

Land&Liberty

communiqué putting people at the heart of economics

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since 1894

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China news

what way reform?

The Chinese authorities are putting in place reforms to combat problems caused by rampant economic growth. The Ministry of Land and Resources has issued a directive that from January 1st it will massively raise land fees and taxes in an attempt to reign back "runaway investment". Land use fees for new construction projects will double and the tax on the use of urban land will triple.

The plans are part of a series of measures the government hopes will address the country's emerging new land issues. Objectives are to protect arable land and the farmers who live and work on it, discourage land abuse and corruption, and curb speculation in the "super hot" fixed-assets market.

More broadly the moves are a response to concerns over the country's burgeoning economy. China posted economic growth of 10.9% in the first half of 2006 — on the back of a 30% growth in fixed asset investment.

The land proposals are aimed at helping cool the economy. According to the People's Bank of China the country's overheated real estate market soared by 24.3% in the first three quarters of 2006. Boosted household income is encouraging homeownership. China Economic Review reports investment in commodity residential housing up 29.5% in that period.

But according to the China Daily, real estate watchers believe the plan to slow investment in fixed assets may have little impact on the country's burgeoning property market. Experts warn success will lie in the policy detail.

China's challenge is seen as the design and implementation of a taxation system the equal of the economic, political, environmental and social challenges it now faces.

SLGFR news a fairer way

The Scottish Local Government Finance Review has published its final report. The Inquiry's English equivalent, the ongoing Lyons Review, lies still where it's been kicked by Tony Blair, in the political long grass.

The Scottish report — *A Fairer Way* — may itself come to nothing. In a seeming knee-jerk reaction, its conclusions have already been rejected out of hand by the Scottish government. The report makes 19 broad-ranging recommendations for reform, including a new Local Property Tax (LPT) to replace Council Tax, based on the capital value of homes. But First Minister Jack McConnell said he "wouldn't give the time of day" to the report.

The publication is the result of a two and a half year consultation and review process. The independent inquiry was set up by the Scottish Executive to look at local taxation for Scotland, and to make recommendations for reform. The Review Committee is headed by Sir Peter Burt, former chairman of the Bank of Scotland.

The group's remit explicitly included land value taxation. The Henry George Foundation sat as expert witness to the review and presented written and oral evidence. The Foundation set out arguments to the Committee in support of 'evolving' Council Tax to base it on land values. At the Inquiry's invitation, the team also prepared *A Note of Advice* in response to some specific questions raised. The Foundation's team included Professor Roger Sandilands from Strathclyde University, Fred Harrison from the Land Research Trust, and Peter Gibb. Key parts of HGF's evidence are published or referenced within the report. The Scottish Green Party also gave evidence in support of land-value based reform.

The Committee's report summarises its conclusions on land value reform in three points. It presents two points against and one for the proposal.

Firstly — against — the Committee concluded that "although land value taxation meets a number of our criteria, we question whether the public would accept the upheaval involved in radical reform of this nature, unless they could clearly (cont. over)

HGF news library group

The Henry George Foundation has set up a working Library Group. It meets at 2pm on Fridays at 11 Mandeville Place, London — or earlier for lunch. The Group will provide a programme of social and educational activities to promote an understanding of economic and social principles, policies and practices needed to promote the welfare of all people. Meetings are expected to include lunches with speakers, visits and films, talks and study or discussion sessions.

The Foundation will provide an environment in which mainstream students and teachers are encouraged to engage in dialogue with Foundation members, and explore the ideas of Henry George and like-minded thinkers.

The Foundation's current executive capacity is entirely on a volunteer basis. So the Group is an opportunity for volunteers to meet and undertake tasks useful to the Foundation's purposes.

To join in the Library Group just turn up any Friday, or for further information speak to David Triggs — phone him at the office, or email d.triggs@henrygeorgefoundation.org

conference

Over eighty delegates recently took part in the one day conference *Progress without Poverty - Can Taxation Support Progress?* Joint hosts for the day were the Henry George Foundation, the School of Economic Science and the Professional Land Reform Group.

The conference explored how economic potential could be released by removing the deadweight losses associated with current taxation. Speakers described how modifications to the tax system could help reduce social tensions, promote economic justice and create sustainable wealth. Speakers included David Triggs (*Chair HGF*) Dave Wetzel (*Vice Chair TfL*), Ian Mason (*Head of Economics SES*), and Chris Huhne (*LibDem MP for Eastleigh*). Heather Wetzel case studied Harrisburg, Pennsylvania, a US jurisdiction pursuing land value taxation-orientated policies.

the newsletter of the Henry George Foundation



**CHINA
land and tax
reform to sustain
development**



**goodbye to golden
chariots**
Thorkil Sohn on why
justice pays

breaking ground

Dot mobi 'landrush'

Leading British internet domain registrar UKreg is inviting customers to preorder their new dot mobi domain. The invitation describes the opportunity as a "landrush", and urges users to "stake their claim".

Internet top level domains like .com, .co.uk, or the new .mobi for mobile internet services, set the boundaries for owning unique domains on the net.

A fairer way

(cont. from p.1) understand the nature of the change and the benefits involved." This point is a straightforward recognition of the principle task ahead for reformers today, all around the world.

Secondly – also against – the Committee believed that the public was eager for tax reform, and wanted it now. The public would not look kindly on delay, or on being treated as guinea pigs, it argued. The Committee noted that "commentators who advocate the introduction of a land value tax have suggested that it should be introduced initially in pilot form". No evidence was presented to the Committee in support of that approach, either by the Foundation or by other witnesses. However the Committee's report does reference its source: a research paper from the Lincoln Foundation – *A Blueprint for Smart Tax in Britain* by Tony Vickers, one-time CEO of the Henry George Foundation. The Committee was sceptical of the plan. It doubted whether the public would "accept a situation where reform to local taxation was delayed in order to allow details of a replacement scheme to be tested by pilot schemes". This point is at the very least a challenge to UK strategists for reform.

The Committee's third point in its summary is a positive one. "We considered at length the many positive features of a land value tax" the report states. Many of those features it concludes "are consistent with our recommended local property tax [LPT] particularly its progressive nature." However, evidentially, in the judgement of the committee, these positive features were outweighed by the points against.

"Having considered both rateable value and land value as the basis for taxation" the Committee concludes, "we concur with Layfield [UK Committee of Inquiry, 1976] who recommended that any local property tax should be based on capital values."

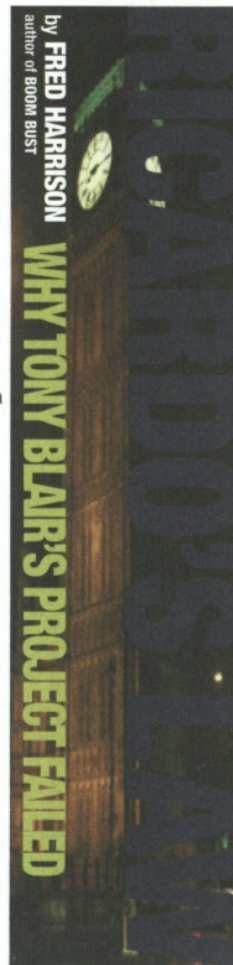
Ricardo's Law

by Fred Harrison

Ed Dodson reflects

by FRED HARRISON
author of BOOM BUST

WHY TONY BLAIR'S PROJECT FAILED



Fred Harrison is championing an aggressive campaign.

His new book *Ricardo's Law* takes no prisoners as he examines the actions, motivations and indecisions of nearly everyone who has held power or is in power today. For reformers this strategy is, of course, a gamble. On the other hand, even political scientists acknowledge that the way public policies are changed in social democracies is best described as "disjointed incrementalism."

I have no idea whether Harrison's attack on conventional wisdom and a thousand years of entrenched

privilege will register. But, I do share his sense of urgency. I live in a country that must raise \$500 billion annually just to service the Federal government debt, and where the Republicans (assisted by some Democrats) have orchestrated what is likely history's largest shift in tax burden onto producers. Greed, ostentatious display of personal wealth, and conspicuous consumption are put forward as fundamental rights. If I could figure out how to get a public audience to listen, I would be joining Harrison to damn this sham of a democracy. Mostly, I behave myself and wait for the inevitable implosion that is sure to come. **L&L**

see also forthcoming
books on the back page

letter from the editor

Second Life is a 3-D virtual world entirely built and owned by its residents. Since opening to the public in 2003 it has grown explosively, according to its website, and today is 'inhabited' by over 1.6m people from around the globe.

The experience of 'inhabitants' of this new world is key to the place's success. Hundreds of new residents join each day: they "explore the Second Life world", "meet other people", and "discover the thousands of ways to have fun". Crucial to the 'fun' on offer is the buying of (virtual) land and doing things with it, and interacting with what others are doing on their own land.

It is important not to dismiss Second Life as just a game. Some residents are now making real money from their virtual developments. And this is of course the purpose of the project. Whereas Second Life's 'front-of-house' is an open, public leisure facility (at least that), there is a not-quite behind-the-scenes purpose to what's going on: it's for making money. Things are still relatively small: the value of the total world money supply is only \$4m. But expect that to 'grow explosively' too.

According to their sales pitch Second Life is "a 3-D platform for developers who want to present, promote, and sell their content and applications to a broad online audience within an immersive, shared space." Underpinning the promotional jargon's promise we find a rather interesting pseudo-fiscal scheme.

Residents within the Second Life realm are free of taxes. "Second Life provides our expanding developer community with ownership of anything it builds or creates in Second Life. It is yours to sell, trade or monetize within the rapidly increasing population of Second Life Residents." Residents are able to keep the whole return on everything they do in Second Life – at least within the system. No taxman skims off taxes from your earnings, savings or capital assets, or 'adds value' to your purchases. Real world state jurisdictions are known to be investigating the matter.

So then where does the money come from for running this virtual community? It seems Second Life's founders intuitively knew the best way to fund their project. This on-line community is funded from 'land use fees'.

The system is primitive. There is (for the moment) no locational differential in land values in Second Life. But a historical review tells us that it's only what we would expect: because for the moment this is frontier country; desirable free land is still available, the community's development is at an early stage. So we'll see that change. Before too long locations which are in some virtual way advantaged (by the 'rules of the game'?) will find their 'land use fee' commensurately increased – while peripheral land will still be available with lower value. The emergence of virtual centres, nodes and margins within Second Life will create virtual land value gradients: the present primitive system of 'land use fees' will evolve to draw upon that.

The comparison with physical land is of course flawed, not least because the supply is not 'finite' in the same way. But Second Life has lessons for the way forward in the real world. For a world foundering in human injustice and environmental ruin, it offers an alternative model for sharing resources and funding society.

Some may find the importance of Second Life difficult to accept. The only solution would be for them to go there. And if Chancellors and Finance Ministers around the world do that they might be surprised to find their own 'intuitions' gainfully woken.

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