

For immediate release

Vote Liberal Democrat to wipe £100,000 off your house price – hardly a winning slogan!



making business sense

The political parties are rushing to find new ideas to pay for the enormous public sector deficit. We have pointed out that in normal circumstances, the deficit could be reduced gradually but because of the UK's bad image internationally and with the financial markets, the need is probably more pressing at present than it might have been in an ideal world.

So far we have been fairly even handed between the Conservatives and Labour in praising and criticising their ideas. We have supported the Labour Party's VAT cut (indeed we proposed it) and at the CBI Annual Dinner the Prime Minister pointed out that the cut had been validated by 'independent academic research'. We don't mind being called independent (even by Gordon Brown) but it's a bit rude to smear us with the word academic! On the other side we have been pretty scathing about the lack of productivity and the growth in waste in the public services since Labour came to power in 1997 which has been one of the prime causes of the fiscal deficit. We have also pointed out that Labour's politicisation of the Treasury has contributed to the mistaken assumptions that have caused so large a deficit.

Now it is the Lib Dem's turn. They have come up with a crackpot scheme to levy a wealth tax of ½% on houses worth more than £1million. The idea is not exactly new – in fact it has been a staple Liberal idea since the 19th century associated with such luminaries as Henry George (who he? ed). Over the years I have had no end of scribbled letters, generally in green ink and normally using every scrap of both sides of paper, promoting the idea.

It is a good rule to consider that if an idea has been around for more than a century and has not been implemented to ask whether there might not be some good reason why it has not been. Unfortunately, the Lib Dems seem to lack the kind of wisdom – an ability to understand the operation of the law of unintended consequences – to apply this sort of test. Indeed they seem to have done very little homework at all.

What they have failed to appreciate is that such a tax would have a major effect on house prices. A property worth £2 million – not a particularly high price for a family house in London - would pay a tax under the scheme of £5,000 (½% of £2 million minus £1 million). If you capitalise on a multiple of 20, which probably would be cautious at present, then this would make the property worth £100,000 less. The impact would trickle down the entire housing market, though with diminishing effect. On our calculations it would reduce the average residential property price by £2,000.

So some home owners would face a double whammy – more tax and a cut in their wealth. The tax would add to Council Tax and Stamp Duty as yet another heavy tax on homeowners. It would be regionally unfair, since virtually the entire tax would be raised in London and the South East, and would be very unlikely to raise the £1 billion the Lib Dems expect – more like £600 million on our calculations.

Unfortunately the current crisis is not a time for clever-clever ideas for screwing additional tax out of the already hard pressed middle classes at a time when property prices have already fallen sharply, the top rate of tax has been raised and the tax deductibility of pensions has been largely removed. The fiscal crisis was caused by overspending and the only sensible way out is to reduce government spending back to where it should have been in the first place.

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