Land Value Tax would create a more stable economy: The recent financial crisis has hit young people very hard, with 40% of the unemployed being under 25.

The financial crisis was in large part caused by a housing bubble. As the bubble grew, fuelled by property speculation and risky mortgage lending, people thought the rise in house prices was inevitable and based on fundamentals. As rises in house prices outstripped rises in income, people borrowed against their house price to keep up their consumption, while private savings collapsed.

Once the housing bubble burst, however, people couldn't keep up their consumption. Demand collapsed, leading to the destructive world-wide recession.

LVT would considerably dampen property speculation and housing bubbles, leading to sustainable growth. The economic shocks that so hurt young people would be far less frequent and severe.

LVT would be very beneficial for young people: LVT would lower house prices, reduce the tax burden that falls on young workers and would avert the financial crises that hit the young disproportionately hard.

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ACTION FOR LAND TAXATION & ECONOMIC REFORM

LAND VALUE TAX AND YOUNG PEOPLE

Recent budgets have thrown the treatment of generations young and old into sharp contrast.

Young people see their benefits are cut or their growth linked to the lower CPI measure of inflation. Public spending which most benefits them - schools, university places, Sure Start centres – face unprecedented cuts.

Those in retirement however see their universal benefits retained and kept in line with the higher RPI measure of inflation. Health spending, which pensioners receive far more of in *per capita* terms, is one of the few areas protected from austerity measures.

This pamphlet focuses on the transfer of wealth from the young to the old, wealth which is unearned by the older generation. The pamphlet also suggests the solution to this injustice: Land Value Tax (LVT).

The imbalance of wealth between the generations: There exists in Britain an imbalance of financial wealth between the generations. Our wealth comes in three main forms: our financial assets (bank and building society deposits, stocks and shares), our house and our pension. Of the total £6.7tn of personal wealth in our country, a mere £0.9tn is held by under 45s. This rises to £3.5tn for the 'baby boomers' aged between 45 and 65, with £2.3tn held by over 65s[1].

This disparity is understandable. After all, it takes time to build up some savings, get the deposit for a house and maybe buy some shares; and it helps if you've had time to progress up the career ladder and seen your children fly the nest. Hence you expect to start with few assets at the beginning of your life (inherited wealth notwithstanding) and build them up over the course of your life.

What is more worrying is the trend over time. In the decade following 1995, the median personal wealth of individuals under 45 collapsed by over two thirds, while all other age ranges experienced large increases, particularly the older baby boomers (55-64), whose median personal wealth tripled[2].

A large driver of this transfer of wealth is the housing market. Those early boomers were able to get on the housing ladder when housing was relatively cheap, saw their mortgage debts eroded by high inflation in the 60s and 70s, and then saw the values of their homes rocket in subsequent asset bubbles.

This has led to huge increases in the wealth of the propertied middle-aged and elderly, at the same time as pricing houses out of the reach of the younger generations.

[1] Office for National Statistics, 2009.

[2] A. Benito, J. Thompson, M. Waldron, G. Young, and F. Zampoli, 'The Role of Household Debt and Balance Sheets in the Monetary Transmission Mechanism', Bank of England Quarterly Bulletin, Spring 2007, figures from Chart 3. Pension wealth (which would tend to further increase this disparity) has been excluded.

The rise in house prices was not earned by the owner-occupiers: The surge in house prices has clearly been a massive transfer of wealth from the un-propertied young to the propertied middle-aged and old. But this wealth has not been produced by those who have gained it. It is essentially an increase in land values – as the saying goes: "Buy land, they don't make it any more."

The increase in land value is the product of the whole community: when a local school improves, the land value goes up; when the local road network is improved, the land value goes up. Those who have been able to buy a house have privatised the gains conferred by society as a whole.

Land Value Tax would lower house prices and could replace inequitable taxes that hurt young workers: The solution to this is the introduction of LVT [see "What is LVT?" in this series]. This would ensure the value created by the community, expressed in increased land values, is collected for the benefit of the community.

The revenue raised could enable those taxes that fall particularly hard on those who work for a living, such as income tax, to be greatly reduced. The threshold for basic rate income tax could be raised, benefiting those most needing work – particularly the young.

The introduction of LVT would also have the benefit of reducing the value of land by the proportion of the value taxed, resulting in a fall of house prices. LVT would also encourage landlords to make the most of their holdings, spurring the creation of housing in underused land in our towns and cities. Affordable housing would become a reality for young people.