



THE LIBERAL DEMOCRATS

ALTER

ACTION FOR LAND TAXATION & ECONOMIC REFORM

LAND VALUE TAX: INTERNATIONAL EXPERIENCE



There is not much experience of Land Value Tax (LVT) in countries that compare well, in culture, history or geography with the UK. The case for LVT largely stands on its theoretical merits, covered in other leaflets in this series. Nevertheless there is a small body of robust evidence that where LVT has been tried it works.

Hong Kong & China

When Britain took control in the 1840s, The Crown resolved early on to retain freehold of the colony for itself. Hong Kong Island, then Kowloon and the New Territories, became a model for how to create a successful free enterprise economy without relinquishing 'common wealth' in land. On average, about 40% of Hong Kong Government's annual revenue still comes from land. Half the working population pays *no income tax*, start-up businesses benefit from very low taxes – and public welfare is relatively generous for Asia.

The Land Premium, the process by which LVT is raised, is far from ideal. Whenever the Government wants to expand the built-up area (70% of Hong

www.libdemsalter.org.uk

A

L

T

E

R

Kong is still undeveloped), it auctions a lease – usually at least 25 years – on a ‘design and build’ basis to developers. In return for a huge up-front payment, that is too large except for the richest players, the successful bidder gets to build an entire town, complete with infrastructure.

Additionally revenue fluctuates with the global property market cycle; and only a handful of developers can afford the high payments.

China appears to be following Hong Kong’s lead, and little land is sold outright.

Former Soviet Union in the 1990s

A lost opportunity. When the Soviet Union turned towards a market economy in the early 1990s, some 30 top economists in the US wrote an open letter to Gorbachev, asking him to retain land and natural resources as a source of public revenue. Gorbachev’s successor Yeltsin followed neo-liberal IMF advice in selling off most of Russia’s natural assets. Economic and social consequences for all but the new mafia and a breed of super-rich oligarchs were dire.

The Baltic States all rapidly moved to develop a genuine free property market but without relinquishing land as an important source of revenue. In the Lithuanian general election of 2005, it was the Conservative Party that fought strongest for LVT: it saw the policy as a key component in creating an enterprise economy. Unfortunately LVT was not fully implemented before the global credit crunch caused great damage to the economies of all the Baltic States, which had already seen much speculative investment in land.

Pennsylvania from the 1970s

American cities have a great deal more freedom to choose between different taxes than local authorities in Europe. A study by Tideman & Plassman looked at how cities in one state (Pennsylvania) which have adopted a higher rate of tax on land than on buildings compare in economic performance, over a 30-year period, with those that have not. The conclusion was that for every one percent shift off building value onto land value there was a 16% increase in the value of construction permits issued. This measure is roughly equivalent, in UK, to the value of planning permissions awarded.

The state capital Harrisburg, whose long-serving mayor has been an advocate of LVT, claims the policy was largely instrumental for his city being 'turned round'.

Australia, esp. Melbourne 1970s

Like N America, Australia, New Zealand and South Africa have all adopted forms of LVT, at state and local government level, as an option. All Australian states except Tasmania still actually use it.

A few towns near Melbourne tax land alone, the rest of Victoria opts for a property tax with the same rate on land and buildings. The 'land taxing' towns exhibited a noticeable increase in new business start-ups between 1974 and 1984 (when government ceased to publish the data) compared to other towns (+10%, compared to -20%).

Denmark since the 1950s

Denmark has had LVT for local government since the 1920s, hence was prepared for it at national level when the Justice Party, whose main plank was LVT, entered into a "Ground Duty" coalition in 1957 (with Radical Liberals & Social Democrats also nominally supporting LVT). A year later, all economic indicators were looking positive. Despite this, all the Government parties

lost seats at the 1960 election and the Justice Party was wiped out.

LVT has continued to be levied at a local level. Lessons from the Ground Duty Government are: (a) landowners can always afford a vigorous anti-LVT campaign; and (b) supporters must emphasise tax shifting – reducing other taxes and minimising numbers of ‘losers’ is vital early on, however beneficial LVT is for the economy or notions of ‘justice’.

Other Examples

LVT was introduced to Taiwan in 1948. This transformed agriculture, leading to the break-up of feudal estates and huge growth in productivity. However the valuation process was technically flawed and led to some perverse consequences, allowing powerful elements to profit from land speculation and LVT is somewhat discredited.

Closer to home, the Irish Government in 2009 stated its intention to adopt a Site Value Tax within two years. This was a concession to the Green Party by its larger coalition partner.

Liberal Democrat

Action for Land Taxation and Economic Reform

Author: Tony Vickers

Contact us at info@libdemsalter.org.uk

One of a series of LVT information sheets, editor D Cooper ©ALTER MMX
Printed and published by P. Elderton, 86 Rothes Road Dorking, Surrey RH4 1LB