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A BREAKTHROUGH POLICY FOR THE “JUST ABOUT MANAGING”.

EXECUTIVE SUMMARY

We first identify the main feature of the bottom thirds' condition, isolating the rent of land. We then examine this concept and find that it really a manifestation of “location value”. As this is created by the community as a whole, the solution to our problem becomes obvious. Finally we sketch out the probable consequences of collection “Location Value Refund” instead of taxation.

The one third at the bottom of advanced economies masks a yet more dismal fact, that in London it is 47%, and in Haringey it is 58%, according to the 2011 census. (1) So we should ask first, **what is the defining characteristic of the economic condition of these whose lives are less rich than they should be?**

It does not take much searching to discern that the main feature of these disadvantaged citizens is that they are the rent payers. Theirs is a constant struggle to pay rent out of income which never seems to be enough.

Above the one third-line will be those who have long leases still, those paying off a mortgage, those who bought into property before prices rose so much, and, further up the scale will be those who receive rents. Here we are looking at a cross section of inequality.

The concept of “added value” may help here. This concept seeks to show the productivity of those who work in an organisation or alone.

(1) <http://taxpayersagainstopoverty.org.uk/news/sound-the-alarm-bell-for-the-housing-crisis> (29.12.2016)

From the sales, or output is deducted the cost of using the product of other organisations to arrive at the value created by the work in that place. Then it is usually presented by showing the distribution of that value. The reward for work is the first claim, followed by taxation, interest on capital and rent. For this purpose, we use the term “reward for work” rather than wages, because we wish to show that taxation is now an extremely large part of the claims.

The reward for work is mostly spent on living costs, whilst the taxation is spent by government, which usually does not have enough, and so it borrows the difference. Interest is paid to the providers of capital and becomes unearned income to them but includes compensation for business failure and bad debts.

But rent is different. In terms of value added the rent of a house or man made products would be deducted from output along with other outside costs. But the rent of land is a distribution of added value and turns earned income into unearned income. Those who receive it do not spend it in the same way as those who create it. Thus a gathering wave of rent (of land) moves from the poorest to the richest in a never-ending transfer of wealth.

It is this fact that keeps the one third in their place.

Thus, we should examine the idea of rent of land. Land by its nature is actually free. The land is here when we arrive and we cannot take it with us. It is as free as the air we breathe! But unlike air it can be enclosed and a sort of phony ownership be attached to it by law. This gives a power to the owner to charge a rent for its use. There is no contract or fair consideration for the rent that may be charged, therefore the only limit is the maximum that a tenant can afford.

Here is an example given by Winston Churchill in his campaign speeches of 1909. *“Some years ago in London there was a toll bar on a bridge across the Thames, and all the working people who lived on the south side of the river had to pay a daily toll of one penny for going and returning from their work. The spectacle of these poor people thus mulcted on so large a proportion of their earnings appealed to the public conscience, an agitation was set on foot,*

municipal authorities were roused, and at the cost of the ratepayers the bridge was freed and the toll removed. All those people who used the bridge were saved sixpence a week. Within a very short period from that time the rents on the south side of the river were found to have advanced by about sixpence a week, or the amount of the toll which had been remitted.” (2)

Would it be any different now? All experience tells us that this is taking place now, under our noses, and inexplicably it is accepted as the way things are.

So, how did the poorest land up in this quandary? Let us cast our mind back to the history of the conditions of the working people. In the first place, at the Conquest in 1066, William parcelled out all the land to his supporters, so every farmer had a landlord. He was expected to provide service to the king, so he levied a charge on his “tenants”. Bit by bit, the control of the land that was given to the barons morphed into a rent, and instead of being sufficient to meet the king’s demands, became the most that the farmers could pay. Skip a few hundred years. The farmers were replaced by sheep as nearly all common land was enclosed. Displaced people drifted to the towns where the recent birth of industry promised them employment. But now they had nothing to sell but their labour. The product of their work belonged to the entrepreneur or landlord. There was no fall back to a piece of land they could call their own. The owners or landlords exploited this position to the maximum, forcing down wages to a minimum. Their condition was aptly described by Dickens and others. (3) The public conscience again arose, just as Churchill describes, and various measures were brought in which alleviated the problem, more by increasing the minimum acceptable than anything else. But the basic conditions were unchanged. The measures had to be paid for, so taxation was introduced, which eventually became paid by those poorest. Of course, such taxes could not be paid for out of a wage already pushed down to the minimum acceptable. The result was that taxation forced down rent.

(2) “The Peoples Rights” by WSC – Jonathan Cape 1970. SBN 224 61748 6

(3) “The Village Labourer” and “The Town Labourer” by JL & B Hammond, Longman Group 1995 ISBN 0-86299-345-8 and 0-7509-0966-8

And let no-one tell you that the poor do not pay taxes.

What is the burden that the poorest have to pay?

Recent figures from the ONS show that the lowest quintile of earners paid 31% of their take home pay in indirect taxes, that is VAT, fuel duty, etc.(4) This is even before they hit the thresholds for Income Tax and National Insurance. (5) And they also have to pay Council Tax.

So, we land up with wages (after tax) pushed down to a minimum, whilst tax and rent (for land) compete for the balance. One result is that tax and rent affect each other. When taxes are reduced, rent increases, and with more delay, when taxes are increased rents have to reduce. The price of land is directly related to rent. It is the capitalised purchase price of an indefinite flow of advantages.

The relationship might be 5%, ie land price will be twenty times the rent, but other factors may vary the rate. We can see how this works at present, when stamp duties have been raised for more expensive properties, and this imposed as a one off charge on purchase has brought about a reduction in the price of properties near London and stalled the market, reducing rents a small amount. On the other hand all efforts to make it easier to buy into the market have the effect of increasing land prices

But there is another factor about rent. What does it represent, and why does it vary from place to place? **Or, to put it another way, what gives the landlord the power to charge rent for that which is free?**

Is it something more than simply the law that man must have land to live, and if he is excluded he will pay dearly for access? A combination of taxes and rent represents the facilities provided at that place. Thus, nearness to London creates high ability to pay tax and rent because of infrastructure installed over the years.

(4)ONS paper "The effects of taxes and benefits on household income, 2013/14 page 9.

In our road in a suburb, we have two nearby stations, a regular train every fifteen minutes, roads that are cared for, police to keep order, a local council to clean the streets and collect our rubbish, water and sewer systems, shops nearby enjoying the same facilities, and a host of other benefits. All of which have been paid for out of taxation or borrowing.

In other words we, the community as a whole, have paid for the locational benefits which give rise to much of the power to charge rents, which are very high in our area. But in other areas the benefits are less. Fewer trains, long distances to travel and so on, so that rents in those places are also less.

But why, it must be asked, why if we all pay for these benefits, why do we allow private landlords to benefit from them?

*So now we come to the crux, and the basis for a solution to the problem. **This is what we do.** We remove the locational benefit from those who claim ownership of land, and we use it to reduce taxation. The community creates value, and the community gets it back.*

The cost of **not** doing just that is enormous. First there is the unfairness of those kept in the bottom third in such a way that only extraordinary effort can release them. Second is the damage done by the taxation system adopted by the class of government, historically representing landlords. A large part of taxation is related to wages, in such a way that the cost of employing a person is twice the reward for work that the employee actually enjoys. That amounts to a 100% tax on wages. This has done massive harm to the country. On the one hand the employee has to be able to add value twice what he lives on. Some will fail on this measure, increasing the taxation required. On the other hand it puts this country at a disadvantage to others who attach less tax to wages. (5)
Hong Kong is one dramatic example. (6)

(5) "Employers' Burden " see <http://landisfree.co.uk/EmployersBurden2015-16.pdf> (29.12.16)

(6) "No Debt, High Growth, Low Tax" by Andrew Purves (Shepherd- Walwyn ISBN 978-0-85683-507-0

To make the proposal clear we only have to ask three questions;- **What is Location Value? Who create it? Then why have we not got it?**

We can say that taxation as such is wholly unnecessary. For the transfer of location value to the government is a refund of benefits actually received. So we can call our solution to the problem "Location Value Refund".

What can we expect to follow? First, the manifestation of unearned inequality would be stopped in its track. The value of land would reduce sharply, so that it could be possible for our disadvantaged to buy a house for the price of a house. Private debt would eventually disappear. If the proceeds of location value were used to reduce taxation, location values would at first rise. The government would find its receipts rising, whilst its expenditure would reduce following an upsurge in employment, probably in the form of self-employment, as people found that sites are available without initial cost. Government would shortly have a surplus of funds to reduce the national debt. Wages would rise as the rent of land no longer pushed them down. A great burden would be lifted from the economy. Tax avoidance would lose its point, as all sites can be readily identified and cannot be moved abroad.

Let us be clear. There is no need to take land away from anyone. But there would be an annual payment according to its location value. This would bring land into use in order to get the locational benefits from which the annual payment is to be met.

Unused land could be returned to the community, and made available to another user, who might use it in another way. Planning and land use restrictions can still be set as now. Complete land registration would be required.

In order to add imagination to our proposal, here follows a long term vision.

"Let us suppose that we have come to realise the force of natural law, and decided to collect public revenue in the form of location value refunds and eliminate the disastrous tax system we had in its place. The transition has been tricky, as we have had to unwind so many unnatural results of the old system.

So here we are thirty years on. Why thirty? It has taken a generation to deal with the disastrous effects of a wholly dysfunctional tax system. By now, we no longer attach the vast bulk of our taxes to wages.

We have devised a suitable mechanism to collect public revenue, that is, that part of production attributable to the efforts of the whole community. The result of the efforts of individuals are retained in full – no tax deductions. . The cost of living has come down by the cancellation of all indirect taxes – VAT, petrol duty and all the rest. A great rebalancing has taken place. The general level of wages has risen to the maximum available from the best site still available for use. The accumulation of wealth in the hands of those who thought “this land is mine” has been stopped in its track. As public revenue was gradually collected, the value of land has fallen, and now has no private value. Landowners still have their land, so long as they pay the appropriate annual charge, but land is no longer counted as wealth. A house can now be bought for the price of a house. Mortgages have fallen to a small proportion compared with the old basis. The level of debt has plummeted, and the money supply likewise. Those who took out mortgages when they had to purchase the land as well as the house have been encouraged to honour the debt they took on, and many find that the increase in wages makes this possible. But also a debt forgiveness scheme has been set up, whereby those whose accumulated assets arose partly or wholly from land appreciation before the changes can voluntarily hand this to the scheme, which is used to reduce all old mortgages pro-rata. This has become possible following the realisation that land is a free gift, without which the changes noted above would not have been possible.

After about twenty years, government expenditure began to fall as some parts of the welfare state became unclaimed. It was found that public revenue was buoyant as the cancellation of taxation added to it but impacted on city centres instead of marginal areas. For some years it has been possible to reduce government debt, and there is speculation about what might be done with a surplus in future. But much infrastructure improvement has been funded, and the fact that this is speedily paid for by an increase in public revenue has created a wholly different attitude”.

If you have difficulty in imagining how all this might come about, read “Prime Minister” by John Stewart. (7)

Now finally, I have to admit this is not a new idea, though perhaps it has been told in a new way. We have lived for maybe a thousand years with a fundamental error in our affairs. As time goes on, the result of that error is magnified- can we tell where it will land up if we do not correct it soon?

If we do not set about this correction, we can expect the one third to become one half, then three quarters. At some time we shall have to come to our senses and realise where we have gone wrong. Why not do it now before it becomes more and more difficult?

This is what we do. We remove the locational benefit from those who claim ownership of land, and we use it to reduce taxation. The community creates value, and the community gets it back.

What is the effect on those “just about managing?” First, the shift of tax from their earnings and on to higher locations would increase their living standards. Next, the removal of rent of land would do the same. The reduction in land values would reduce the debt required to acquire a house. The need to provide welfare would decrease. That is enough to start the ball rolling!

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(7) “Prime Minister” by John Stewart (Shepherd-Walwyn ISBN 978-0-85683-274-1