



**Independent (UK)  
Constitutionalists**



## **The Location Value Factor**



## Taxes Good & Bad

The purpose of our initiative as **Independent Constitutionalists** is to prepare the ground for radical reform of the UK political-economy. It must involve a new way of governing ourselves through, among other things, *citizen participation*, *independence* from narrow, adversarial, party-political power struggles, and the *citizen framing* of a new codified constitution. Political change, if it is to be sustained and meaningful, must combine with an inclusive and fairer way of managing our economic affairs.

A first step must involve radical reform of our fiscal system, of the way revenue for the public purse is raised. Now taxes tend to be seen as a necessary good or evil, depending on one's point of view. But even those who consider them an evil would surely agree that some taxes, to paraphrase Orwell's famous formula, are "more bad" than others.

Income Tax and VAT, which combined according to 2016-17 forecasts were reckoned would make up 42.2% of total receipts into the public purse, are among the taxes that fall into this category. Why so? Both are levied on income, known as *earned* income, that derives from productive labour. In other words, from the contribution that businesses and working people, whether employees or independents, make to our shared welfare and sense wellbeing.

Now compare this with what is known as *unearned* income, derived **not** from economically productive activities, but from non-productive speculation in money and financial products, and more especially in the constantly rising market value of land. The yield from this kind of speculation disrupts the productive economy or at best remains at its margins since it is frequently either off-shored to avoid tax or earmarked for further investment in financial products. The widening gap between speculative activity of this kind and the productive economy has given rise to an economically damaging disconnect known as *financialisation*.

Now why should unearned income from speculation be minimally taxed while earned income from productive labour bears the main brunt of the fiscal burden? Is this fair? Wouldn't it be more sensible to collect revenue from unproductive *unearned* income first



and begin taxing *earned* income only if there is a fiscal shortfall or a need to intentionally alter people's behaviour (by, for example, taxing tobacco or alcohol)? But the unfairness of our current fiscal arrangements doesn't stop there. It is further compounded by another piece of gross unfairness with no less serious consequences.

## Community-created Location Value

Much of the disposable wealth that fuels the vicious circle of financialisation derives from and contributes to a speculative practice called land-banking (the hoarding or holding of land out of use while its market value rises). A developer, institution or individual, buys up land, waits for its market value to rise (this involves the somewhat strenuous activity of sitting on the land and doing nothing – that's the unearned bit!), and then sells it on at a tidy profit.

"But the investor in land has paid through the nose for it, why shouldn't s/he get something in return? And what about the risk?" you ask. "What risk?" we should reply, "Investing in land is as safe as the houses that could be built on it! Its value just keeps on rising".

And so on. What this conversation fails to reflect is the fact that the value of what is being brought and sold is not so much a function of the land itself but of where that land is located, of its *location value*, i.e. its closeness, and the access it provides, to the various amenities – schools, transport infrastructure, parks, hospitals and other public assets – that make the location so desirable. Now these amenities are community-created and at present funded largely from taxes on *earned* income from productive labour. Is it fair, Constitutionalists ask, that land-bankers and speculative developers, many of whom come from far outside the communities concerned, are able to get away with handsome profits without hardly having to lift a little finger to contribute to the value that makes those very profits possible? Is it not time this *free riding* on the backs of other people stopped? Is it not time these profiteers were asked to make a contribution, in fair proportion to the colossal profits they derive from the community-created uplift in land value? Constitutionalists, and we're merely adding our weight to that of a growing band of outraged citizens, are suggesting we develop some way to make this



possible. Solutions bearing various titles have been proposed: Land Value Charge, Annual Ground Rent, Citizen Amenity Dividend etc. Our preference, but we remain open to suggestions, would be: **A Location Value and Amenities User Fee.**

The presupposition behind all these proposals is that we are all stewards of the land and of the natural resources on and in it. This idea is reflected in the time-honoured use of the appellation: *freeholder*. We need to be clear: built property that any freeholder has purchased and/or invested in rightly belongs to the freeholder as absolute owner. But the land itself does not *belong* to the freeholder. Any holder uses the land for his or her private purposes, be those purposes residential, commercial or agricultural, but does not *own* it. Therefore, in addition to the rental already paid on depletable resources like water and wind power, the holder ought to contribute fairly to the public purse in respect of the value of the natural and social services enjoyed by occupying that land.

## Questions for further discussion

1. What is the likely proportion of current taxes on earned income that could be replaced by a Location and Amenities User Fee?
2. How would the Fee be calculated?
3. What effect would this have on the situation of what might be termed “the lesser beneficiaries”, i.e. the millions of home-owners who in acquiring a house have been able to benefit, albeit more modestly and one-off, from the uplift in land value?
4. What effect might such an arrangement have on the Housing Market?
5. Investment in property has become the vehicle of choice for those wishing to provide for a “rainy day” and protect their savings against inflation. What other saving options might be available for those involved once the collection of user fees has rendered investment in land-value less attractive?
6. Other?