PRACTICAL POLITICS

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The first Issue of "Practical Politics" appeared in December 1988. With this current Issue, therefore, our twentieth year of publication draws to its close.

DEPRESSION

In Issue No. 3, long before any establishment forecaster could spot even a blip, we were writing about the cycle of boom and bust, and in Issue No. 4 we published a piece specifically referring to a crash to come in 1992 – as indeed, sadly, it did. In Issue No. 29, we produced our analysis (recently republished as Uncoloured Supplement No. 2, and distributed with Issue No. 161) describing the development of a boom, its progress to bursting point, and the course of its subsequent ruinous collapse. This time round, we were even further ahead of the field: in Issue No. 116 (July 2002), we wrote that "the seeds [of the next slump] are being sown now, the mechanism will be the behaviour of land, and the timing – well, probably around seven years hence." Nobody now doubts that 2009 is going to be the year of the depression.

How do we do it? How do we see what others overlook? How, for that matter, do we see that a stock market correction, however violent, does not necessarily indicate the imminence of recession? In Issue No. 82 (November 1998), we declared that, "The country is not about to enter a slump"; and in that Issue No. 116 (already cited, in which we expressed our fears for 2009), we pointed out that, although there was 'overheating' in parts of the housing market, it was at that point "too limited in scope to provoke a general slump. In any case, agricultural, industrial, retail, office, and commercial land generally, are not in febrile, speculative grip…This is not a rerun of 1992."

The answer is, simply, that we know our basic economics. Political economy (economics) is about the production and distribution of Wealth. In its most simple form, Wealth is produced by the actions of people making direct use of what the natural world of our planet has provided: Wealth is the product of Labour working on Land, to use the accepted terminology. Some Wealth is directly consumed, but some, such as tools, buildings, plant and machinery, goes to assist in the creation of further Wealth, in which case it is termed Capital. Labour, using Capital, works on Land to manufacture Wealth. Land is not manmade: it is the gift of Nature, and is fixed both in quantity and location.

Essentially, boom/slump cycles and trend forecasting consist of monitoring land rents and prices and watching for and interpreting the signs described in our Issue No. 29 article. A key indicator is the relationship between land rents and land prices – the yield or return on investment, in commercial parlance. Prices (capital values) are more than just a roll-up of annual rental values. In particular, they contain what may well be very large speculative elements called 'hope value', the assumption being that land value will go on rising and absorbing the benefits of the community's growing economic activity. Prices lose touch with values in current use. Businessmen in quest of a proper return on their outlay, nevertheless pay over-the-top now, and look for those 'hope value' profits later. The crash, though, catches them out. Workpeople are unemployed. Capital goes to waste.

DEPRESSION

So much has happened over the summer recess that it defies listing in a publication of this size. A few points and comments do not come amiss, however.

(i) There are those who would have us believe that this economic collapse was inevitable, came in from abroad, and was chiefly the fault of the banks. In our Issue No. 71 (June 1997) we warned the incoming government of what lay ahead: “Is Labour new enough to have noted that capitalism does not deliver fully or fairly if policy is conducted as if there were no distinction between Land and Capital? In the absence of proper attention to the rôle of Land, options are limited. Government should therefore decide at once to come out strongly for LVT and order an immediate start on a land valuation. We warrant that some benefits will start to show within 24 hours of the chancellor’s firm declaration of intent. As the percentage duty rises towards full annual value, all possibility of speculation in land will be destroyed. There will be no more speculative land booms, and the ’92 slump will be the last of its kind.”

Certainly there would be repercussions here from economic collapse abroad, affecting trade and currency exchange rates, but we should be suffering from ripples, not the full destructive rage of a home-grown cycle of boom and bust.

As for this all being imported, no foreigner forced anyone here to buy what turned out to be bad debt: the purchase was entirely voluntary, and the ‘product’ was in any case not essentially different from our indigenous variety.

Banks were accepting overvalued land as collateral for loans, but Britons were eagerly pawning that same bloated, speculative land value to support extravagant lifestyles and, indeed, further land purchases (what else was much of that buy-to-let activity but a gamble on future increases in land value?).

The Government saw none of this coming, nor, it has to be added, did the Opposition. Even now few (if any) of them have an inkling of what went wrong.

(ii) “Boom and bust is back – with a vengeance” [a]. “Even the chaps down the Dog and Duck know what is threatening the stability of the world economic system – the excessive extension of credit to borrowers who cannot repay” [b]. The unasked question here is what it was that induced lenders to over-lend (and borrowers to over-borrow). Greed is no answer: it is necessary to ask what underlay the greed and made it look reasonable. The answer, of course, is the illusory speculative element in land prices. Until this is understood, and the appropriate policy of LVT implemented, cycles like this one will inevitably recur.

“Half the world economy is leveraged to a bursting property bubble” [c]. This, unhappily, is imprecise. Words like ‘property’, ‘assets’, and ‘equities’ often mask the truth that it is the location value of the land that is the subject of fevered speculation in a boom: buildings and other developments are ‘cost centres’ and need regular maintenance just to retain their utility and value. In the last crash, “Japan suffered a 13-year collapse of property prices that left much of the land valued at a third, or less, of its 1990 peak. That is why the real economy, as well as financial institutions, fell into a long stagnation” [d]. Now, <u>that</u> is more like it!

(iii) “As the Government prepares to spend its way out of the slump, will inflation also be tomorrow’s problem?” [e]. “Governments are not like households. They do not have to ‘have the money’. They can simply borrow it, and go on borrowing it *ad nauseam*. And eventually, when they can borrow no more, they can print the stuff… It may crowd out private sector borrowing, which is generally more productive. Moreover, the interest cost has to be financed by taxation…including [by] future generations of taxpayers” [b]. “In the US…resultant policy action is likely to lead to long-term inflationary pressures for the US from the printing of new money to offset the credit losses” [f]. Unlike 1992, runaway inflation will arrive on the scene in the later stages of the crash, instead of leading into it. No matter what some observers care to think now, though, attempting to spend one’s way out of a slump will give rise to deliberate debasement of the currency, with all the trouble that that entails.

(iv) When the economies of industrialised nations are collapsing, the suppliers of raw materials soon follow suit and their countries’ currencies come under pressure. Oil and natural gas prices have dropped back, and so have those of nickel, aluminium, copper, lead, zinc, and tin. There is a similar trend in agricultural produce, notably wheat, corn (maize), and soya-beans. “Crucially, Russia’s banks, oil producers, miners, and steel companies have amassed $510bn of foreign debt, mostly in short-term loans…Russia’s central bank has raised interest rates a full percentage point to 12pc to prevent a collapse of the rouble…Russia relies on commodities for 80pc of its foreign earnings” [c].

(v) “Commercial property has taken a hammering in the past few weeks, with valuations falling sharply…Prime industrial sector yields have moved up 50-100 basis points, and retail yields between 50 and 150 basis points” [g]. In other words, capital values are falling, and consequently the rents obtained give a higher return when measured against the lowered capital value – a salutary reminder of the unrealistic, artificially swollen values within the selling price. “London office space has fallen in value by nearly a third during the past 12 months” [h]. In the West Midlands, “the cooling economic climate has pushed down industrial land values” and lack of demand means that even if developers buy land, they “are more likely to be land-banking than building on it straight away” [i].

(vi) “Even in 2007, more than a quarter of outstanding corporate debt was being serviced by firms whose profits were insufficient to cover the interest payments, according to the Bank of England” [j]. Company insolvencies, personal bankruptcies, ‘downsizing’, and reluctance to recruit, add to the numbers of the unemployed. In the U.S.A., for example, “payroll employment fell by 240,000 in October [and] “worse is to come” [a]. Amongst those losing their jobs will be immigrants, no longer able to support their relatives in the underdeveloped third world, who have hitherto been depending on their remittances. The Establishment’s economic blindness reaches out to affect even the Earth’s poorest.

[a] Lex Column, “Financial Times”, 25th. October, 8th. November [b] Roger Bootle, “Daily Telegraph”, 10th. November, 15th. September [c] Ambrose EvansPritchard, “Daily Telegraph”, 4th. August, 12th. November [d] Michael Hedrick and Ellen Kelleher, “Financial Times”, 19th. July [e] Tom Stevenson, “Daily Telegraph”, 23rd. October [f] Kleinwort Benson Private Bank Quarterly Review, September 2008 [g] Dido Sandler, “Financial Times”, 8th. November [h] Damian Reece, “Daily Telegraph”, 26th. September (i) Melanie Smith, “Estates Gazette”, 18th. October [j] Jane Croft, “Financial Times”, 8th. November (citing Liz Bingham, head of restructuring at Ernst & Young)

DEPRESSION

What can one do without Land? The answer is of course: Nothing. This suggests that Land and its rôle in the economy urgently merit greater and more informed attention. Land came as a gift, it is not manmade, and, in the terms of political economy, it has no ‘cost of production’. Its value depends on what the population at large has done, is doing today, and will be doing tomorrow – where and how people live, work, and disport themselves. Land is thus uniquely suited to form the fundamental source of public revenue. All that is needed is fully and properly to capture the annual rental value of Land, in the form of a national land-rent charge (“LVT”).

The most urgent task is to declare at once for land-rent capture and to initiate a land valuation. Obviously the valuation will be drawn up on current annual rental value, for, more than ordinarily, capital values will not be directly usable (what with perceptions of future prices jumping agitatedly around yet awhile). Equally obviously, the initial valuation will aim at establishing good acceptable differentials between plot values rather than excessive striving for the sort of specific accuracy that will come with successive revaluations and increases in the percentage levied.

There is no painless way out of a slump, alas! It seems the authorities favour a programme of public works schemes. If these are rigorously chosen, perhaps concentrating on essential renovation and repair and on capital projects with the best chances of being themselves profitable, and if they generate impressive increases in the land value of their surroundings (to bring in future public revenue), then they could indeed be of lasting benefit. Instead, the aim has to be not to have a false boom in the first place, thus ensuring this ruinous crash is never repeated. To the economic and political establishment, we say, ‘Your way has not worked, and it never will. Our proposal will end the boom/slump cycle, and will bring along many other benefits in the process. Just think about it! Then go for it!’

MRS. UNDERESTIMATED

We have lifted this heading from an article by Kevin Allison and Edward Luce in the “Financial Times” of 6th. September. “Using the state’s fat revenues from high oil prices, Ms Palin recently sent a $1,200 rebate to every Alaskan household”, they report. Readers will recall that Governor Sarah Palin was the (as it happens, unsuccessful) vice-presidential nominee for the White House earlier this month. Our Issue No. 41 (January 1994) covered the genesis of this oil bounty in some detail. How unfortunate that our own dear Treasury has blown all our oil dividends!

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