supply of cheap land to provide truly affordable homes, access to land for young people wishing to farm themselves, cheaper business premises, a huge income to the government who could reduce taxes on workers and introduce a citizens land dividend which would not only ensure every adult and child enjoyed the benefits of us all owning our land and natural resources but also create a blocking mechanism if a future government wanted to return our land to the likes of the Duke of Westminster and his ilk – the descendants of the original thieves who stole the land from our foreparents by the English enclosures, the brutal Highland clearances and other devious methods.

**The alternative most likely to be adopted** – If politicians are not able to stomach what we really should do, then we could adopt an approach that even the Labour Party's front bench could not describe as too radical. An approach that has been advocated by the founders of the Labour Party (it was in Labour's first 1906 Manifesto), an approach supported by Dr. Sun Yat-sen the first President of China after the boy Emperor, an approach legislated for by the Labour government in their 1931 budget (but promptly frozen by Ramsay MacDonald's National government and then dropped by the subsequent Tory administration), a policy advocated by Tolstoy, Lloyd George, Winston Churchill and Herbert Morrison, an economic instrument often advocated by right-wing journalists and commentators in the FT, the Economist, the Institute of Fiscal Studies and Money Week. A policy advocated by the Co-operative Party, the Green Party, many Liberal MPs, some Trade Unionists and current MPs like Vince Cable, John McDonnell, Andy Burnham and pursued by Caroline Lucas, the Green MP with her 2013 Private Members Bill and supported by many environmentalists mainly known as an **annual Land Value Tax**, by which we would collect some of the land rent for the public purse and stop land hoarding, land speculation and their resultant destruction of jobs and homes.

As well as Land Value Tax, other names given to the collection of part of the annual rental value of land include Natural Resource Rentals, Location Benefit Levy, Site Value Rating, Location Benefit Charge and Site Value Tax. No matter the name, the important thing is to collect part of the land wealth that is created by the whole of society to be used fairly to maintain and develop our public services nationwide instead of that unearned income going to 'owners' of land.

## How an annual Land Value Tax will work in practice

A number of stages have to be completed but with information already gathered for local and national government purposes and with the benefit of modern technology and the knowledge and experience gained by those in the world that already value land, at least annually, in order to collect land rent, this task will not be an onerous or complicated one.

**Political considerations** - The government of the day will need to make decisions in preparation for the shift in taxation from earned incomes to LVT including:

- ❖ The name to call the levy on land rents (this paper uses Land Value Tax throughout).
- ❖ To collect the levy from the freeholder annually and where appropriate to add the charge to PAYE codes in order to even out payments.
- ❖ Whether it is collected locally and/or nationally. Local authorities could be the collecting agents using the same procedures as currently used for business rates where the receipts are forwarded to The Treasury but in the case of LVT having the power to determine their own local element over and above the Treasury's levy.
- ❖ The percentage of the annual rental value of land to be collected nationally and the percentage to be left to the discretion of local authorities for their own needs.
- ❖ With the exception for funding new infrastructure, which increase land values, that LVT will be revenue neutral and replace existing taxes in whole or in part.
- ❖ Not to create a new government department or agency but to use existing local and national government departments to carry out the changes necessary using the skills, information and structures that already exist within local government, HM Land Registry, The Valuation Office, Revenue and Customs etc.
- ❖ What, if any, fair, accountable and valid interim measures need to be in place during a transition period.

## **Stages needed to Implement LVT**

**Registration of all land** - The UK land registers need to be completed so that the owner and their contact details, permitted use and size of every parcel of land is known. This will be a simple operation as approximately 80% of UK land is already registered. Public advertisements could announce that the owners of unregistered land could be required to register within six months for tax purposes and then any unregistered land (ie land with no ownership claim) could be leased by the government to the current occupiers, councils, businesses or individuals on 99 year leases with regular rent reviews.

**Valuation of every parcel of land** - Each site needs to be valued annually according to its optimum permitted use. "Permitted use" is the use that the community, through the planning process, decides the land should be used for and "the optimum use" is the actual use that generates the most rent within the limitations of the permitted use. For several reasons the valuation should be on its annual rental value a procedure familiar to the UK where business rates apply to rental values). Annual valuations will keep information up to date, and provide transparency and fairness so that there is not a situation such as exists with the current Council Tax which is based on 1991 valuations. Objectors of LVT often suggest it is impossible to value land, however where sites are exchanged land valuations occur every day of the week and there is no identified situation that exists where professional valuers are unable to determine the economic value of a site.

There are many jurisdictions in the USA that value land separate from buildings or other improvements at regular intervals using modern computerised and Global Positioning System (GPS) technologies.

**Apply levy** - The percentage levy on the annual rental value of each site will depend on the economic and social policies of the government of the day.

**How much income will a shift in taxation to LVT collect?** - The amount collected will depend on decisions made by the government of the day such as ensuring LVT is revenue neutral; which taxes are abolished and which are reduced and the positive economic effects of LVT on the economy. It is difficult to give any accurate figure on how much could be collected from a particular LVT percentage because of a lack of relevant information on land values,

Current property taxes raise around £69bn: National Non Domestic Rates raise £29bn. Council Tax £26bn. Stamp Duty 8bn. and a further £6bn in Capital Gains and Inheritance taxes.

However, at 31 March 2013 13% of business premises in England were empty and the cost of the empty property rate relief was £957million. Because land with unusable or no buildings is not subject to Business Rates, the owners of these sites pay no Business Rates. Empty premises or idle sites both deny the community access to these sites for business use, lost revenue and are a target for vandalism and other anti-social behaviour – a complete misuse of land in our towns and cities. In 2010, there were over 190,000 acres of unused land in England and Scotland that was previously developed but laying idle because of speculation in rising land prices by the owners and this does not include sites with buildings that are not in optimum use (ie not used to their full planning potential).

Without allowing for the economic effect of abolition of Business Rates and Council Tax or any reduction in existing taxes, and using the limited information available, estimates suggest an introductory 30% levy on the annual rental value of all land according to each site's optimum permitted use is circa £92billion (see below). Nor does it take into account the effect of Land Value Tax on the economy particularly in areas where there is currently low investment, high unemployment, empty homes and from where young people leave to find work in London and the South East of England. Of course, a government could decide to introduce an LVT percentage rate lower or higher than 30%.

## **What is the current value of all land in the UK?**

The UK government provides no clear accurate data on the total value of land in the UK. However, an estimate is shown below based on information used by the Office of National Statistics and elsewhere.

The total value of all residential land in the UK at December 2013 was £5.963 trillion.<sup>9</sup> Agricultural land values rose considerably between 2010 and 2013 and at December 2013<sup>10</sup> were around £6.7k per acre with farms over 1000 acres in size selling at between £8K and £10K per acre.

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<sup>9</sup> The Independent 29 May 2014

<sup>10</sup> [http://www.voa.gov.uk/dvs/\\_downloads/pmr\\_2011.pdf](http://www.voa.gov.uk/dvs/_downloads/pmr_2011.pdf)

## Estimate of Residential land values

Table 1: UK residential land values

Region	Stock	Total property value	average price per home	Land value per home*	total land value	annual rental value at 5% of total land value	Example of income from applying a 30% LVT
		£	£	£	£	£	£
London	2,869,641	1,480,071,868,929	515,769	415,769	1,193,107,768,929	59,655,388,446	<b>17,896,616,534</b>
SE England	3,907,585	1,233,085,337,770	315,562	215,562	£842,326,837,770	42,116,341,889	<b>12,634,902,567</b>
East of England	2,863,931	753,640,578,719	263,149	193,149	£553,165,408,719	27,658,270,436	<b>8,297,481,131</b>
SW England	2,460,608	602,467,565,760	244,845	174,845	£430,225,005,760	21,511,250,288	<b>6,453,375,086</b>
NW England	3,218,964	532,316,857,716	165,369	95,369	306,989,377,716	15,349,468,886	<b>4,604,840,666</b>
West Midlands	2,427,780	448,593,049,500	184,775	114,775	278,648,449,500	13,932,422,475	<b>4,179,726,743</b>
Yorkshire and The Humber	2,022,666	304,237,283,724	150,414	80,414	162,650,663,724	8,132,533,186	<b>2,439,759,956</b>
East Midlands	1,978,415	343,929,642,015	173,841	103,841	205,440,592,015	10,272,029,601	<b>3,081,608,880</b>
NE England	1,569,724	264,401,171,112	168,438	98,438	154,520,491,112	7,726,024,556	<b>2,317,807,367</b>
Scotland	2,616,293	443,809,630,469	169,633	99,633	260,669,120,469	13,033,456,023	<b>3,910,036,807</b>
Wales	1,401,472	227,014,638,976	161,983	91,983	128,911,598,976	6,445,579,949	<b>1,933,673,985</b>
Northern Ireland	783,281	123,373,023,748	157,508	87,508	68,543,353,748	3,427,167,687	<b>1,028,150,306</b>
<b>TOTAL</b>	<b>84,361,080</b>	<b>6,756,940,648,438</b>	<b>2,671,286</b>	<b>1,771,286</b>	<b>4,585,198,668,438</b>	<b>229,259,933,422</b>	<b>68,777,980,027</b>

\*Using 2011 figures, assuming building only values of **£100K London and SE England & £70K elsewhere**

### A rough breakdown of UK's land value by current permitted use

The following table gives an estimated value of income that would be collected from an annual Land Value Tax. It takes no account of the positive effect on existing land values of reducing taxes on production and abolishing Business Rates and Council Tax and replacing them with an annual Land Value Tax. Data is taken from different sources including government data and Savills Estate Agents.

Table 2: 2011 UK land values and example of income collected from 30% annual LVT

Land Use (60m acres total)	Acres	Average Value per acre	Capital value of land	Annual rental value at £5%	Example of income from applying a 30% LVT
	million	£	£million	£million	£million
Agriculture & forestry	47	7,000	325,500	16,275	4,883
Non-commercial Woods, marshes, heath & other	8	0	0	0	0
Residential (all)	2	2,300,000	4,600,000	230,000	69,000
Commercial (all)	1	1,000,000	900,000	45,000	13,500
Public services, Parks, roads, non-commercial etc	3	0	0	0	0
*Previously developed sites - Residential	0	2,300,000	230,000	11,500	3,450
*Previously developed sites - Non-residential	0	1,000,000	100,000	5,000	1,500
<b>Total</b>			<b>£6.2tn</b>	<b>£307.8bn</b>	<b>£92.3bn</b>

## Let's change our current economic system that is fundamentally flawed and discriminates in favour of the rich

The political parties, trade unions, think tanks, academics, campaigners and others who want a fair and more equal society continually highlight the failures and hardships caused by the present economic system but rarely call for a fundamental change to our tax system that will really achieve a shift of wealth and power to working people and their families.

Land owners take much of the surplus that we all create as taxpayers, workers, consumers and investors. Until this fundamental flaw in the tax system is addressed, workers can never be rid of the threat of inequality, unemployment, inadequate housing, poverty, or many of the other ills that trouble us today and tenants and other non-property owners will continue to subsidise all land owners who take land value as theirs when they did nothing to create it.

**We need a change in policy that will tackle the real injustice of the poorest paying huge subsidies to the richest.**

**We need an annual Land Value Tax in order to build a just society for the benefit of all future generations.**

Heather Wetzel Vice Chair Labour Land Campaign [www.labourland.org](http://www.labourland.org)

June 2014

(The views expressed in this paper are those of the author and are not necessarily those of LLC)

# Why LVT is a fair and just tax benefiting the whole of society

- LVT recognises that every individual – including tenants - helps create land values through their work, their community activities and their spending
- LVT recognises that every new investment – public and private – helps create land values, whether it is in public transport, businesses, leisure facilities, schools, hospitals, airports, making neighbourhoods smarter and more pleasant, or in homes or jobs
- LVT also recognises that existing services and businesses – public and private – add to land values
- By including land that is currently kept idle, LVT encourages better use of land, particularly in towns and cities
- LVT therefore encourages investment in more jobs and businesses and more affordable homes
- By encouraging the use of urban brownfield sites LVT actively contributes towards protecting the rural environment
- LVT therefore helps to protect green land and minimise urban sprawl
- LVT will rid communities of derelict sites and buildings that encourage anti-social behaviour
- Unlike other taxes, it is practically impossible for people and businesses to evade LVT
- LVT increases the funds available for public services, including public transport, health, education, leisure facilities, crime prevention, and social welfare

## Contact Information

For further information or to add to the discussion, please see the Labour Land Campaign's website at [www.labourland.org](http://www.labourland.org)

Or, contact our secretary Carol Wilcox [carol.wilcox@labourland.org](mailto:carol.wilcox@labourland.org)