Two carrots and a stick

Although the fetishisation of Liz Truss somewhat discredited the growth brand for a while, it's back with a vengeance in the rhetoric on all sides in this election campaign with everyone claiming that their policies will drive enough economic growth to preclude the need to raise taxes in order to fund better public services. Underlying this magical thinking is the oft-proven First Rule of Taxation that the more you tax something, the less of it gets done: taxes on productive activities like work, trade and enterprise—Income Tax, National Insurance Contributions, Value-Added Tax and Corporation Tax—make goods and services more expensive and shrink the economy. And these four taxes account for over two-thirds of Treasury revenue.

But what if there are taxes that don't affect economic growth? One of the few things that economists from across the political spectrum agree on is that such taxes exist: a Poll Tax is one but that never works out very well (think the Peasants' Revolt and Margaret Thatcher); and wealth taxes in general don't have the same impact as direct taxes on productive activities. What if there were a specific form of wealth tax that encourages growth at the same time as it raises revenue? And what if that tax covered over 60% of UK wealth?

The Labour Land Campaign (LLC) advocates an annual levy on landowners based on the value of their asset, land value taxation (LVT). This fair, efficient and pragmatic form of taxation has well-characterised advantages over any of our current taxes in many and various ways but, in this climate, it is worth emphasising that far from stifling growth it stimulates economic activity. It does this in three different ways.

Firstly, revenue from LVT will be used to reduce the above-mentioned, destructive taxes.

Secondly, LVT encourages the optimal use of one of the three classical means of production, namely land. The UK land market is dominated by a few semi-monopolistic players who call themselves developers but whose business model actually depends on not developing anything and sitting on undeveloped land while its value rises due to real investments in the vicinity, largely publicly funded (transport infrastructure, schools, hospitals, local job creation, …).

Last but not least, history shows that if this kind of speculative activity is made less lucrative by having to pay an annual levy on land holdings (whether they are developed or not), much of this sterile "investment" is redirected into the real economy where goods are produced and services are provided.

All this defies the First Rule of Taxation: whether or not land is taxed doesn't affect the amount of it. You can't take your Mayfair mansion off-shore (where so much of our green and pleasant land is bizarrely owned) and if you try to, His Majesty's Revenue & Customs service will know where to recoup any tax due.

LLC Secretary Carol Wilcox says "When it comes to LVT and growth, there are two carrots and a stick: the theoretical pro-growth public-sector virtues of LVT with respect to raising revenue and optimising land use (the two carrots) are well recognised but history also shows us that it is through discouraging unproductive, private-sector investment (the stick) that the introduction of LVT has its fastest beneficial economic impact, notably by boosting productivity." ENDS

The Labour Land Campaign is a voluntary organisation working for land reform.
It advocates a fairer distribution of land wealth through a Land Value Tax.

For more information see www.labourland.org

Contact details
Press Officer: Anthony Molloy
Email: anthony1molloy@gmail.com
Telephone: +44 (0)7704 116 238

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