

INNOVATIVE WAYS OF FINANCING PUBLIC TRANSPORT

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The income from fares is usually insufficient to pay for both the capital cost and running expenses of a modern mass transit system.

Transport practitioners strive to provide a safe, efficient, affordable, reliable, comfortable, clean and convenient journey for passengers.

The service provided not only enables millions of people to travel but also has a wider impact on society generally and more specifically on local and indeed national economies.

When planning new routes wider economic benefits are usually recognised as a justification for Governments to provide subsidies towards the cost of construction and operation.

Apart from travellers who use transport, international studies over many years have shown that there is an additional beneficiary who plays no direct part in transport provision, who makes no contribution to the funding but who takes an unequal large share in the financial benefits arising from the building and operation of good transport links.

Don Riley, a London property developer has written a book "Taken for a Ride" in which he explores the impact of the building of the Jubilee Line Extension (JLE) Underground line in London.

Don Riley visited the tunnelling site in the mid-1990s and has since commented how these men digging the tunnel were sweating hard, risking their lives, not knowing where their next job was coming from, while at the same time he, himself, was making money while he slept as his local land holdings appreciated in value as the line became a reality.

This understanding of the land market inspired Don Riley to calculate the total land value increase that arose within a radius of only 1,000 yards of each of the new JLE stations. His startling conclusion is that these land values alone, have increased by a staggering £13billion when the construction cost of the line itself was only £3.5billion. Don Riley suggests that some of this wealth should have been collected by the Government in order to fund the project. An independent study carried out for Transport for London, has also estimated that between 1992 and 2002 the JLE caused land values to rise by £2.8bn close to just 2 of the 11 new stations (Southwark and Canary Wharf). This means that the UK Government could have built the JLE at no cost to the public purse if they had just chosen to collect less than one third of the increased land values arising from the scheme!

Instead, with the exception of two modest contributions, the JLE was paid for from normal taxation.

It is no fault of the transport industry that Governments choose to ignore windfall gains that transport creates. However, the findings of Don Riley and others in North America does mean that no longer should transport planners go cap in hand to Governments for subsidies if they wish to fund new projects or renew existing lines. As long as people are flocking to use the trains, then we now know that as well as fares revenue the railway will generate its own finance in the form of increased land values.

If Governments continue to only tax wages, trade or goods and services to create new transport opportunities then they are choosing to give an unearned bonus to the owners of land.

If a Government refuses permission to build a new transport improvement because of inadequate finances and they do not want to increase existing taxes, then they are not only denying users new travel opportunities but also, ironically, denying landowners the opportunity to share in land value gains that would arise if the improvements were financed from a part of these land value gains.

In other words, funding new and improved transport infrastructure from land value gains creates a virtuous economic cycle that provides a win-win situation for all concerned, including the landowners who provide the finance.

- The Government can provide a new transport improvement;
- Taxpayers are not penalised;
- Detrimental taxes on trade are not increased;
- The travelling public gain shorter travelling times with more convenient journeys;
- Car users are able to use the new system with economic and environmental gains for all;
- Businesses near stations see their trade and profits increase; and finally
- Assuming the project requires even 50% of the land value gain, landowners retain 50% of a large increase if the scheme is completed – rather than 100% of no increase if it is not built!

We all know the adverse effects that traditional taxes have on trade and jobs. A recent study by a UK think-tank has claimed UK tax increases over the past few years have raised individual tax payments by £4k per head, but they have also resulted in a further cost to each taxpayer of an additional £2k because of the damage these taxes do to the economy.

In his recent book “Double Cross”, Ron Banks has estimated that if the UK were to raise its revenues from natural resources rather than use existing taxes, each man, woman and child would be better off by an astonishing £15,000 per head, per annum. If Ron Banks is only half-right, this would mean that a family of four could be £30k a year better off!

So how can Governments realise and collect this hidden subsidy to some of the richest people in the land? Denmark already collects a land tax for local expenditure. All the land is valued each year and a percentage tax applied. In Hong Kong a 15p in the pound income tax is supplemented with huge revenues from Government land leases. In parts of North America, South Africa, Australia and New Zealand land wealth contributes directly to public funds.

Of course it is not only transport infrastructure that creates increased land values. Increased population, greater commercial productivity, most good public and private services all add to the value of individual sites. Similarly, Mother Nature provides valuable mineral deposits (oil, gold, diamonds and even coal), fertile fields, beautiful views of rivers, lakes, seas and the countryside – all of which can translate into higher land values.

A Location Benefit Levy (or Land Value Tax) would apply to all sites which would be valued annually for their rental income based on their optimum permitted use, ignoring all improvements. A tax rate would then be applied to this value in order to produce an income for public funds. As the land value rises, so does the sum collected. This means for example, that an empty site with planning permission in a town centre for an office block would pay the tax at the same rate as an identical site next door which already has a similar size office block developed. Unlike taxes on buildings, there would be no reduction for dilapidation or for keeping a site empty. Similarly, there would be no increased tax liability for improving a building.

Reduced Urban Sprawl

If a Location Benefit Levy were introduced, several benefits would begin to flow. Not only is such a tax cheap to collect and impossible to avoid (you can't take land to a tax haven) but it would have an immediate incentive for landowners to bring their land into better use. Brownfield sites would be used for homes, jobs or public open spaces, homes and business premises would become more affordable, whole neighbourhoods would be smartened up and revitalised, regeneration would be in the interests of landowners especially in areas that have lost major industries and face reconstruction, in these areas the lower tax on less valuable land would create a vitality that taxes on trade succeed in destroying.

With more affordable premises in towns and cities marginal firms would be able to expand or even start a new business. More jobs would be created, claims for unemployment payments would be reduced and the economy would shift up a gear with a higher GDP.

Similarly, in the domestic market. With homes more affordable in towns and cities the urge for workers to move long distances from their work in order to gain a cheaper home would be avoided. Urban sprawl into the countryside and urban green belts would be diminished and transport providers would avoid the additional cost of providing facilities for longer commutes.

In addition, families would benefit as workers could spend more quality time with their families instead of wasted time commuting.

With less urban sprawl not only would green spaces be saved but society would also avoid the cost of providing new infrastructure.

Compact, high density towns and cities operate much more efficiently and space is released for better planning, perhaps following Ebenezer Howard's Garden City model.

The Smart Tax

Another reason why some people call the Location Benefit Levy "The Smart Tax" is because although land increases in value around stations, it can reduce on sites adjacent to the railway line that suffer from noise, pollution, visual intrusion or vibration. With the Location Benefit Levy there would be no need for disadvantaged landowners to apply for compensation, as with the next annual revaluation of all sites their land value will be reduced and their tax contributions would be cut also.

A record of land value changes over time would also provide a useful planning tool. When a new mass transit is being planned it would be possible to use the existing record of land value changes to estimate which of a choice of routes would provide the largest land value increase. There may be perfectly valid reasons for choosing an alternative route but at least this decision would be taken in the light of a clear indication of the total value the community puts on each alignment.

Development Land taxes

The one tax to definitely avoid is a Development Land Tax (DLT).

If you tax an event (in this case development, or seeking permission to develop), the taxpayer can avoid the tax by simply avoiding the event.

Development Land Taxes have been introduced by UK Labour Governments on three occasions: 1947 with Clem Attlee's Planning Acts, 1967 with Harold Wilson's Land Commission and in 1976 with Jim Callaghan's Community Land Act.

On each occasion landowners avoided the tax by reducing development. This led to a shortage of land on which developments could take place and an increase in land and thus property prices. Marginal firms were unable to acquire essential premises at a reasonable price and were thus unable to commence trading or expand. The result was lower production, fewer jobs and a reduced GDP.

In fact, when Margaret Thatcher abolished Jim Callaghan's Development Land Tax the tax income collected was lower than the cost of collection!

Currently, the UK Labour Government is considering Kate Barker's suggestion for a "Planning Gain Supplement" (yet another DLT).

The questions that have to be asked are:

1. Why tax only development sites when it would be fair and legitimate to tax all sites?
2. Why only tax development sites, when all land values arise from natural conditions or the investment and activity of the whole community (public and private)?
3. Why tax development land when that tax can be easily avoided by not developing or by not seeking planning consent?
4. Why not apply a Location Benefit Levy (or Land-Value Tax) to ALL sites, (valued for their optimum, permitted use), which can not be avoided?
5. Why introduce DLT which produces one tax receipt in the life of a building when the alternative of the Location Benefit Levy will produce an annual income?
6. Why introduce DLT which fails to collect a rightful share of future increases in land values arising from activities which today we are not even aware of, when a Location Benefit Levy with annual revaluations of land, ensures that all future land value increases are shared by all?
7. Why introduce DLT which is expensive to collect when the Location Benefit Levy is unavoidable, cheap to collect and could be used to reduce other economically harmful taxes such as vat or property taxes?
8. Why have DLT which charges landowners less for small developments, when the Location Benefit Levy will encourage the best use of each site?
9. Why introduce DLT which will reduce GDP, when the Location Benefit Levy will maximise GDP?
10. Why introduce DLT which will sterilise brownfield sites in towns and cities, and encourage urban sprawl, when the Location Benefit Levy will encourage development of brownfield sites (the Levy is paid even if development does not take place) and thus make our urban areas more efficient, avoid urban sprawl and better protect the countryside and green belts?

Justice

We all have our own personal interpretation of how “justice” can be achieved.

Often “justice” is interpreted in a very narrow legal sense and only in reference to the judicial system, which has been designed to protect the status quo.

That isn't to say we do not require a legal framework, which resolves issues, such as:

- the international relationships of Governments
- the regulation of business and trade and the certainty needed in agreeing contracts and commercial relationships
- the compliance with Government rules and regulations
- the safeguarding of civil liberties
- protection from criminals
- employment rights or
- the settlement of civil disputes.

Of course, all citizens need to know exactly what are the legal boundaries within which their society operates.

But just suppose those original rules are unfair and unjust. Then the legal framework, being used to perpetuate an injustice does not make that injustice moral and proper even if within the rules of jurisprudence it is “legal”.

Obvious examples of this dislocation between immoral laws and natural justice is South Africa's former policy of apartheid; the USA's former segregated schools and buses; discrimination based on race, religion, disability or sex; slavery; the oppression of women; Victorian Britain's use of child labour and colonialism. All these policies were “lawful” according to the legal framework of their day but that veneer of legality did not make these policies righteous and just.

Any society built on a basis of injustice will be burdened down with its own predisposition towards self-destruction.

Even the most suppressed people will one-day demand justice, rise up and overthrow their oppressors.

Wherever slavery or dictatorship has been installed, history shows that eventually justice will triumph and a more democratic and fairer system will replace it. It is therefore safe to predict that wherever slavery or dictatorship exists today – it will be superseded by a fairer and more just system.

If we know there is injustice, should we merely wait for a violent response? Do we not have a duty to seek fairness, because it is right and because we value justice and the freedom it brings?

Similarly, let's consider our distribution of natural resources.

By definition, natural resources are not made by human effort. Our planet offers every inhabitant a bounty – an amazing treasure chest of wealth that can supply all our needs for food, shelter and every aspect for our survival.

Surely, “justice” demands that this natural wealth should be equally available to all and that nobody should starve, be homeless, unemployed, exploited or suffer poverty simply because they are excluded from tapping in to this enormous wealth that nature has provided.

It obviously would be totally impractical for every person to have complete personal access to every part of the planet, to every mineral deposit, to every fertile field, to every city centre office site or every desirable residential location beside a river or an ocean. But as soon as two people want to enjoy the benefits of the same part of the planet that only one can enjoy – a system of distributing nature's gifts has to be devised.

In the past, this has been resolved by the physically, mentally, militarily strongest, the most cunning or the first settlers claiming possession. Much of our current ownership of land and natural resources descends from this obviously unjust method of distribution.

If our whole economy, with the private possession of land and other natural resources is built upon an injustice – then can any of us really be surprised that we live on a planet where wars continue to predominate, intolerance is common, crime is rife and where poverty and starvation is the norm for a huge percentage of earth's population.

Is this inherited system really the best we can do?

There must be a method for fairly utilising the earth's natural resources.

Referring to the rebuilding of Iraq in his speech to the American Congress in 2004, Tony Blair stated “We promised Iraq democratic Government. We will deliver it. We promised them the chance to use their oil wealth to build prosperity for all their citizens, not a corrupt elite. We will do so”.

Thus, Tony Blair recognises the difference between *political* justice in the form of a democratic Government and *economic* justice in the form of sharing natural resources.

We have not heard any dissenting voice from this promise to share Iraq's natural oil wealth for all the people of Iraq to enjoy the benefits. But if it is so obviously right and proper for the Iraqi people to share their natural wealth – why is it not the practice to do the same in all nations?

No landowner can create land values. They do not create the valuable minerals that lie under the soil; neither do they create the land value that arises from the natural fertility of the land, the value of sites with beautiful views of countryside, rivers or oceans nor the site value in the centre of busy cities.

If this were the case, then an entrepreneurial landowner in the Scottish Highlands would be able to create more value than an indolent landowner in the City of London.

No! Land values arise because of natural advantages (e.g. local climatic conditions or proximity to natural harbours), they also rise because of the efforts of the whole community - past and present investment by both the public and private sectors, and the activities of individuals. Why do we not assume as our birthright the sharing of these land values, which are as much a gift of nature and probably in most western economies are worth much more than Iraqi oil?

A solution exists. The introduction of a Location Benefit Levy would produce many benefits.

Each site would be valued, based on its optimum permitted use and a levy applied – a similar method to the UK's commercial rates on buildings but based solely on the land value and ignoring improvements or the size and condition of any existing building.

The effect of this policy would be to give all citizens a share in the natural wealth of their own nation.

The UK (and other Governments) were working on these lines when they auctioned the rental value of the spectrum for third generation mobile phones. In the UK twenty year leases raised £22.4 billion for public funds, paid voluntarily by the phone companies. This policy works on exactly the same principle as the Location Benefit Levy and of course future generations will be able to raise fresh funds every 20 years as these spectrum leases come up again and again for regular renewal.

If the Government extends this principle to all common resources by introducing a Location Benefit Levy they could use this flow of income to abolish all other property taxes on buildings. This additional revenue could also pay for the building of new infrastructure which adds to the nation's wealth (such as railways) or more importantly to reduce those other taxes which most damage our economy (such as sales taxes) and are a burden to collect.

With a Location Benefit Levy, empty sites would be brought into use as landowners sought an income from idle or underused land, the purchase price of land (and hence homes and commercial premises) would become more affordable, reduced interest rates would not create a housing boom and the property cycle of booms and slumps would be evened out.

Because it's based on land; an immovable property; the Location Benefit Levy would be cheap to collect and impossible to avoid. With annual valuations it would be fair for landowners (even automatically compensating those landowners whose land, for some reason, has decreased in value), it would help reduce the North/South, rich/poor areas divide; and, by encouraging better use of brownfield sites, the propensity for urban sprawl would be diminished and thus our countryside and invaluable urban green field spaces would be better protected.

It is an injustice that landowners can speculate on empty sites, denying or delaying their use for jobs or homes.

It is an injustice that a factory owner can sack all their workers, smash the roof of their building to let in the rain and be rewarded with elimination of their rates or tax bill.

It is an injustice that the poorest residents pay the highest share of their incomes in Council Tax

It is an injustice that housing tenants receive no share in the land value appreciation that their very presence creates

It is an injustice that most people are denied their legitimate share of the earth's resources.

I am suggesting a new way for funding our transport systems with a measure that can not only deliver this immediate aim but has much wider implications for the prosperity of the wider economy and delivering social justice.

At a time when the fastest travel was on horseback, the early rail pioneers opened up the world and brought people and places closer together at speeds which hitherto had only been imagined. It would be befitting, if you, today's descendants of those early pioneers not only led the way to sensible transport funding but showed Governments around the World how there is a fairer and more sustainable way to pay for public services.

In transport – we don't need subsidies – we just need access to the land wealth that the community and Mother Nature creates!

The Location Benefit Levy is not just offering a new way for funding transport but also, (and probably more importantly), it offers a simple way to start addressing one of the world's greatest remaining injustices.