Much to Report!

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Newsletter of the International Union for Land Value Taxation

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Greetings! This is the News Worth Reporting edition of the IU view. Herein you will find pertinent sections of seven mainstream media articles describing the many positive benefits of land value taxation. The “news is the news” for our favourite public finance policy this year of 2015!

After reading these stories I think you will agree that our movement for LVT has made a breakthrough in media awareness in several countries. The information presented in these stories is accurate and clearly presented. Taken as a whole, all the major reasons why LVT is an excellent tax policy are well stated. The writers show an in-depth understanding, a knowledge of the history of the idea, and an awareness of current high profile advocates.

With this resource of quotes and references to mainstream media articles you can easily put your pen to paper or fingers to keyboard and write Letters to the Editor of news media and/or contact organizations to express your willingness to give a presentation about LVT. After you do so please send a report describing your success for the next edition of the IU view.

Please forward the IU view to others who may be interested. Also invite them to join the IU at our website: www.theIU.org.

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Land-value tax

Why Henry George had a point

This photo of Henry George appeared in the April 1st 2015 print edition of the Economist (by E.S.L./London). An edited version of the article follows.

IN THIS week's print edition, we take look at land and its importance as a factor of production. In particular, we argue that poor land use in the world's biggest cities carries a huge cost. Many economists have argued for a land-value tax, which could be used to make the property market more efficient.

LAND prices mainly reflect location: farmers may till the soil, or drain it, but most increases in land’s value comes from the activity of other people. Nobody builds skyscrapers or shopping malls in the wilderness. Landowners, in other words, enjoy unearned income from the benefits bestowed by good transport links, and proximity to customers, suppliers and other businesses. Once they have bought their land, they keep this money.

But why not tax it? That simple but revolutionary idea has deep roots. David Ricardo termed unearned income from land as a pernicious anomaly: “that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil”.

His best-known follower was Henry George... One of his fans invented the game now known as Monopoly, to exemplify the evils of untaxed rent. In a book called “Progress and Poverty”, published in 1879, George argued that land-value levies should replace all other taxation, leaving labour and capital to flourish freely, and thus ending unemployment, poverty, inflation and inequality.

... land-value taxation...does have many theoretical virtues. Most taxes—on profits, value-added or income, say—dampen and distort economic activity by changing incentives on the margins. Property taxes on the value of buildings penalise improvement and are hard to assess. Britain’s residential-property tax, for example, is based on valuations from more than 20 years ago...

Most taxes do not just depress economic activity; they also displace it—for example to offshore financial centres. ... Land-value taxes, on the other hand, lack these perverse effects. They cannot reduce the supply of land, or distort decision making. Instead they may even stimulate economic activity, by penalising those who hoard land and keep it idle .... Collection is cheap. Unlike profit, you cannot massage land away or move it to Luxembourg. If you do not pay, it can be seized and sold. Though nobody likes extra taxes, new land-value levies could be matched by cuts in other taxes, especially those paid by poor people.

Rich people tend to own a lot of land, poor people very little. For that reason it wins favour with economists who worry about inequality, such as the Nobel-prize winner Joseph Stiglitz. He argued in a recent paper that land and housing, rather than the distribution of income and productive capital, are the key to a fairer economy. When public investment improves the value of a site—for example by building a new road nearby—the benefit comes back to the community in the form of higher tax receipts, rather than ending up as a windfall in the pockets of the owners. Taxing the unearned income that landowners enjoy should curb the boom and bust cycle in land prices.
Environmentalists like it because it limits urban sprawl: better to build upwards than outwards. In the New York metropolitan area, the price of land has risen five-fold between 1986 and 2014, according to research by the Lincoln Institute, a think-tank.

Other economists like it too. Adam Smith said “nothing could be more reasonable”; Milton Friedman termed it “the least bad tax”. Winston Churchill said scornfully that a landlord “contributes nothing to the process from which his own enrichment is derived”. The Organisation for Economic Cooperation and Development, a Paris-based thinktank for industrialised countries, supports the idea. So too did a recent working paper by the International Monetary Fund and the Mirrlees Review of British taxation by the Institute of Fiscal Studies. The mayor of New York City, Bill de Blasio, hopes that taxing vacant lots by value will help deal with urban blight in the Bronx and elsewhere.

The idea has wide-ranging support among modern economists, and more than 30 countries have some form of land-value taxation, usually in harness with other property taxes, on buildings. But like many ideas that work beautifully in theory, the practical and political difficulties are daunting. The biggest problem is that to raise money and change behaviour, the rate of land-value taxation will need to be quite high. This arouses furious opposition from landowners, in most countries a potent lobby, see it as highly unfair. They have got used to enjoying their rents and object to their sudden socialisation. ...

Another problem (as with any new tax) is balancing winners and losers. Some categories of land (private golf courses and urban car dealerships, for example) are likely to be hit especially hard. So too are urban homeowners with gardens: the tax will encourage them to build on them, which is good for the housing stock but bad for the environment. Some pensioners may own a valuable and much-loved house but not have the means to pay the levy. The temptation to tweak the tax to soften these problems is great. Even fiscally purist Estonia, which adopted a land tax after it regained independence in 1991, now has multiple bands, including an exemption for homeowners.

A third problem is that valuation of the high-priced urban land (rarely sold as vacant plots) may be tricky—and controversial. Wealthy commercial landlords could tie the assessment process up in costly legal knots.

Some of these objections could be overcome. A land tax need not be implemented overnight. It could be phased in, which would mean market signals started working before the levies were actually paid. Hard-up owners of valuable land could be allowed to commute payment until they die. Valuation of urban land, with a bit of maths, is not insuperable.

Until a modern economy takes the plunge and introduces a land tax—and keeps it—it is hard to know if performance will match promise. “It is a question of faith” admits Stuart Adam, of the Institute for Fiscal Studies, a think-tank which backs the idea. Yet until its benefits are convincingly displayed, few politicians will feel like risking the wrath of the landowning lobby. In short, precious little has changed since George was alive.

IU View Editor note: The landowning lobby can be overcome by broad popular support of LVT as was demonstrated in Allentown, PA, USA where the citizens voted twice to implement LVT thus overcoming the well-financed opposition.
Space and the City

Poor land use in the world's greatest cities carries a huge cost

The Economist  4 April 2015

BUY land, advised Mark Twain; they’re not making it any more. In fact, land is not really scarce: the entire population of America could fit into Texas with more than an acre for each household to enjoy. What drives prices skyward is a collision between rampant demand and limited supply in the great metropolises like London, Mumbai and New York. In the past ten years real prices in Hong Kong have risen by 150%. Residential property in Mayfair, in central London, can go for as much as £55,000 ($82,000) per square metre. A square mile of Manhattan residential property costs $16.5 billion.

Even in these great cities the scarcity is artificial. Regulatory limits on the height and density of buildings constrain supply and inflate prices. A recent analysis by academics at the London School of Economics estimates that land-use regulations in the West End of London inflate the price of office space by about 800%; in Milan and Paris the rules push up prices by around 300%. Most of the enormous value captured by landowners exists because it is well-nigh impossible to build new offices to compete those profits away....

Two long-run trends have led to this fractured market. One is the revival of the city as the central cog in the global economic machine (see article). In the 20th century, tumbling transport costs weakened the gravitational pull of the city; in the 21st, the digital revolution has restored it. Knowledge-intensive industries such as technology and finance thrive on the clustering of workers who share ideas and expertise. The economies and populations of metropolises like London, New York and San Francisco have rebounded as a result.

What those cities have not regained is their historical ability to stretch in order to accommodate all those who want to come. There is a good reason for that: unconstrained urban growth in the late 19th century fostered crime and disease. Hence the second trend, the proliferation of green belts and rules on zoning. Over the course of the past century land-use rules have piled up so plentifully that getting planning permission is harder than hailing a cab on a wet afternoon....

.... You do not need to build a forest of skyscrapers for a lot more people to make their home in big cities. San Francisco could squeeze in twice as many and remain half as dense as Manhattan.

Why land has returned as a constraint on growth
Zoning codes were conceived as a way to balance the social good of a growing, productive city and the private costs that growth sometimes imposes. But land-use rules have evolved into something more pernicious: a mechanism through which landowners are handed both unwarranted windfalls and the means to prevent others from exercising control over their property. Even small steps to restore a healthier balance between private and public good would yield handsome returns.

(In addition to changing zoning rules and regulations)... governments should impose higher taxes on the value of land. In most rich countries, land-value taxes account for a small share of total revenues. Land taxes are efficient. They are difficult to dodge; you cannot stuff land into a bank-vault in Luxembourg. Whereas a high tax on property can discourage investment, a high tax on land creates an incentive to develop unused sites. Land-value taxes can also help cater for newcomers. New infrastructure raises the value of nearby land, automatically feeding through into revenues—which helps to pay for the improvements...

Two Cheers for Jeremy Corbyn’s Challenges to Economic Convention
by Martin Wolf
Financial Times/London  October 1, 2015

... the UK’s taxation of property is grotesquely unjust and inefficient. Replacing it with an efficient system of land taxation would be a huge boon. So, too, would an extensive homebuilding programme. The UK should also co-operate with other states to ensure that the world’s richest cannot park themselves in tax havens while benefiting from the stability and security our taxpayers provide.

The most interesting new policies of the Labour leadership election so far
by Jon Stone 20 July 2015 Independent UK

Andy Burnham has called for a reform of property and land taxation, and said he would consider introducing a Land Value Tax.

The levy on the unimproved site value of land is favoured by many economists, including the Institute for Fiscal Studies, which has said LVT is a good way of structuring taxation because it doesn’t distort markets, taxes unearned gains, and can’t be avoided.

“A land value tax would have been a much bolder thing to do [than introduce a mansion tax]. It's definitely still on my agenda,” he told Labour supporters in North London, according to local newspaper the Camden New Journal.
Land Tax often Overlooked in the Tax Debate

*The Sydney Morning Herald*
by Jessica Irvine   April 8, 2015

Sometimes, the answer is right in front of your face. Sometimes, it's just below your feet.

As we embark, as a nation, on a sensible and measured debate about tax reform, land tax should be a major part of the discussion.

Of the roughly four things governments can tax – companies, individuals, consumption and land – economists agree that land is by far the most efficient source for taxation.

Illustration: Kerrie Leishman.

Why? Well, of course, all taxes distort behaviour in the economy. That is because the targets of taxation go to great lengths to avoid it. Think Cayman Islands.

**Land tax is one of the most efficient taxes for precisely the reason it is unpopular: it is hard to dodge.** They know where you live. You can hire as many accountants as you want, but it is difficult to hide that mansion in Point Piper.

Hate them as we may, taxes are a necessary evil to fund the things we want as a society, such as healthcare, education and to help the poor.

The goal of government should be to raise enough taxes while doing the least damage to the economy possible.

Land tax is often overlooked in the tax debate, but the way forward is clear.

**The Ken Henry review recommended land tax should be broadened to fund the abolition of other more damaging state taxes, such as stamp duty.**

"Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the states,” the review found.

Economists hate stamp duties because, as a tax on transactions, they prevent transactions from taking place that would otherwise have been mutually beneficial.

First-home buyers must save for longer before they can buy a home. Ageing property owners are discouraged from moving to smaller properties.

A broader land tax – applied to all homes in Australia – could raise significant revenues, and at a lower rate than now. Ironically, parties arguing for no land tax could have more success arguing for the burden to be shared more widely.

Presently, only half of the total value of land in Australia is liable for land tax, according to the Abbott government's tax discussion paper released last week.

"This results in forgone revenue and distorts land use," the paper states.

For example, the application of high rates of land tax on large institutional landholders prevents large companies from investing in private rental housing. Instead, we have a cottage industry of landlords. Renters get to live on the whim of mum-and-dad property
investors, who are more likely to up and sell, and less likely to fix the leaky sink promptly.

More broadly, there is evidence of “significant economic gains associated with state tax reform”, the discussion paper finds.

Replacing stamp duty with a broad-based land tax could boost the economy by 1.3 per cent in the long run, on some estimates.

Implementation would be tricky.

There would need to be a provision for asset-rich, but cash-poor senior property owners to delay payments until their properties sold.

A new tax on homes, in isolation, would likely result in an immediate fall in prices, as the present value of all future land tax was factored into the sale price.

But if done in combination with a reduction in stamp duty, prices would be supported by buyers having more money upfront to spend on the purchase.

Over time, the economy would benefit as a less efficient tax was replaced with a more efficient one.

Most importantly, taxing land better would force a more efficient use of land in our major cities. Australian cities are home to some of the biggest houses in the world. A land tax would give grandmas in Woollahra, rattling around in their four-bedroom homes, more of an incentive to subdivide or downsize. No more sitting on windfall wealth from rising property prices and passing it on to the kids.

It is getting harder to ignore the glaring and rising wealth inequality across Sydney: the affluent inner sanctum versus the rest. Natural supply constraints and NIMBY councils have pushed up prices, regardless of where the Reserve Bank has interest rates.

Sensible tax debates are, at heart, debates about what sort of society we want to be.

Should we be a society in which wealth is passed from generation to generation through property, a landed aristocracy 2.0?

Or should governments begin to tax wealth where they find it: at home.

*The Economist* magazine, hardly known as a bastion of left-wing thought, last week called for countries to rely more on land taxes to relieve affordability and drive more efficient land use in global cities. Sound like pie in the sky?

Well, no. The ACT government recently committed to just such a reform. Over two decades, stamp duty will be phased out and replaced with a broad-based land tax on family homes.

Land tax offers a way forward for cash-starved state governments, with the added benefit that you do not need to wait for a sensible and measured tax debate in Canberra.

And I wouldn't hold my breath on that one.
Home prices and inequality: Singapore versus other 'global superstar cities'

The Straits Times Singapore 3 April 2015 by Phang Sock Yong

The bottom half here own a quarter of gross housing wealth, a more equal distribution than in other cities with higher-than-average house price growth.

Photo: Tiffany Goh

Republic's housing kept affordable

The topics "superstar cities", "inequality" and "housing policy" are often discussed separately.

I will focus on the area where they overlap - in particular, how housing policy has been used to mitigate inequality in the context of Singapore, a global superstar city.

The Global City concept originates from the work of sociologist Saskia Sassen, which dates back to the 1980s. In an age of globalisation, division of labour is international in scope and production activities are distributed across the world. A global city is a significant point where the internationally oriented financial and producer services that make the global economy run choose to agglomerate.

In the Economist Intelligence Unit's Global City Competitiveness Index, Singapore is ranked third in global competitiveness after New York and London, and the most globally competitive in Asia. The fourth position is shared by Paris and Hong Kong, and Tokyo is ranked sixth.

Superstar cities

The term "superstar cities" is a more recent concept and is the title of a study of United States cities by urban economists Joseph Gyourko, Christopher Mayer and Todd Sinai. Their paper notes the considerable differences in long-run house price appreciation rates across US metropolitan areas and towns after World War II.

These differences led to an ever-widening gap in housing prices between the most expensive metropolitan areas and the average ones. They define locations that experience persistently higher-than-average house price growth as "superstar cities".

Thomas Piketty

Post-2014, it is impossible to discuss economic inequality without referring to Thomas Piketty's book, Capital in the Twenty-First Century, which won numerous awards last year. Piketty highlights rising income inequality as a major problem, focusing on the increasing share enjoyed by the top 1 per cent and top 10 per cent.

My estimates for income shares for the top five global cities show Singapore's income distribution to be less equal than Paris', but more equal than those of London, Hong Kong and New York City.
Piketty's greater concern, however, is with the distribution of wealth - that capital or wealth ownership is much more concentrated than the distribution of income from work. His data for the US indicates that the top decile own 72 per cent of America's wealth, while the bottom half's claim is just 2 per cent.

In most European countries, the richest 10 per cent own around 60 per cent of national wealth, the poorest 50 per cent invariably own less than 5 per cent. In his view, it is this unequal ownership of capital that is a prime driver of income disparities….

To regain control of capitalism without giving up its benefits, he advocates more progressive income taxes with the top marginal tax rate of 80 per cent for incomes above US$500,000 (S$682,000) to US$1 million, and a utopian idea - a global capital tax ranging from 0.1 per cent to 10 per cent on the total wealth to restrain the growing power of inherited wealth.

Of superstar cities. George's 1879 book, Progress and Poverty, was a bestseller on both sides of the Atlantic in the 1890s. In his time, the rapid development of cities in 19th-century America caused substantial increases in land prices. This had large wealth and income redistribution effects as landowners and land speculators enjoyed huge windfalls. These windfalls, in turn, fuelled expectations for future price increases, resulting in speculative bubbles.

The crash that inevitably followed would wipe out vast amounts of asset values - creating another set of winners and losers which may not necessarily match the first set of winners and losers. Unlike Marx, George held nothing against the capitalists. Instead, his remedy was that any increase in land rents should be shared by society rather than fall into private hands. ("We must make land common property"). To effect this, he advocated a 100 per cent land value tax on the annual value of unimproved land held as private property.

What this meant was that buildings and other improvements (the product of the efforts of capital and labour) would not be included in the tax base. The proposed tax was called the single tax as, in his view, it would be sufficient to support all levels of government, thus permitting all other taxes on labour, capital and production to be abolished.

Prominent fans of George have included personalities as diverse as Leo Tolstoy, Winston Churchill, Sun Yat Sen, Milton Friedman, and Joseph E. Stiglitz. Modern-day Georgists advocate partial land value capture taxes as a less extreme form of George's land tax.

The few jurisdictions that have implemented site value taxation separate the property tax base into an unimproved land value component and improvements, and tax property owners at a higher rate on the unimproved land value. In the urban transport sector, land value capture through a betterment tax is often proposed as a means of funding the cost of expensive transport infrastructure such as urban rail transit.

From Piketty to George

Piketty adopts a very broad definition of capital and does not treat land or real estate assets differently from other forms of capital. As Singaporeans know only too well, land does deserve special treatment, and should be treated as distinct from globally mobile capital for policy purposes - especially in a land-constrained global superstar city.

The ideas of another economist, Henry George, who proposed a quite different utopian idea over a century ago, are more relevant in the context
Singapore's housing wealth redistribution framework can be interpreted as containing elements of George's land value capture tax and Piketty's progressive wealth tax, in addition to other significant and innovative institutions and policies….

As a global superstar city as well as a nation state, Singapore has harnessed the entire spectrum of land and housing policies to keep housing prices affordable. Singapore's house price to income ratio of five is the lowest among the global superstar cities, with Hong Kong’s ratio at 17.

Singapore's resident home ownership rate of 91 per cent is also an outlier, with Hong Kong, Paris and London relying on social rental housing to meet the housing needs of lower-income households. New York City has a small public-housing sector but relies on rent vouchers as well as rent control regulation of nearly half of its private rental housing stock.

Based on my estimates, the low inequality that has been achieved in the distribution of Singapore's gross housing asset comes close to capital distribution in Piketty's "ideal society". The bottom 50 per cent owns one quarter of the gross housing wealth.

If the data for overall household wealth distribution were available, the overall wealth distribution would probably approximate the Scandinavian wealth distribution in the 1970s and 1980s….

Want to tax foreigners more?
Try land tax, says Treasury
Australian Financial Review, 7 April 2015 by Fleur Anderson

Treasury says Australian households would benefit from a land tax because of the extent of foreign landowners who would be forced to pay the tax. Photo - Glenn Hunt

Australia's most efficient tax is not the GST but a broad-based tax on landowners regardless of whether it a suburban block or a sprawling pastoral estate, according to Treasury economists.

An analysis of five major Australian taxes by eight economists from Treasury's Macroeconomic group and Treasurer Joe Hockey's tax reform taskforce has given top marks to a broad-based land tax, so far only existing in parts of Sydney and the ACT, as the most efficient tax to raise revenue without negative impacts on the broader economy.

The working paper found the burden of company income tax mainly fell on workers through lower productivity and wages, and stamp duty on conveyancing was also passed on to workers. The working paper found the burden of company income tax mainly fell on workers through lower productivity and wages, and stamp duty on conveyancing was also passed on to workers.

A simplified personal income tax system and the GST were more efficient than company tax and stamp duties but still saps workers' purchasing power of their wages after paying tax.
Whereas a "hypothetical" broad-based land tax - championed by the Henry tax review and now in use throughout Denmark, Estonia, Russia, Hong Kong, Singapore and Taiwan - would be a winner for Australian households because of the extent of foreign landowners in Australia who would be forced to pay tax.

"Since the revenue collected from foreign and domestic land owners is only redistributed to the domestic household, an increase in land tax results in a net transfer to the domestic household," the working paper said. "The domestic household will receive a net windfall gain from the lump-sum transfer that exceeds its tax expense."

Treasury estimated 10 per cent of income from land currently goes to foreign owners and a broad-based land tax on all land, regardless of the value of the buildings on it or whether it was a family home or a foreign-owned commercial estate, would generate a windfall to domestic household of 10 cents for every extra dollar of tax revenue collected.

And in even better news for households, Treasury economists predicted households could use the extra cash to go to the shops or on holidays.

"This increase in income is expected to result in both increased consumption and increased leisure," the paper said.

A previous analysis of land taxes in 2011 as part of the NSW Financial Audit found current land taxes - which are similar to council rates and in NSW does not apply to family homes - was not as economically efficient as a mythical broad-based land tax because it had too many exemptions such as the family homes, farms and including tax-free thresholds.

Likewise the real-life GST, compared to the purity of a hypothetical goods and services tax, has been criticised for its many exemptions such as health, education and fresh food which makes the collection of the tax more inefficient.

The South Australian government is also canvassing a state land tax as part of its discussion paper released in February and has called for discussion about one tax reform idea which would abolish stamp duty on property transactions and replace it with a broad-based property tax of around $1,200 per annum for a median valued home of $410,000.

The Henry taxation review in 2010 also recommended a broad-based land value tax which did not include buildings or be triggered by property transactions because both of these can distort the use of the land and can be inequitable.

It also urged against using lower rates or tax-free thresholds to address social inequity, which is better targeted through the personal tax and transfer system.
From basic income to social dividend: sharing the value of common resources

by Rajesh Makwana 18 March 2015

Rajesh is director of Share the World’s Resources  http://www.sharing.org/

It’s time to broaden the debate on how to fund a universal basic income by including options for sharing resource rents, which is a model that can be applied internationally to reform unjust economic systems, reduce extreme poverty and protect the global commons.

(After a thorough overview of the pros and cons of a basic income, Makwana details several “commons rent” approaches that could fund this approach to economic justice. Here are several edited paragraphs from those sections.)

... if funding is the primary issue, why not link the policy to wider reforms for how governments raise public revenue? (there are)... numerous ways in which states could raise huge quantities of additional income for urgent social and environmental purposes, such as implementing higher taxes on extreme wealth and very high incomes, closing tax havens, ending corporate tax avoidance or implementing a financial transaction tax. Alternatively, governments could divert a percentage of their colossal military budgets, or withdraw a proportion of the vast subsidies currently paid to agribusiness and the fossil fuel industry. Similarly, new levies on environmental ‘bads’, such as pollution or waste disposal, could help raise revenues while providing a disincentive to ecologically destructive activities....many proponents of systemic tax reform argue that levies on earnings, employment and profits disproportionately impact those already on low incomes, while encouraging environmentally damaging activities, and penalising the contributions that people and companies make to society.

Land value taxation is widely regarded as a logical and fairer alternative to existing methods of raising revenue and, like basic income, it has considerable support among both progressives and conservatives. ...James Robertson has proposed a new social compact in which land value taxation would play a central role in funding a citizen’s income. Robertson’s proposal illustrates the possibility of funding a more comprehensive basic income scheme that would also enable governments to take decisive steps towards creating a more just and sustainable economy.

... But the process of deriving social dividends from shared resources need not be confined to the nation state, and could even be used to fulfil the entitlement of every human being to a fair share of the global commons. For example, Alanna Hartzok outlines how a Global Resource Agency could feasibly collect resource rents from the exploitation of shared resources such as ocean fisheries, the sea bed, the electromagnetic spectrum, and even outer space. ... The finances raised could also support the provision of global public goods or help meet other international priorities such as providing disaster relief, ending hunger or mitigating climate change. Furthermore, this international model of economic sharing could also distribute a proportion of the revenues generated as a global citizen’s income based on an equal share of the value of global resources.