

## Land value taxation is a non-starter when it comes to s...

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A commentator going by the name of Joe Polito has posted on the blog this morning suggesting that a desirable tax reform would be to introduce land value taxation.

His argument is that Martin Wolf of the FT favours the idea (which is true; he [has for a long time](#)) and that it is economically efficient. He references this claim by linking to a paper by a collection of renowned economists (Charles Goodhart, Michael Hudson, Michael Kumhof and Nicolaus Tideman). [They suggest:](#)

*It has been well-known since the physiocrats (Quesnay 1756) and the classical economists (Smith 1776, Ricardo 1817, Mill 1848, George 1879) that a tax on the annual rental value or the capitalised asset value of unimproved land, assuming that land is put to its highest and best use, while excluding the value of buildings and capital goods currently situated on the land, does not distort incentives and is therefore desirable on grounds of economic efficiency. When the land value tax revenue is used to reduce taxes on labour or capital (buildings plus capital goods), output and economic welfare grows. In addition, a land value tax effectively pools property risk by reducing the private value of the riskiest component (land) of the property asset and transferring it to the whole community.*

They go on, albeit using some slightly shaky assumptions, such as there being a closed economy where as a result external trade does not take place, to demonstrate their point, in theory.

And in theory I agree with them. Why wouldn't I? I have no liking for rentier activity within any economy and land rental and interest payments are amongst the two most offensive such activities, both extracting value from the economy for unearned reward for the owners of the assets giving rise to those income streams.

But, whilst knowing that I have always been cool on land value taxation. Long ago I learned that something can look really good on a blackboard or in an academic treatise but have no transferable value to the real world. Some of economics is most definitely like that. Much of the rest is of no value at all. Land value taxation (LVT) fits into the

first of these categories.

It really does not worry me how good a tax LVT might be in theory. In reality I very much doubt it is of much use to the economy of the UK at this moment. There are three very good reasons.

First, there is no political appetite for such a tax. I am not in the business of promoting things that are not going to happen, however good they might be in theory. LVT has been known about for over a century. It has been actively promoted by some in recent decades. And no one with political influence has shown the slightest interest in turning it into reality. I am not going to be that person.

Second, there is very good reason for this. As noted above, LVT requires that 'that a tax [be charged] on the annual rental value or the capitalised asset value of unimproved land, assuming that land is put to its highest and best use, while excluding the value of buildings and capital goods currently situated on the land'. Good luck with working that value out, I say. If you can work out how to do so for every piece of land in the UK and do so without tens of millions of appeals being made (there are 30 million properties and a lot more pieces of land that are registered without properties on them) then you know something I do not. And for the record, I really do not think AI will prevent those appeals pouring in. In that case a registry that might form the basis for this charge could be available in a decade or more's time, by which time it will be out of date as this value changes over time. There is very little chance of winning political support for that.

Third, pragmatically, this tax will reduce the value of land. That, you might think, is a good thing. The trouble is, much of that land is mortgaged and so introducing this tax will create a banking crisis. You could, of course, argue that if introduced gradually then the market would adapt. And so it might. Just as much as it might not. I suggest that's a gamble no politician is going to take.

As a consequence I hear what the proponents of LVT has to say and suggest that this tax has almost no hope at all of being used in practice. The best we can do is approximate to it by adapting existing taxes on land, which are undoubtedly also not fit for purpose. But, at least in those cases we have a change of delivering something approximating to a better tax., whereas with LVT we have none at all. Of those two options I know which one I prefer. Adaptation it is, in that case. And LVT will remain on the shelf, except to inform a direction of travel for reform.

There is one final issue to mention. LVT exponents make clear that it reduces the economic distortions some taxes introduce into the economy. I suggest national insurance is the worst of these distorting taxes, because it discourages employment when that is something that we very clearly want. I accept the point, but I argue there are better ways around that problem which are easier to implement.

What do I mean by that? My problem with LVT is that it is based on a mythical value that will never be explicitly recognised in an economic exchange i.e., in a sale value. The great thing about such values is that they are very much harder to argue with than imagined values. Like it or not, we usually value things on the boundary where and when their ownership changes. So an alternative to LVT has to have that characteristic or it too will fail. Such options are available, but that is for another time.