

PRACTICAL POLITICS

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DEPRESSION, DOWNING STREET STYLE

This Government has been in office for nearly 12 years, during which time its economic destiny has been presided over by just one man, the Rt. Hon. Gordon Brown, M.P., first as Chancellor of the Exchequer and subsequently as Prime Minister. Despite having bragged in the recent past of the sound state of the economy, of the bright prospects lying before the nation, and of the end of boom-and-bust, he now finds himself running a country that is well and truly in the mire. *Mirabile dictu*, this is not his fault, he would have us believe. Oh yes it is, Mr. Brown, it really is your fault. All we can allow in mitigation, is that you and your party are not alone. The opposition parties have likewise overlooked the obvious.

Land (the material universe) is distinct from man and from his products. Land is not man-made and has no cost of production. It is fixed both in quantity and location. Capital, by contrast, is man-made wealth that is not directly consumed but is diverted back into the productive process (for instance, as machinery, tools, farm buildings, factories, offices, shops, transport and utilities) to assist in the creation of further wealth. Capital is capable of being increased in response to the mechanism of market price, and for the most part is easily moveable. Capital requires constant maintenance and is apt to become first outdated and then obsolete. Land, as a location, needs practically no attention, and each site is literally a natural monopoly.

Everything Mr. Brown eats, drinks, wears, or uses, waking or sleeping, has its origin in the land. Every building he enters, every vehicle he rides in, rests on land (or leaves and returns to it). There is nothing Mr. Brown can do without land. Land is key. Yet Mr. Brown ignores it when he pontificates on economics.

Our first Issue after “new” Labour was elected (No. 71, June 1997), asked:

“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 in favour of 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.**”

We foresaw this slump, remember, and wrote in Issue No. 116 (July 2002) that it would occur “probably around seven years hence”. What have you been doing Mr. Brown – and, for that matter, Mr. Cameron and Mr. Clegg too?

DEPRESSION

Had our advice in June 1997 been followed, the United Kingdom could by now already be collecting a significant proportion of land-rent, with concomitant replacement of taxes on production, trade, earnings, savings, and spending. This would, *inter alia*, have removed the speculative “hope” value in land pricing which falsely gave people and (less excusably, one might think) businesses, the impression that they had surplus funds to play with and could offer land (with or without developments on it) to lenders as collateral for what is now seen as wretched over-borrowing. Banks and other lenders likewise accepted land (albeit labelling it as real estate, property, assets, or equity) at rising but utterly illusory valuations, as security for ruinous over-lending. Even if the regulatory authorities (Bank of England, H.M. Treasury, FSA) had been asleep, would all the banks, in a LVT working environment, have become caught up in deals in all those “toxic” securities? Even if some of them had, a basically sound U.K. economy in a dodgy world would not find it difficult (though doubtless still unpleasant) to attract funds at home and from outside to prevent collapse. Ripples from disturbances to world trade and from rapid currency fluctuations would disturb daily working and living, but to nothing like the extent of the tsunami being experienced now.

No, this slump has not come from abroad to engulf a helpless, innocent Britain. It is British, born and bred. As we wrote in our previous Issue (No. 169), **“it is imperative to initiate implementation of a full national land-rent charge (LVT), or this whole sorry story will yet again repeat itself.”**

DEPRESSION

Over the years, and in particular since the appearance seven years ago of our Issue No. 116, we have chronicled the path to the present slump, underlining the crucial influence played by the land market. For much of that time, few others noticed anything wrong, and most of those who did were focused not specifically on land speculation itself, but rather on the effects which it was creating and which it trailed in its wake; they saw, therefore, only the secondary causes of current economic problems. Below, we record some salient recent developments.

- (i) “Banks...lent ever more money against the supposed value of the collateral, mainly property, used to secure the past loans that had been made” [a]. “Looking back, we now see just how big a proportion of US growth since 2001 was financed by mortgage equity withdrawals. Without that as a means of financing consumption, the economy would barely have grown at 1 per cent a year” [b].
- (ii) “Quantitative easing is the modern way to print money...The way to do this is for the central bank to pay banks money for assets such as government debt or mortgage-backed securities. Where does the central bank get the money to buy all these securities? The answer is that it just waves a magic wand and creates some. It simply increases the size of banks’ accounts at the central bank. These accounts ...go by the name of ‘reserves’. In quantitative easing, the banks build up ‘excess

reserves'...Quantitative easing is risky" [c]. The next step is to drop the pretence and just print banknotes: a government may then pay its bills with unbacked paper money, thus depreciating the currency and resorting to old-style inflation.

(iii) "Even Germany failed to sell a full batch of government bonds at its annual 'Sylvester Auction', which kicks off the debt season. Investors took up just two thirds of a €6bn sale of 10-year Bunds, leading to consternation in the markets" [d]. Despite this, "Germany was able to borrow...at three per cent. France...borrows at 3.47 per cent. The weaker countries pay a higher rate – Greece 5.34 per cent, Ireland 4.73 per cent, Italy 4.40 per cent, Portugal 4.12 per cent and Spain 3.97 per cent. If there were market confidence...the prices ought to be the same" but within the eurozone the strains are showing. The European Central Bank "has cut interest rates to two per cent, with an overnight rate of one per cent. But it takes the ECB almost as close to zero as a central bank can get. The next step after zero rates is the printing of money" [e].

(iv) Standard & Poor's credit rating agency has downgraded Greek sovereign debt from A-/A-1 to A/A-2 [d] and Spain from AAA to AA+ [d]. Spain already has more than 3 million unemployed, and the number is rising. "The key risk over the next two years is Spanish companies' debt load" [f]. "Tax revenue is collapsing. There is a banking crisis and a massive deterioration linked to housing" [g].

(v) Republic of Ireland retailers have been crippled as shoppers flood across the border into Northern Ireland to take advantage of the weakening of sterling against the euro. For the same reason, the Republic's exports to the U.K. are taking a hit. While the RoI is constrained within the eurozone straitjacket, the U.K. can derive some benefit from its floating exchange rate. It is a sign of the times that two prestige RoI manufacturers are in trouble: Dell is moving its main factory from Limerick to Lodz, in Poland, and Waterford Wedgwood is in administration. "Ireland is to demand pay cuts for civil servants and public employees" to curtail the rise in the budget deficit following the government's bank bail-out that "increased state liabilities by 228pc of GDP" [d]. The government said "it would [now] take 100pc control of Anglo Irish Bank" [h], *i.e.* nationalise it. The government is also to buy preference shares to recapitalise Bank of Ireland and Allied Irish Bank, and will "underwrite further issuance of capital...in an amount of up to €1bn each" [i].

(vi) Mervyn King, Governor of the Bank of England, has "pledged to set up a new instrument alongside bank rate...to restrain the growth in debt in future economic cycles but he did not elaborate" [j]. He doesn't get it, does he? The basic cause of indebtedness, in this context, is the illusory land value created by speculation run wild. A newspaper columnist does much better: "Asset-price inflation should in future provoke revulsion – and firm countermeasures" [k]. Warmer! Introduce LVT.

[a] Theodore Dalrymple, "Daily Express", 1st. January [b] Niall Fergusson, "Financial Times", 19th. December [c] Edward Hadas and Hugo Dixon, "Daily Telegraph", 9th. January [d] Ambrose Evans-Pritchard, "Daily Telegraph", 8th. January, 15th. January, 21st. January, 15th. January [e] William Rees-Mogg, "Mail on Sunday", 18th. January [f] Alberto Mattelan, economist, cited by Ambrose Evans-Pritchard, "Daily Telegraph", 20th. January [g] Michael Klawitter, banker, cited by Ambrose Evans-Pritchard, "Daily Telegraph", 13th. January [h] James Quinn and Garry White, "Daily Telegraph", 16th. January [i] Philip Aldrick and Amy Wilson, "Daily Telegraph", 22nd. December [j] Edmund Conway, "Daily Telegraph", 21st. January [k] Edward Hadas, "Daily Telegraph", 7th. January

LET THEM DRINK ALCO-POP?

“The European Union is reviving subsidies for dairy exporters to help the industry cope with a global price slump. Exporters will receive funds to make up the difference between EU dairy prices and lower rates in foreign markets...The European Commission said the temporary measures were needed because of a slide in milk prices” (Joshua Chaffin, “Financial Times”, 16th. January). Has the EU heard of lowering prices to market-clearing levels? Are EU consumers not worthy of some consideration? What a waste of European taxpayers’ resources this is, especially at a time of growing unemployment and general belt-tightening. Owners of cow pasturage are chuckling, of course.

AN INSOLVENT STATE

Governor Schwarzenegger of California has warned that the state is facing insolvency within weeks “after a protracted budget dispute that has left its finances in tatters” (Matthew Garrahan, “Financial Times”, 16th. January). California would be “the world’s eighth largest economy if it were a separate country” but currently faces “a record \$42bn deficit”. Republicans in the state legislature “are calling for sweeping spending cuts”, but the Democrats “say the budget should be balanced by tax increases”. A two-thirds majority is required, but no agreement is yet in sight. “Funding for more than 2,000 infrastructure projects...has been frozen to preserve dwindling cash resources.” We suggest the governor scrape together the remaining nickels and dimes and send the legislators the works of Henry George, not known as the prophet of San Francisco for nothing. Get a short-term fix, then go for LVT!

RAISE CASH? RAZE THAT BUILDING!

The only part of Slough that held any appeal for the poet, John Betjeman, was the town hall. Now the borough council wants to move into something modern, and seeks to pull down the present building and to “sell the 5.2 acre site for residential development” (Stephen Adams, “Daily Telegraph”, 26th. January). English Heritage, however, has recommended the building be preserved by granting it a grade II listing. Borough councillors had been told that “demolishing the town hall and selling the land would raise £14.5 million”, equivalent, after allowing for demolition and site clearance costs, to some £3m. per acre. Betjeman would have wondered who could possibly wish to locate in Slough at that price!

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