PRACTICAL POLITICS

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BRING AIR RIGHTS DOWN TO EARTH!

What two words link Lufthansa, SAS, British Midland, Virgin Atlantic, and Singapore Airlines? Answer: Heathrow slots (of the take-off and landing variety). Sir Michael Bishop is retiring from British Midland (Bmi), which he currently controls with 50% (+ 1 share) of the company, the rest being owned by Lufthansa (30%) and SAS (20%). As a result of an agreement made nine years ago, Sir Michael is able to oblige Lufthansa to purchase his holding for some £350 million – this at a time when the aviation business is in difficulties. When the deal is formalised, Lufthansa will own 80% of Bmi. Enter now Sir Richard Branson, owner of 51% of Virgin Atlantic (of which Singapore Airlines holds the remaining 49%). His proposal to Lufthansa is a merger, into a new company, of Bmi and Virgin Atlantic (with SAS and Singapore presumably being given the option of staying in or selling out).

The potential attraction in all this is consolidation and, with tie-ups to U.S. carriers, the mounting of a fiercer challenge to British Airways, and to BA's linkages with U.S. airlines. What interests and concerns us more, however, is the real attraction which the currently loss-making Bmi brings to these boardroom discussions: it has over 80 pairs of take-off and landing slots at Heathrow (11% of the airport total), in its books at a value of £770 million (a top pairing, though, would alone fetch £30 million).

The air, in political economy, is included in the definition of land – the whole of the material universe apart from man and his products. In our Issue No. 82, we recorded the view of the (then) Deputy Prime Minister, John Prescott, that the slots belong to the community and, in approving, we urged upon him and his party the policy of LVT. The right to fly in to and out of an airport has a value which can be realised by putting it up for auction and charging a rental. Alternatively, the airport operator (public or private) can do that, just as it lets space for retail shopping outlets, so as to optimise its income (within the bounds of safety and planning consents). Thus, the value of the whole airfield site includes a value on the slots as well as the value pertaining to *terra firma*. Planners would then better know the worth of adding to existing facilities – which could be useful in matters such as new runway inquiries. Let the market operate and the exchequer collect the rent!

Principal references for first two paragraphs: "Daily Telegraph" – Damian Reece, 30th. October, and Alistair Osborne, 30th. October and 11th. December.

DEPRESSION

The price of gold at close of the market in London on 12th December was $833.80 a Troy ounce. The Baltic Dry Index, measuring freight rates for carriage of bulk goods by sea, has collapsed by 96% over the last five months. We set down, below, a few recent observations and comments.

(i) “Given the extreme measures governments have taken in flooding the global monetary system with liquidity, the return of inflation will be on a scale that will make the 5 per cent [bank base interest rates] we all got so upset about earlier this year look like chickenfeed” [a]. Unemployment is growing. Industrial output is falling. The £ is falling, despite which exports are falling and consequently the trade gap is widening. Where are the moneyed foreigners who would buy Treasury bonds (gilts) offering low interest and the near certainty of capital depreciation?

(ii) In the U.S.A., the government has committed not billions but trillions in an attempt to revive the housing market, rescue the banks, and stimulate the ailing economy. The government-in-waiting has promised yet more spending, to ‘kick start’ a revival. “It looks likely that the carmakers are well on their way to becoming wards of the state” [b]. “The US economy’s loss of 533,000 jobs in November was the fastest monthly decline in 34 years… the US has lost about 1.2m jobs since the start of September” [c]. It is likely the slump in the U.S. housing market “will get much deeper before it finds bottom… Almost 7 per cent of mortgage loans were in arrears in the third quarter, while a further 2.97 per cent were at some stage of the foreclosure process” [d].

(iii) “The economic downturn in Asia has taken a sharp turn for the worse as Japan slides into deep recession and exports contract in China, Korea, and Taiwan… More than 1,000 Japanese companies went bust last month… Sony is laying off 16,000 staff [worldwide, not all in Japan – ed.] and Japan’s industrial output is expected to fall by a post-war record of 8.6pc in the fourth quarter… Private savings have collapsed from 14pc of GDP in the early 1990s to 2pc today. Japan goes into this downturn without a cushion” [e].

(iv) From Iceland via France and Italy to Greece, Spain via Germany and the Baltic states to Russia, Ireland to the Balkans, Europe’s economies are in disarray. In Germany, for instance, “the engineering group Siemens is cutting 17,000 jobs. The German car industry… is going through an ordeal by fire… A quarter of the country’s property funds have had to freeze withdrawals… amounting to a total of €34bn… The crisis in the sector knocks away another prop for property prices in Britain, Spain, Ireland and Denmark” [e].

(v) Here in the U.K., the R.I.C.S. "warned that the scale of the commercial property slump now dwarfed any other in recent memory… Banks have provided billions of pounds worth of loans to commercial property groups, which are now in growing risk of widespread default" [f]. A case in point is HBOS. Hotel group GuestInvest went into administration at a cost to HBOS of "£213m of debt and equity", against which the assets would raise so comparatively little that the administrator now has to look at piecemeal disposal in the hope of mitigating the damage to the bank [g]. "Yesterday's profits warning, which was accompanied by the announcement of £3.2bn of fresh write-downs to duff debts incurred in October and November, knocked a fifth off the value of its shares" [b]. In such circumstances as these, it would be unusual if someone did not strike lucky once in a while. Another bank, HSBC, sold its headquarters at Canary Wharf last summer to Metrovacesa, a Spanish property company, for £1.09bn, lending said Metrovacesa £810m to top up the purchaser's equity contribution of £280m. "At the very peak of the market [this] was the UK's most expensive property transaction yet" [h]. Now under pressure from the crash, Metrovacesa has been obliged to conclude a deal to sell the Docklands property back to HSBC "for £838m, meaning a loss of more than £250m" for the Spanish company. Less happy than HSBC is Rio Tinto, which has been looking for a partner to redevelop its old London headquarters in St. James's Square. No bids were submitted. "Last week, the take-over of Rio Tinto by rival BHP Billiton was called off. The company is now selling off its assets to pay down its $42bn (£28.7bn) of debt" [i].

Envoi: "I am still puzzled about how we allowed ourselves to get into this mess. It's tempting to say that the Government fooled us. But the truth is that they first fooled themselves. And not only the Government. The whole establishment and most of the commentariat fell for it. We have passed through a mass delusion of gross proportions" [j].

This mess arose because the unique rôle of land in the workings of the economy is not understood or, more sinisterly, is understood but ignored. There is no way out now that is not painful and unfair. The best advice we can offer is at all costs to avoid propping up land prices and therefore also property prices and share prices where land value makes up a high proportion of the total. It was the illusory speculative value of land that fuelled this boom to unsustainable heights. Economic activity will pick up again only when land value has dropped to what sites are worth in their best current use. Thenceforward it is imperative to initiate implementation of a full national land-rent charge (LVT), or this whole sorry story will yet again repeat itself.

[a] Merryn Somerset Webb, "Financial Times", 29th. November [b] Lex Column, "Financial Times", 13th. December [c] Joanna Chung, "Financial Times", 6th. December [d] Saskia Scholtes, "Financial Times", 6th. December [e] Ambrose EvansPritchard, "Daily Telegraph", 16th. December, 14th. November [f] Edmund Conway and Roland Gribben, "Daily Telegraph", 8th. December [g] Mike Phillips, "Estates Gazette", 6th. December [h] Daniel Thomas, "Financial Times", 6th. December [i] Bridget O'Connell, "Estates Gazette", 6th. December [j] Roger Bootle, "Daily Telegraph", 1st. December

LOCAL GOVERNMENT FINANCE: the Scottish Parliament to think again

"The Scottish Government last night suffered a setback in its plans to introduce a local income tax" ("Herald", 5th. December) when a motion calling for any future Bill "to allow MSPs to consider a range of options for replacing the council tax… was passed by 65 to 60", the same margin that voted down an amendment in the name of Finance Secretary John Swinney "calling a local income tax a 'fairer system' than the council tax, with no mention of other alternatives" What, then, was the range of options the governing SNP preferred to cut out? It included "a land value tax, a local income tax with variable rates, reforming the council tax, as well as the [Scottish] government's own plans for a centrally set local income tax".

A Report by an independent review committee, set up under the chairmanship of Sir Peter Burt to examine local government finance in Scotland, was published in November 2006 and extensively reviewed in our Issues Nos. 153 and 154. Burt's own recommendation of a 1% tax payable each year on the assessed capital value (selling price) of a home, was rightly dismissed out of hand at the time. Burt also found against the community charge, reformed or otherwise, and flatly rejected an income-based local government tax after exposing the fiscal and administrative drawbacks any such scheme would entail. The Report's observations, detailed analysis, and conclusions on a local income tax are to be found in Section 9 (subsections 4 to 40) and Section 10 (all 24 pages).

LVT is treated in Section 11 (subsections 5 to 32) of the Report. Although Burt "considered at length the many positive features of a land value tax… particularly its progressive nature" (11.32), the discussion of LVT ended limply, with no formal recommendation at all, for or against! In all, LVT seems to come out of the review rather well. We urge the Scottish Parliament to start from this point when it comes to look again at the topic.

We close our Issues for 2008 by reminding ourselves that this has been the fourteenth consecutive year in which the EU has failed to obtain auditorial approval of its accounts. What New Year's resolution(s) might that suggest?

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