

**Submission to**

**The All-Party Oireachtas Committee on the Constitution**

**From**

**School of Philosophy and Economic Science**

**47/49 Northumberland Road, Dublin 4**

**Telephone: 01-6603788**

**May 2003**

## EXECUTIVE SUMMARY

Equity and efficiency in economic activity in the State will be enhanced by aligning our legal and economic systems to economic principles based on justice.

The simple yet profound relationship between land and the community demonstrates that increases in land values are directly related to the work and investment of the community and seldom to that of the individual landholder.

A system of land value taxation, based on market valuation, where the value of the land created by the community reverts to the community, is an equitable means to finance tax needs while still adhering to the fundamental principle of property rights.

Taxation collected in this way will allow a corresponding reduction in taxation on productive effort, in particular a reduction of PAYE and PRSI.

The benefits of this approach, which are detailed herein, include:

- a more equitable means of raising government revenue;
- land is used productively rather than left idle or derelict;
- improved productivity of labour;
- improved industrial relations by reducing the single “tax wedge”;
- encourages employment and reduces unemployment ;
- improves productivity of investment;
- unlike other taxes it is not shifted to the consumer;
- a permanent contributor to a reduction in the rate of inflation;
- reduction in house purchase and rental costs;
- lessens the incentive to engage in political and planning corruption;
- removes the need for indiscriminate and politically favoured tax relief;
- significant improvement in the processing and compensating of compulsory purchase orders;
- removes the source of speculation in land value;

- reduces the “sump effect” on grants, allowances and subsidies;
- agricultural grants can be distributed in a more efficient way;
- improved transparency in dealing with key natural resources;
- reduces urban sprawl;
- reduces boom slump cycle;
- offers a clear analysis in the use of economic resources;
- helps improve public transport investment.

We recommend a simple change to the constitution to allow this approach to proceed. This change is to reconcile the property rights of the community at large with the property rights of the individual based on the principles outlined herein.

## INTRODUCTION

Thank you for this opportunity to contribute to your review of the Constitution with regard to property rights, land and the use of land in the community.

The School of Philosophy and Economic Science, a registered charity, has through the work of its economics department, taken a keen interest in the specific topics you wish to address. Part of the work of the School is to come to an understanding of the natural laws at work in society, including the realms of law and economics. The School aims to base this submission squarely on the principles of justice and the common good. In 1991 the School made a submission to the Commission on Taxation. After a number of meetings the Commission commended our submission for not representing any particular vested interest group. We hope to continue that tradition.

This submission attempts to reflect the fine sentiments of the final paragraph to the Preamble to the Constitution in ..

*“...seeking to promote the common good, with due observance of Prudence, Justice and Charity, so that the dignity and freedom of the individual may be assured, true social order attained, the unity of our country restored, and concord established with other nations...”*

This paper endeavours to offer a practical proposal which reflect these qualities thus contributing to a more harmonious, sustainable and progressive society. It is our understanding where true principle is not acknowledged in crafting our economic and legal systems the result is a greater tendency and regular recurrence towards political corruption, social injustice and difficult economic problems. We hope to, for example, demonstrate that the lengthy and costly tribunals, called to investigate the manipulation of the legal and economic systems, happened because, as a society, we fail to acknowledge the authentic relationship between three factors. The first factor is land as a

natural resource, the space and material on which and with which we work. The next two factors are the work done by each individual and the of the community as a whole.

In preparing this paper we have had recourse to a number of helpful texts we wish to acknowledge.

*Bunreacht na hEireann* – The Constitution of Ireland

*Kelly on the Constitution*, – 3<sup>rd</sup> edition. A lucid and comprehensive commentary on the Constitution.

The “*Kenny Report*” – The Committee on the Price of Building Land Report to the Minister for Local Government, March 1973. It is a comprehensive, yet simple analysis of many of the issue raised by this review. We use this report as a source of common reference and authority and quote extracts to illustrate issues.

The “*Bacon Reports*” on the housing market, in particular, the initial April 1998 report with its helpful ‘delphi’ survey highlighting the role of land in the housing market.

“*Land Value Taxation*” - includes essays by William Vickery, Nobel laureate for Economics 1996 and Professor of Economics, Columbia University.

The first section of this submission attempts to set out our understanding of the fundamental principle governing the tripartite relationship between -

the land, as a pre-existing, natural resource;

the individual citizen, who has an absolute need for land on which to work and who is acknowledged as the essential cause of all wealth creation rather than cost; and,

the added value to land arising from the work and need of the community in general.

The second section looks at how best to give practical application, in the realm of law and economics, to this principle in the form of property and taxation law. The advantages to the individual and society are considered. The next section considers some transition difficulties which can emerge when change from a problematic to improved system is taking place.

The final section addresses the issue of the Constitution and how it may need to be changed in order to avoid restrictions, and indeed, to positively encourage moves which allow this fundamental principle function more fully for the common good in our legal and economic systems.

An executive summary is given at the beginning of the submission.

## THE FUNDAMENTAL PRINCIPLE

This section sets out our understanding of the fundamental principle governing the tripartite relationship between -

the land, as a pre-existing, natural resource;

the individual citizen, who has an absolute need for land on which to work

the added value to land arising from the work of society at large.

The aim is to remain true to a principled approach when forming legal and economic structures in the State. This in itself should contribute to the development of sustainable social justice in the community.

Basic economics tells us two essential elements are needed to create wealth and well being - Land and Labour.

*Land* is all the natural resources which pre-exist people. It includes the earth, water, air, light and space. All these basic elements are essential for each person to live. In most cases the elements are commonly held for the common good so that no individual holds a monopoly at cost to the common good. *Land* also includes the many natural combinations of these elements that give us the resources which at this time are especially valuable to our life style e.g. oil and coal. However in this constitutional review we are particularly concerned with land as it is commonly understood, the basic, yet absolutely essential, space on which we live and work.

*Labour* – in basic economic terms, is all human effort which provides services and products. The only item absolutely required for labour to work is Land. It is the essential

base on which work, quiet literally, takes place and which labour employs to provide goods and services.

Once these two essentials, land and labour, combine to produce something of use to society we get *added value*. A critical question then needs to be answered: What is the basis for an individual's and the communities just entitlement to a fair share of 'added value'? What guideline can we use to shape the property and taxation laws that direct our legal and economic systems. What precept will have universal acceptance, be fair to individuals and yet serve the common good? Simply put justice consists in rendering to each and everyone their due. In economic terms this principles emerge as two principles

That all people have equal rights to the use and enjoyment of the elements provided by nature

That all have a right to the use and enjoyment of what is earned or produced by ones own effort

In order to honour this principle and approach to social justice in the Constitution a guiding principle of property rights is required.

A general guiding principle is suggested - each individual or group to share in *Wealth (Added Value)* commensurate to the value of work done. Individuals and groups acquire a just entitlement to a commodity to the extent they have worked to earn it. To the extent they have made some contribution or sacrifice to the product or service so they share in this added value<sup>1</sup>. In general terms, *Nett Income* accounts for the proportion of the added value going to all who have expended effort. *Taxation* goes to government/community through PAYE/PRSI, VAT, Stamp Duties, etc. to cover government services and infrastructure. Other contributors receive *Interest* and *Profit* for their respective contributions. The question arises who contributes to the increasing value of *Land* and therefore has fair entitlement to that increased value?

---

<sup>1</sup> Off course gifts are given, family is cared for and all in need are properly supported. This honours the prerequisite of Charity (Love) which our Constitution has at it very foundation.

The Kenny Report has useful analysis to illustrate this critical issues. Chapter Two ‘*The Causes of the Increases in the Price of Land*’, presents a helpful overview on the ever increasing price of land, including land for house building :-

*“.....since the amount of land available, is for all practical purposes, fixed, the influences on prices must stem predominately from the demand side. One demand factor of importance is population. An increase in population will require more land both to supply an increased of the amount of food and raw materials and to cater for extra housing and other needs”(S 12)<sup>2</sup>*

*“.....it is the combination of an increasing population and rising income that provides the basic mechanism for the continuing upward trend for the price of land for development purposes. Other factors can operate to accelerate or slow-down the pace of such price increase but it is unlikely that they can arrest it completely”(S 15)*

These universal factors are as relevant today as when written thirty years ago. They will still be applicable in one hundred and thirty years time. This analysis serves to emphasise the unique and indispensable nature of land to each individual and to the community as a whole.

Kenny, having identified the indispensable and therefore unique role of land as space on which to develop the means to live and work, proceeds to further consider the factors contributing to land price increases under an analysis of the concept of “betterment”.

*...“betterment”, an ambiguous terms because it is sometimes used to describe the increase in the price caused by **works**, sometimes to describe the price brought about by all **economic and social forces including planning schemes** and sometimes to describe the part of the increase which ought to be **recoverable from the owner.**” (S 27)*

---

<sup>2</sup> The ‘S’ in the reference refers to the sections 1 to 149 in the main body of the ‘Kenny Report’

Here Kenny indirectly helps identify three factors which increase land prices and which therefore should share accordingly in the increased value of land.

- (1) Here “*works*”- are described as ...

*“ ...when a Local Authority carries out schemes for sanitary services or builds a road or does other improvements. The land which benefits from these will get a higher price when sold.*

This is work external to the land or site. Sanitary services and roads are specifically noted. However all community infrastructural development and localised community services will have the same positive impact on land prices in the locality, whether or not they are vacant sites or already build upon. Luas, Dart, schools, libraries, roads, swimming pools, policing, post, universities, hospitals etc., All are provided by community. All have the effect of enhancing the prices of sites situated in the locality.

- (2) “*economic and social forces including planning schemes*” -

Kenny specifically identifies '*planning schemes*' and *permissions*, given by the local authority or central planning agencies as distinct factors contributing directly to land price increase. Essentially they release the real value of land which the community has created as described at (1) above.

- (3) The increase in the price of land '*recoverable by the owner*' is distinct from the first two factors. They clearly above which clearly relate to work done by the community at large. On the other hand examples of work done, by the landholder which increases value of the land would be drainage works or the fertilising of the soil on the site itself. These are capital investments which should earn a fair return

in profit based on competitive rates of profitability. All other increases in land value is generally due to community contribution.

Clear distinction is needed between value of the land and the value of the development on land. A well located 'derelict site', with planning permission, will continue to increase in value by virtue of the on going efforts of the surrounding community. Nothing need be done directly to the site. Indeed any buildings thereon, not for renovation, are a diminishment to the value.

In reality the owner of the site can do very little to improve the value of the site *per se*. Clearing up the dereliction, putting in drainage etc., will save building development cost and be rewarded accordingly. The remainder is attributable to the development of the community.

Kenny considers two other factors causing land prices to increase.

*“...speculators will be attracted to land as an appreciating asset which can be acquired and held at little risk and cost.” (S 16)*

The absolutely indispensable and unique aspect of land as distinct from any other factor in our economic system points to inevitable financial speculation in trading this singular commodity. The interaction between the naturally limited supply of land and the naturally ever increasing need for the community to use this natural resource drives and maintains the price. Unlike all other commodities this essential commodity cannot be reproduced.

Kenny cites the following observation

*“Even land for which drainage is not available at present has been purchased in the belief that when drainage becomes available the price of land will remain*

*sufficiently high to ensure a profit to the speculator who believes that he will eventually obtain at public expense free main drainage and water facilities. These speculators feel that once they have brought the land at any price that that must be the minimum price they will get for it. The result has been that the price of underdeveloped land has been inflated entirely out of its real value and the local authorities have had to pay exorbitant prices, even for land for the housing of working classes.... We think that this was and still is a correct assessment of the situation (P 23)*

In addition to the speculative factor driving prices the fact that land can be ‘*held at little risk and cost*’ out of use and idle, yet still appreciate, is another indicator of the uniqueness of land as an economic factor as distinct from nearly all man made assets. By simply denying the use of this unique natural resource it absorbs the value of all the surrounding work of the community.

Kenny goes on to state (and note this was said over thirty years ago);

*“ We believe that many of the causes which produced the upward trend of the past decade will continue... the price of building land will continue to move in an upward direction.” (S 24)*

## THE APPLICATION OF PRINCIPLE

The practical application of justice in our legal and economic systems is best served by the simplicity of adhering to true principle in day-to-day practical situations. This might be appreciated as the practice of *Prudence* so eloquently commended to us in the preamble to Bunreacht na hEireann. In Prudence we act in a practical way while maintaining care and charity for all concerned. Prudence is not prudence if truth or justice are ignored to give unfair advantage to one individual or group of individuals.

The combined creative skill of good and practical politicians and legislators is needed to craft and carry property and taxation laws that are based on justice and have the backing of the community. The effect of the law in the realm of economics should be to give all their fair share. The system should encourage productive creative work, utilising all the resources of the community to provide for the individual and community needs. It should be open and transparent. It should be efficient and effective.

In attempting to change anything, even when done with the best of intentions, human nature presents difficulties. Old habit and vested interest, fear and greed, can cloud good judgement and influence action. Clarity and courage in thought and action continue to be essential to good politics.

What is the fairest and most efficient way to ensure the increase in value of land due to the community returns to the community ? How does a society avoid monopoly power in land being used at cost to the common good? How can we reduce the price of accommodation ? The following proposition aims to address these issues. Constitutional change may be needed to give effect to its application.

Our proposal is based on changing the incidence of taxation so that it is more efficient and effective in dealing with the issues the Committee wish to addresses - zoning, house price increases, the efficacy of grants and subsidies, compensation and CPOs and other land and law based issues.

The proposal is to *reduce* the level of taxation on productive effort and trade e.g. PAYE/PRSI - both employer and employee, Stamp Duty, Rates, etc., and to obtain the required revenue by collecting the increase in land values, created by the community, as a replacement source of funding for government spending which by definition is for the common good. How can this be achieved?

The market value of any land, valued exclusive of any building or development, is a close reflection of the value placed on the site by the community. By placing a Site Value Tax (SVT) on the unimproved value of land, calculated as a percentage of the estimated market value, the community retrieves much the value of the increase to land created by its own investment in infrastructure, amenities, services and permissions. For example, land and house valued at, say, €220,000 has house valued at €120,000 and land at €100,000. An SVT of, say, 2.5% per year generates a yield of €2,500 pa. The general government revenue is increased by €2,500. Taxes levied on employment and /or trade is reduced a similar amount. This is the essential proposal.

The closer the actual implementation of such a system is to achieving the transfer of the differential land value back to the community the greater the possibility to achieve in a practical and sustainable way the objectives of Justice , Prudence and Charity in the economic and legal affairs of the State. To the extent that preferment of vested interest, for selfish purposes, dilutes the implementation so the sustainability and efficiency is reduced.

The value of land is of course influenced by such purely natural factors as the soil type, climate, and minerals. It is, though, the presence and activity of the population as a whole which actually confer differential values on sites. Land value is determined by the demand for living and working space. It measures the advantages of a particular piece of land over that of the poorest land in use.

Land values are affected by the provision of services such as water, gas, and electricity. They are protected by the Gardai, fire and hospital services, and flood control and drainage systems. Communications (including road, rail, seaports and

airport) are especially significant, and every improvement to the infrastructure will result in higher land values overall in the areas affected . Individual sites will not benefit equally, and a few may even lose value in the short run which would be reflected in a lower tax level.

At local level the growth of service industries at the expense of much 'heavy' industry has resulted in the redistribution of jobs and of people; whilst at a local level, we see how one-way streets, parking regulations, and moving a pedestrian crossing can affect the relative attractiveness of competing shop sites.

The individual landowner, in his capacity as owner of land, clearly is powerless to create his own land value, although if he were also to exert labour or provide capital he would, in those distinctly different roles, play his small part as a member of the larger community. The landowner as such, though, performs no significant function. His sole contribution to the process of wealth creation is to charge labour and capital for access to what nature has already provided free, at a price which reflects the extent of past, current, and anticipated future levels of economic activity. Values which ought rightfully to be public, have to be 'bought back' from landowners before anything new can be done.

Before proceeding it may be a source of some encouragement to consider a selection of comments from Noble prize winning economists on the efficacy of land value taxation. Interestingly they represent the full spectrum of political ideology from left to right.

*Paul Samuelson:* "Pure land rent is in the nature of a 'surplus', which can be taxed heavily without distorting production incentives or efficiency." A site value tax can be called "the useful tax on measured land surplus."

*Franco Modigliani:* "It is important that the rent of land be retained as a source of government revenue. Some persons who could make excellent use of land would

be unable to raise money for the purchase price. Collecting rent annually provides access to land for persons with limited access to credit."

*Robert Solow:* "Users of land should not be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government equal to the current rental value of the land that he or she prevents others from using."

*William Vickrey,* "It guarantees that no one dispossesses fellow citizens by obtaining a disproportionate share of what nature provides for humanity."

*Milton Friedman:* "I share your view that taxes would be best placed on the land, and not on improvements."

*James Buchanan:* "The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes."

## **BENEFITS OF LAND VALUE TAXATION**

### **1. A more equitable means of raising government revenue.**

The benefits created by the direct investment of the community – roads, rail, schools, universities, Gardai, defence forces, parks, theatres, sports and leisure facilities, hospital, etc., are returned to the community in direct relation to the increase in value they bestow to each location in their vicinity. The more desirable any particular location, for residential or business purposes, caused by community development and/or natural advantage, the greater the desire to use the location. This creates a greater market value for the location/site on which the related annual contribution, in the form of Site Value Taxation is returned to community. This in turn provides funds for further development.

SVT is as close as we can get to collecting the value of the common effort for the common good.

### **2. Land is used productively rather than left idle or derelict**

Because there is an annual charge on every site, regardless of development, or lack of development, this acts as a strong encouragement to utilise the resource rather than keeping such an essential resource out of use. The level of tax is based on best use of the site and this encourages active development.

### **3. Improved Productivity of Labour**

Reduction in PAYE/ PRSI gives each employees more net pay. This encourages greater individual effort and business enterprise. The present marginal rate of PAYE/PRSI for many employees is over 50%. This is effectively a 120% levy on productive labour. In reality each employee works for their net salary. This

became very apparent when we consider the role PAYE/ PRSI reduction played in recent national wages agreements. The net salary is the true wage. If we allow, say, 10% employer PRSI, in addition to income tax, the PAYE/PRSI payable on an additional €50 net payment is €60, an effective levy of 120% on productive work. This has a number of serious economic consequences which may not be immediately apparent. These aspects are considered below. Ireland would gain a significant competitive advantage by reducing our exposure to the drawbacks of this debilitating approach to tax collection. A move towards a site value taxation solution would help to improve Ireland's international competitive advantage.

#### **4. Improved Industrial relations by reducing the Tax Wedge**

Example at 3. above demonstrates an inherently divisive situation. The employee is working for €50, the net wage. The employer needs productivity of €110 i.e. allowing for additional payroll related tax, €60. The employer pays the real net wage to the employee each week or month and then on a monthly basis pays the payroll related taxes to the Collector General. This acts as an obvious wedge between employer and employee with differing expectations based on differing financial impacts. SVT would help to move from a divisive and counter-productive incidence of taxation to a more reasonable and productive tax basis.

#### **5. Encourages employment and reduces unemployment**

Reduced labour related costs makes Ireland a more attractive location for domestic and inward investment. This is particularly true where we now directly compete for 'knowledge based' jobs with the Indian subcontinent and the new emerging EU countries of eastern Europe.

#### **6. Improved Productivity of Investment**

A Site Value Tax is levied in relation to the value of each site regardless of development on the site. This creates a positive incentive to fully utilise land because the productive development does not incur additional tax. SVT suits the active and consumer conscious developer. With the same tax being due for similar sites, regardless that one lies idle and the other is dense with well plan

accommodation, the go ahead developer will be well rewarded with good profits. This general incentive to bring all sites into suitable productive use gives a social and financial uplift to urban areas. This would normally cause land prices to lurch forward undermining the social gain, however SVT has a neutralising influence to stabilise land prices over the long run.

#### **7. Site Value Tax, unlike other taxes, is not shifted to the consumer**

It is a well accepted precept in economics that when the same rate of tax is applied, regardless of use, relative profitability is unchanged. The landholder is therefore, not inclined to change its existing use. Land will not be forced out of use because if it has minimal value it will have minimal SVT. This means there will be no change in the supply of goods and services produced involving the land/location. Therefore there will be no change in price. The tax falls fully on the landholder ; the net rents received by the landholder fall by the full amount of the tax and land values fall accordingly.

As far as the user of land is concerned, in practice there would be no difference between land value tax and rents paid for the use of a site. The rental value of a site is determined by its productive capacity over that of a similar size site at the margin. Marginal sites are those that are on the verge of going out of business with average labour and entrepreneurial effort because of their position or natural resources. The rent that can be commanded by the owner of the site is this differential productive capacity (over the marginal site), paid periodically.

Under a SVT system, part of the rent would be reclaimed as public revenue. It is sometimes argued that the landlord would simply put up the rent to cover this tax. This could not succeed for the reasons developed by examining the following examples.

Suppose a producer on a high value site put up prices in an attempt to recoup the amount paid as SVT. If the effect of his increased prices could be

sustained, then other producers would quickly follow suit and raise their own prices until they were at the new higher level throughout the market for those products. The producer at the marginal site, paying no tax, would find a 'windfall' return from these higher prices and his site would no longer be marginal. Thus, if the higher prices persisted, the value of all the sites would rise by that cumulative increase in prices and the result would be higher land values and higher rents and SVT.

But it is more likely that the marginal producer would keep his original prices and take a larger market share. Thus the turnover on the higher value sites would decrease, and the attempt to pass on the tax would fail. In either case the intention to pass on the tax to the consumer would be defeated by normal market forces.

If the tax is paid by a landlord who then tries to pass this levy on to a tenant, again the attempt would be negated. Assuming that, as commonly applies, landlords have pressed their claim to the maximum that the rental market will bear, they will simply force the tenants to find alternative sites from which to operate. Because the tenant is already paying the maximum rent that the site can sustain, any attempt to increase it beyond this point would put the business in jeopardy; the tenant would either have to take less in wages, salary or profit, or find a more viable site.

Since, under SVT many more sites would become available, the threat of the tenant to vacate would leave the landlord with a hard choice: either to attempt to find a tenant who was prepared to take a lesser return - to work for less, or to risk having to pay the SVT on the unused site, which would still bear the full tax. Thus the landholders's attempt to offset the SVT would fail.

In summary SVT is not passed to consumer because:

- market forces determine the differential site values in the first place,
- market forces determine that occupiers pay the maximum rent (or equivalent sale price or mortgage) that the site will bear,

- market forces ensure that product prices are kept competitive, i.e. absence of monopoly,
- the fact that alternative sites will be available to tenants because vacant and unused sites will become more available by the operation of SVT.

## **8. SVT makes a permanent contribution to a reduction in the rate of inflation**

We are constantly reminded that increased wage costs are a significant contributor to increasing inflation. Increasing inflation is a significant contributor to the need to increase wage rates. A vicious circle.

By reducing the level of employment based tax and collecting the a similar amount through an annual SVT there is less inflationary pressure on the cost of production. Taxes based on labour costs will always feed through to inflation. Point 7, above indicates SVT has less impact on consumer prices and inflation rates.

## **9. Reduction in house purchase and rental costs**

The relationship between house prices and land prices is first considered. Supply and demand governs prices. However where land as a vital factor in house provision is allowed to be held out of use, by what is effectively a subsidy financed by the community, the artificially high costs associated with an monopoly prevails.

The question is - 'Do land prices impact on house prices? Kenny and Bacon consider this. Kenny introduces some key components of house price for consideration.

*“ We do not propose to discuss the controversial question whether the price of land or high wages or unduly large profits are the main cause of high prices which are being asked for new houses. Those connected with*

*the building industry maintain that the price of land is the main cause, while others make charges of excessive profits. The high cost of land certainly contributed to the increase in the price of new houses” (S 26)*

Bacon addresses the relationship between land price and house prices as an economist.

*“ Is it the supply and demand for housing that is pushing development land prices or higher land prices that are pushing housing costs? From an economists point of view the balance of probability would suggest the former channel rather than the latter”(April 1998, S 9, p iv)*

Bacon was helpful in giving the details of the ‘Delphi’ survey conducted among a range of experts in the building and property sectors (April 1998, p 42). The one factor that emerges time and time again, in response to questions ‘*Posed in Connection with House Price Determination*’ is the critical impact of land supply and cost. In addressing this issue Bacon reiterates the quote above, but goes on to say

*“Indeed, the submission made by the Irish Home Builders Association goes to considerable lengths to demonstrate that land costs represent an increasing proportion of the housing costs. (April 1998, p 50)*

Bacon did note in the second report (*March 1999, S 17 p 4*) the possibility of reduced house prices arising from a reduction in land prices.

SVT would act as a holding charge, and land hoarding and holding of property vacant would be discouraged, as owners would have to bring sites forward for development and into occupation in order to pay their tax liabilities. The imposition of site value taxation would, for the first time, create competition

between landholders, since the option of leaving property empty would be far more costly than it is at present. This competition would bring about a reduction in rents and house prices, together with an improvement in standards. The tax would be a move towards equality of treatment between owners and tenants, reducing the relatively privileged position of the former. Landholders would no longer be negotiating from a position of strength but would be in the same position as any other trades-people in respect of their customers. By altering the balance of market conditions to create a plentiful supply of low cost accommodation, site value taxation should make it possible to abolish rent control. There would be no need for rent control because landlords would take care not to ask their tenants to pay more than they could afford; if the tenants went, then the landlord would pick up the land value tax bill.

**10. SVT lessens the incentive to engage in political and planning corruption**

One of the fundamental principles of economic activity is that we tend to satisfy needs and wants with the least possible effort. This accounts for the variety of occupations as each of us attempts to match ‘chosen profession’ and our means of ‘earning a living’. It also accounts for intelligent and creative efficiencies in all accepts of life and work. It is also the basis for the desirability of a Lotto win and other ‘*something -for-nothing*’ schemes.

The present laws fail to adequately recognise the way land naturally captures the added value created by the community. This creates situations where many small and sometimes very large opportunities to ‘get something for nothing’ are created. By maintaining a system whereby the granting of a planning permission can abruptly cause a piece of land to capture the pent-up actual and speculative value of the surrounding community investment has many of the attributes and attractions of gambling. Millions of euro may be at stake if the right package of permissions and tax incentives can be enacted for a particular plot.

The efforts of many highly intelligent and well paid operators are directed at political lobbying and financial finessing rather than straight forward work to serve the consumer. This ironically named ‘public relations’ work, often conducted far from the public view, easily stoops to bribery and corruption as politicians and planners with influence are given advances from future ‘windfalls’! to help make a ‘killing’ in the property market. It appears to be something for nothing however the value has in fact been created by the combined effort of the community.

Much of the projected hundreds of millions of euro and all that otherwise productive time wasted on tribunals directly relate to the fact that we have simply failed to put a fair mechanism in place to relate land values with community investment.

**11. SVT removes the need for indiscriminate and politically favoured tax relief.**

Employment taxes and Rates hit hardest those industries which are employment intensive and those located in marginal areas in the country. The very businesses needed to uplift disadvantaged areas. A cursory review of the way economically marginal locations such as Temple Bar, Smithfield and the IFSC in Dublin and other areas in the country have prospered illustrates the this. These tax breaks, however successful in particular cases, are fairly crude and arbitrary attempts to encourage development which has been suppressed in the first place by crude and indiscriminate taxes on productivity regardless of taxable productive capacity.

SVT obviates this additional complex layer of tax manoeuvring which is open to unfair political manipulation. A shift to land-value taxation would offer a non-discriminatory escape from this predicament.

**12. Significantly improves the processing of and compensating for Compulsory Purchase Orders**

Land values will reduce because SVT annually transfers community created added value in land back to the community. The inordinate CPO compensation payments incurred by infrastructure development programmes will be reduced because the value of the land will have been reduced. The invidious situation will be avoided whereby the community, having made significant investment in a locality, has to then compensate a landholder for value that the community itself created in the first place.

CPO payments are often very significant 'windfall' gains to the landholder because holding the resource out of economic activity for lengthy period only adds to the eventual gain. Landholders therefore tend to fight to the last for these super profits. When unjustified gains are removed from the equation a more reasonable planning and compensation process will emerge.

### **13. SVT removes the source of speculation in land values**

The human being is essentially a land based creature. As land is a resource that is absolutely essential for all economic and social activity, speculation is not necessary to establish a market in land. Speculation simply serves as a form of gambling, where the player with deep pockets has real advantage and easily captures the added value created by the community.

Speculators, large and small, are simply playing the game society has set in play. In a sense every house owner has a vested interest in the inflated land values, which account for inflated house prices and which in reality are illusory and only serve to deflect and detract from product effort.

### **14. Reduces the 'Sump Effect' on Grants, Allowances and Subsidies**

Numerous grants, allowances and subsidies have attempted to reduce the impact of high house prices on 'first time buyers'. However the the real economic effect is to increase the cost of land and therefore houses. This happens because the

purchaser tends to have an amount available to put towards a house and any grant etc., will increase that buying power. House developers recognise this and duly increase the price of the house by the amount of the grant. Since there tends to be reasonable competition in building labour and supplies markets at regional or national level the increase soaks through to increase the building land values further exacerbating the problem. SVT has the valuable consequence of at least reclaiming such unwitting contributions to landholders made at the expense of the general community

In devising government programs to give first time buyers an opportunity to acquire “affordable housing”, cognisance needs to be taken at the nature of land values.

Under new proposals, the government is to give local authorities land for ‘free’. Local authorities will organise the house building and sell to selected purchaser at the cost of building. The full land value now becomes a direct subsidy to the new owner. Unless provision is taken to protect the land value on behalf of the community the government could just as well have sold the land and given a direct cash payment to each “first-time-buyer” of say €100,000 each, or whatever the site value happens to be.

A full site value scheme obviates such contrivance by ensuring that land value is not captured unfairly. In the absence of SVT, some method to retain land value for the community is needed under such a scheme in order to avoid further distortion in the land and property market. The principle of this should be that no individual, whether a multi-millionaire property developer or someone in need of affordable housing, should capture unfairly wealth created by the community. One possible scheme would be to have any profits made on the sale or transfer revert to the State. To have it otherwise is to simply to exacerbate the problem by contributing to the high cost of land and consequently the high cost of housing.

**15. Agricultural Grants could be distributed in more meaning way**

Recent changes in the EU system for delivery of subsidy for agriculture is, in general terms, to 'decouple' from subsidising production and relate the subsidy more to the land itself. If Ireland were in position to do it a system of subsidies directly related to market values of land, (a form of reverse taxation) would maintain to a greater extent the free market in land and product, while giving subsidies where most needed. While there is a debate in the agricultural community about whether to 'decouple' or not, farmers, upon reflection, should be more inclined to the more market based system as this allows them to farm crops and animals rather than paper forms.

**16. Improved transparency in dealing with a key national natural resource**

SVT calculation is based on an agreed method of land valuation being applied to all land. SVT necessitates an open and transparent approach to letting the public know who owns the land in the State. The land values and related taxes are published allowing full public appraisal of how this natural resource is utilised in the community.

Tax due in relation to land cannot be avoided, the land cannot be hidden or put 'off shore'. The site exists, the value and rates of tax are published.

**17. Urban Sprawl is reduced**

Land value taxation tends to reduce urban sprawl, increasing densities towards the centre, and usually diminishing them at the periphery. Of course, this tendency

needs fast and effective zoning and planning administration to counter the effects of this strong force favouring maximum economic efficiency in land use.

**18. Reduces Boom - slump cycle**

Land value taxation would also reduce the intensity of boom-slump cycles. This is because, a rising land market acts as a bandwagon as people rush to buy, thinking either to make a profit or fearful that prices will rise so high that they will not be able to afford to purchase. In effect, we have what in a physical system would be described as "positive feedback"; prices are subject to runaway growth, the growth phase ending when purchasers are no longer forthcoming at the bloated prices. The market then stalls and falls back, leading to sluggish trading conditions. Land value taxation would provide a measure of "negative feedback", thereby stabilising the market, because rising values would be reflected in rising assessments and rising tax liabilities for land holding. As long as the rate of land value taxation was sufficiently high, no-one would purchase or hold more land than they required for their immediate purposes, thereby eliminating the element of speculative froth from land pricing.

**19. Clearer analysis of the use of economic resources**

With SVT a clear picture emerges of how land is applied in the country. Some of the most inefficient uses of land is currently maintained by government itself. Significant under utilisation of this key natural resource is promoted because as a nation we have ignored the real source and nature of land value.

Local and national governments use, or under use, of land will become clear as every site is valued and these values are published. The so called 'notional' cost of this resource will be properly costed and conscious choices made as to efficient application. The same transparency will apply to institutions and agencies that

have held this productive natural resources out of productive use up to now by a form of unrecognised subsidy.

This approach need not necessarily be used to apply the full economically justified levels of SVT to institutions which have enjoined relief up to now. We may as a community decide to allow certain individuals, groups or sectors hold on the value they derive from the efforts of the community as a whole. However where this is done the full measure of the concession allowed will be known to the community at large.

## **20. Public Transport Investment**

Starting from the present inefficient situation and , taking it that that labour and capital are fully mobile in the long run so that returns to labour and to capital are determined by nation wide or region wide conditions, any gains from an improvement in efficiency would return to the owners of the fixed factor, land. Essentially a broadly based application of land tax in a region will increase overall efficiency and this will be reflected in land values.

If the landholders in Dublin City, or any other city know what is in their best interest they would vote enthusiastically for additional taxes on site value to be devoted to the lowering of the public service travel fares, especially for off peak or shorter trips, and improving the frequency and quality of the service. Assuming that the subsidy would be used efficiently and not frittered away on administrative overheads, aborted or put to grandiose construction projects or over generous fringe benefits, this would increase the value dubliners get for their outlays on the bus service, increase the attractiveness of the City and in the long run raising site rents.

## **IMPLEMENTING CHANGE**

Having advocated the advantages of Site Value Taxation consideration is now given to solutions to possible difficulties that may present related to implementation of such a system. As with any change which sets out to make improvement to what has previously proceeded in a problematic direction for some time, difficulties do present. A clear distinction between transition issues and the basic justice and efficacy of the proposal is needed. Careful observation often shows that the difficulties that may arise can be expected when one ceases a unnatural and ineffective way of action to establish a more natural and effective method. The problems are not indicative of the efficacy and justice of the system its self. These can often be based on mistakes in understanding or, indeed, deliberate misrepresentation in argument to maintain old vested interest.

### **Is it difficult to agree land valuations?**

It may be argued that it is difficult to value property accurately, in particular to distinguish land from buildings. However this is done on a daily basis by professional valuers without any fuss. When assessing values in family law matter such as divorce, separation, probate, gift tax etc., property values are readily agreed. In the commercial property market property values are regularly subject to capital and rent valuations by agreement or at arbitration. Property insurance requires a distinction between developments on a site which are subject to fire and flood damage and the pure site value itself.

For SVT purposes it is essential to distinguish between basic land value of sites as if undeveloped, and the additional value of any buildings or other development on that site.

SVT, in a number of forms in practised successfully in some countries including Canada, USA, New Zealand, South Africa. It tends to be used as a property tax with a greater level of tax levied on the land value element of a property as distinct from the buildings and improvements thereon. Vickery refers to this...

*A property tax is, economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements and in some cases to a limited extent on personalty – and one of the best taxes – the tax on land or site value. A vast improvement in city finances would result from shifting from a property tax to a land value-tax. A tax on land, properly assessed independently of the use made of the lot, is virtually free of distortionary effects and ‘excess burden’ while the tax on improvements imposes serious burdens on construction..*

*(L-VT p 17)*

Land is valued at its most efficient use suitable for the site and the LVT applied. This has the result of encouraging the best service for the common good by encouraging best economic use to be made of this natural resource, subject to zoning and planning permissions designed to serve the common good.

It is important to remember that the neutrality of a land tax does not require that assessments be accurate, but only that its is not related to actual development on the site. As long as the tax is less than, or equal to the rent of unimproved land.

Kenneth Back Finance Officer, Government of the District of Columbia, who presented a paper to the Eighth Annual TRED Conference on "Land Value Taxation in Light of Current Assessment Theory and Practice" presented the following at the start of his paper.

*"I take the position that from a technical point of view, land values can be established and maintained with reasonable accuracy provided that the*

*assessor is not asked to calibrate his crystal ball so finely as to directly force a desired market objective in the valuation process. It is one thing to project a potential use and market value based upon legal effective zoning but quite another to disregard the forces of supply and demand and project a use and market value in accordance with someone's social or economic objectives. " It is feasible, in other words, to expect that assessors with good training, hard work and ample resources would be able to determine reasonably good approximations of market value for land, Market values incorporate some weighted average set of expectations about the course of development and the uses to which land could and will be permitted to be put. To go beyond this and specify values consonant with some particular scheme of development would pose extremely difficult problems for the assessor both in estimating land values and in justifying them to the taxpayer.*

### **How best do we calculate tax rates ?**

The rate of SVT applicable to the value of land should in the long run reflect an annual market rent for that site.

A transition period of a number of years would facilitate a steady incremental increase in the rate of tax levied on the market value of land; gradually moving towards the a rate which would retain the full value created by the community for the community.

**Land value increase is not the only capital increase! Why select 'economic rent' of land as a source of taxation?**

Few can deny the equity of the SVT but some argue against it on the basis that there are other sources of unearned increment e.g. unique works of art. However, land, in whatever form, is unique. It is a necessity for everyone. This is not so with other sources of 'economic rent'.

Exceptional individual skill and the application of creative work produce great value in unique works of art. This does not apply to increased land values which derives from the work of surrounding community, not the product of any identifiable individual.

Also, the simple point that failure to retrieve some unearned increments is no reason not to retrieve others applies.

**Some taxes already recapture some of the value created by the community !**

Taxes such as Capital Gains Tax only operate on transfer and tend to be negated by long holding. The wild swings in rates of CGT over recent years, with unclear prospects as to future rates, play into the hands of those with gambling mentality rather than people skilled in development expertise. With SVT consumer directed development skills and services would become the bases of competitive advantage rather than the present situation where the black arts of tax finessing and zoning finagling win the day and magically appear to create fortunes out of nothing. Of course the facts show community has created the value and CGT fails to deal with this in any meaningful way.

**Some people and businesses will have difficulty paying !**

At the outset it needs saying that what is difficult for a pressed landholder is a chance for the frustrated buyer. The role of government should help to create a

situation where the best overall use of the natural resource of the community is maintained while reconciling Justice, Charity and Prudence in doing so.

There is no need for SVT to impose hardship on individuals or businesses during a transition period from the current tax regime. The objective of SVT is to ensure the best use of this natural resource for the common good with due regard to the individual.

A business or individual may occupy an under utilised site, as valued by the community reflected in the market value. In a transition stage, Charity and indeed Justice and Prudence, require these hardship cases be treated fairly. It is essentially a liquidity problem.

The community can make an arrangement to defer the payment of the SVT to a later date, subject to a fair rate of interest to maintain equity. The community would have a lien or mortgage charge against the property based on the accumulating unpaid SVT plus accruing interest. At the time ownership transfer, or on death, the accumulated tax liability would then revert to the community deducted from the value of the total property.

It is necessary to minimise the level of derogation from the main principle. Where exceptions become prolific and given randomly, not driven by real need, the economic benefits of SVT would be nullified. It is the property that has to have the ability to pay, not the current occupant of the property.

It is a mistake to look at a property on the basis of who and how it is currently being occupied in terms of its ability to pay. It is the land's value, which is a known quantity, that counts. The current use, which may include a building or not, is almost irrelevant. The SVT tax is based on the ability of the location to pay and not on its income.

Farming and forestry will not be unfairly treated. The tendency will be for the most appropriate land to be used for such production. Where special support needs to be given to land holders by way of forgoing some or all of the SVT due to the community this can be done with a clear measure as to the subsidy value.

### **The impact of SVT on regional development**

The community creates land value. Location is the biggest factor in land value. The difference in house prices, travel costs etc. are reflected in differential SVT. Where these differentials are neutralised by SVT, regional differences in land costs are significantly reduced.

Geographical advantage is reflected in land values, which are higher in prosperous areas than those less favoured. Land value taxation would thus be directly related to geographical advantage, and in general, the replacement of existing taxes by land value taxation would work to the benefit of those in marginal areas who would be relieved of a burden of taxation that is frequently insupportable. The present system of regional grants and subsidies tacitly acknowledges this state of affairs already. Land value taxation would reduce the need for grants and subsidies by not removing resources from marginal parts of the country in the first place. In effect, LVT creates tax havens precisely where they are most needed. In the long term, this would help to regenerate the economies of the less prosperous regions, stemming the migration of population and reducing the pressure for housing.

## CONSTITUTIONAL ISSUES

The Preamble to Bunreacht na hEireann expresses the people of Ireland as seeking to promote the common good, with due observance of Prudence, Justice and Charity, so that the dignity and freedom of the individual may be assured and true social order attained. The Constitution recognises the common good as being prerequisite and essential to the attainment and protection of the dignity and freedom of the individual and to true social order. We whole-heartedly endorse these principles. It is of first importance therefore, that our laws provide for the promotion of the common good, over and above any vested or partial interest, no matter how powerful that interest may be.

The Constitution pledges that the State shall, by its laws protect as best it may from unjust attack, and in the case of injustice done, vindicate the property rights of every citizen. The Constitution acknowledges that man, in virtue of his rational being, has the natural right, antecedent to positive law, to the private ownership of external goods. It guarantees to pass no law attempting to abolish the right of private ownership or the general right to transfer, bequeath, and inherit property.

For the attainment of true social order, for the encouragement of human effort and for the promotion of excellence in all legitimate fields of endeavour, this pledge and acknowledgement are necessary. Credit for the enormous development in the economic activity of the State over the last decade is due in no small part to the fundamental principle inherent in our laws that a man may reap what he sows.

In recent times however, it has become apparent that the operation of certain property rights have subverted the common good, while at the same time greatly enriching some individuals. This phenomenon is not unique to Ireland or to our time. History reveals that with the growth of community, land associated with that community increases in value. This increase in value is as a direct result of the effort and intelligence of the community itself and not of any individual effort or genius. As all economic activity and indeed human existence itself is spatially

dependent so it is that humanity will pay any price demanded to have access to the earth. As this natural demand increases the value of land increases. If access comes at an inordinate price it begins to stifle the community.

To strike a balance between, on the one hand the requirement that persons enjoy rights to private property, and on the other, to protect the common good, it is necessary to distinguish between the types of property over which ownership can be claimed. The School submits that the property rights acknowledged and protected in the Constitution should include all property with acknowledgement as to the communal nature of land value increases. It would therefore be necessary to amend the Constitution to include a provision relating to private ownership of the increase in land values, not directly influenced by the landholder. This should facilitate legislation to return that wealth which has accrued not on account of the efforts of the landowner but as a result of the existence and activity of the community, to the benefit of the community.

This principle was recognised by Kenny.

*“In that sense the proposal involves a delimitation of property rights but one, which is no more restrictive than other forms of price control. We believe that this delimitation is not unjust because the landowners in question have done nothing to give the land its enhanced value and the community which has brought about this increased value [by provision of services nearby] should get the benefit of it.”*

Legal opinion however, suggests that legislation, which seeks to transfer the added value of land from the individual owner back to the benefit of the community, would be constitutionally fragile. (*Kelly p1086*)

It may be arguable that the proposals herein amount to an unjust attack on property rights, in the context of the present constitutional provisions it is probable that legislation designed to reclaim the added value in land could be held

to be repugnant to the provisions of Article 43. This concern arises from the fact that such legislation would alter, in a fundamental way, the right to private ownership of land and could therefore fall foul of the more general provision provided for in Article 43.1.2. as expropriation of added value in land from the individual owner to the community, without payment of market value compensation may to some extent at least, be construed to dilute the right to private ownership of land.

In this regard our submission recommends that a form of words amending Article 43. 2.1 along the line set out below be submitted for referendum.

*‘The State recognises, however, that the exercise of the rights mentioned in the foregoing provisions of this Article ought, in civil society, to be regulated by the principles of social justice. In particular, the State recognises that the common good requires that private ownership of land be regulated by the principles of social justice and must therefore be subject to that common good and to social order.’*

## CONCLUSION

In economic terms, wealth is the result of the deliberate and systematic meeting of human effort with the natural resources of the earth. From the agrarian to the technological, all wealth arises when human effort, both physical and intellectual, is brought to bear on the natural resources of the planet. In a more primitive community the fertility of the soil may be paramount; in the modern western city location is of the essence. Of the natural resources, land is primary for obvious reasons. However, unlike land, no person or group of persons are permitted to hold a monopoly on any other resource. Water and air are freely available as is the heat and light of the sun; land on the other hand, though essential for human life, can become the property of the individual.

As a community grows, whether that growth is in terms of population or in terms of wealth, the value of the land occupied by that community must increase. It is an observable phenomenon, that as the economic activity of this country increased, so too did land values. This increase was greatest in areas where the activity was most intense or where the population sought most to congregate or live. The essential proposition is however, that the increase in the value of the land was not the result of any action of the individual landowner. It was the community itself that gave rise to the increase in the value and it is therefore not illogical to say that the increase belongs naturally to that community. Many landowners will have increased the value of their property by some renovation or other, but the greatest share of increased land values in Ireland during the period after 1990 was due to the efforts of the community.

Unless the State, by its laws, can render back this value to the benefit of the community, then it must happen that the price of land increases and will continue to increase to a point where social order is frustrated. In Ireland today, increased land values have resulted in the price of housing being prohibitive; levels of

borrowing are unacceptably high; enterprise is restricted; public projects and in particular the development of infrastructure are frustrated; there is corruption associated with the planning process; in short, vast resources are being spent in the purchase or rent of land to persons and bodies whose only claim to such resources is that they hold the land. It is the submission of the School that it ought to be open to the government of the day to legislate to rebalance this situation. The Constitution ought not be allowed protect a vested interest when that interest is contrary to the interest of the community at large.