PRACTICAL POLITICS

February 2009 Issue No. 171

DEPRESSION

(i) "Governments are borrowing frantically to fund their bail-outs and cover a collapse in tax revenue. The US Treasury alone needs to raise $2 trillion in 2009. Where is the money to come from?" [a]. In normal circumstances, "economic policy makers avoid increasing the money supply for fear of increasing inflation" [b].

(ii) Three big Icelandic banks crashed, having "built up foreign liabilities equal to 900pc of GDP…They borrowed in dollars, euros and pounds to speculate. However, the state lacked the foreign reserves to match this leverage. But Iceland at least had the luxury of letting banks default – shifting losses on to the rest of the world". According to the Fitch credit rating agency, "They drew a line. They created new banks, parking the old losses in resolution committees" [a]. Iceland has a population of less than 300,000, but nations whose banks figure more strongly in world mercantile activities cannot just renege like this.

(iii) Rumours abound that the U.S. Treasury, the Bank of England, and (with rumblings of internal controversy) the European Central Bank are all considering plans to set up 'bad banks' to house their banks' toxic assets. "First, assets shouldn't be insured, or bought, at deliberately inflated prices. That's just a straight hand-out from taxpayers to bank shareholders. Second, banks should pay a reasonable price for their insurance policy. Third, if they don't have enough capital to pay for such insurance, they may still need further capital injections" [c]. The authorities would, in addition, be urged to relax the current Basel régime, changing the "rules that determine how much capital banks have to hold" so as to lower the minimum requirements "when credit is shrinking".

This is just trial-and-error stuff. **All booms are characterised by land speculation and all recessions are preceded by the bursting of the bubble**. Decisions in other areas (monetary policy, for example) certainly affect the course which booms and slumps take, but the cause of the cycle must be sought in the unique behaviour of land. Unfortunately there is no correct or painless way out. In so far as there is governmental choice, it is a matter of the form of pain to inflict and therefore of who the prime sufferers shall be. The only answer to a slump is not to have one in the first place; and that is to be achieved by avoidance of a boom founded on illusory, speculative land values. Government needs to stop looking exclusively at the labour and capital markets and turn attention to the underlying significance of land in the economy. Fully and properly applied, **land-rent capture (LVT) knocks out all possibility of land speculation**.

[a] Ambrose Evans-Pritchard, “Daily Telegraph”, 9th. February, 21st. January [b] James Kikup, “Daily Telegraph”, 28th. January [c] Hugo Dixon, “Daily Telegraph”, 3rd. February

WHAT PRICE THE RIGHT TO BUILD A FOOTBRIDGE?

The Duke of Beaufort has been paid £281,431 of taxpayers' money for allowing a 70 ft. footbridge to be built across a Welsh river to link a shopping centre to a football stadium. "The Duke's ancestors were granted ownership of the bed of the River Tawe as well as fishing rights by Charles II" nearly three and a half centuries ago [a]. Swansea council explained that "any developer looking to build on or over privately owned land has to pay a sum to the landowner for a legal easement, if required." In a LVT régime, the Duke would be assessed on the value of the riverbed (including the right to easement) plus the fishing rights but ignoring any outlay of labour and capital on re-stocking and on maintaining water quality.

A £60,000,000 HAGGLE

In 1999, North Lanarkshire Council let land to Multi-Link Leisure Developments Ltd. on a 50-year lease with the option to buy at 12 months' notice. The property covers 83 acres of open ground at Cumbernauld, in use as a golf course. In 2007, Multi-Link gave notice to purchase. The price in golf use would be £500,000. However, the land has since been rezoned "from leisure to probable housing use, increasing its potential value 100-fold to between £50 million and £60 million" [b]. The council would now like to block the sale, but "privately admits its legal position is weak...Multi-Link has so far argued that the sale should go ahead at the lower price", but its majority shareholder has hinted that 'if the potential was realised, we could share it'". The land was not man-made. In the new context, the improvements currently on it are irrelevant. The rezoning and ultimate planning permission are determined by a public authority. The demand for housing comes from the general needs of the population, locally and more widely. In all this, what part has the putative landowner played?

JACKSON HOLE REAL ESTATE – A WHOLE LOT OF DOLLARS

In north-western Wyoming, in the winding valley of the Snake River and against the backdrop of the majestic Teton Mountains, the town of Jackson Hole was founded. The few humble fur trappers of those days have given way to to-day's winter skiers and snowboarders and to summer hikers and birdwatchers, drawn respectively to Teton Village and Yellowstone National Park. "The Jackson Hole market has been a real estate phenomenon" [c]. The natural beauty of its setting is one obvious draw. "Buyers are also attracted to Jackson's excellent weather, with no humidity and average temperatures of 70°F-80°F in the summer, as well as plentiful snow in the winter…Another factor working in the area's favour is that Wyoming is a particularly tax-friendly state. There is no personal income tax, no inheritance tax, no excise tax and property taxes are low, with no tax on sales." Clearly enjoyment of these low conventional taxes has to be paid for, and the high land values are in part the entry fee to this tax demi-paradise. Unsurprisingly, "the state has a high number of billionaires in residence…and the high value of real estate is pricing out workers, forcing them to live further afield." Ugh!…

[a] Simon de Bruxelles, "The Times, 7th. January [b] Tom Gordon, "Sunday Herald", 21st. December
[c] Belinda Archer, "Financial Times", 3rd. January

DEPRESSION – SOME OF THE DAMAGE IT CAN CAUSE

(i) Manufacturers in the U.S.A. are planning huge cuts in capital expenditure. 3M is to lop 30% off its 2009 budget. Textron, the world's biggest corporate jet maker, is reducing its capital spending by 42%. "Caterpillar, the world's biggest maker of construction equipment and heavy-duty engines, announced 20,000 job cuts…Boeing, the world's second-largest aircraft manufacturer, also announced 10,000 job losses" [a]. "In the past 12 months, 3.5m US jobs have been lost" [b].

(ii) "Eastern Europe is imploding. Industrial output fell 27pc in Ukraine and 10pc in Russia in December. Latvia's GDP contracted at a 29pc annual rate in the fourth quarter" [c]. "Polish homeowners have had the shock from Hell. Some 60pc of mortgages are in Swiss francs. The zloty has halved against the franc since July."

(iii) According to a report by the respected Institute for Fiscal Studies, the U.K. Government "is on course to double the level of its debt from below 30pc of GDP at the beginning of this decade to over 60pc by 2012" [d]. "This…leaves out other liabilities. By the Government's own estimate, in 2006 there was £650bn…in unfunded public pension liabilities. The IFS estimates there is also about £130bn in future payments on private finance initiative projects…The UK has become a much more indebted country with a pound that is set to be weak for years."

(iv) In the West Midlands industrial market, "land values have almost halved" [e] but at least two developers have confirmed they will not be buying any in the foreseeable future, because they "expect a hell of a lot of pain over the next year." Indeed, it seems that "The last thing builders want right now is for planning permission to be granted to great tracts of their land bank…Once this land receives planning consent, the housebuilders have to pay the full amount for it. These are huge sums" [f]. Most strategic land is held on option or under conditional contract, involving comparatively small option fees. "Land is more like a toxic asset now."

(v) A key indicator in tracking the course of a boom/slump cycle "is the shifting relationship between land rents and land prices – the yield or return on investment. …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…pay over-the-top now, and look for those 'hope value' profits later. The crash, though, catches them out" [g]. Well, now it has. Since the peak in July 2007, "In capital terms the retail property market is back to 2002, industrial property is back to 1999, while the office market has wound the clock back to 1998…In the years that capital values rose and fell 35pc, rental values rose just 13pc before falling back 2pc" [h]. The capital value wipe-out took place over the last 18 months. The fall in rental value comes in the wake of business failures and down-sizing. It is an elegant lesson that LVT (other property taxes too, for that matter) ought to be assessed on annual rental value.

[a] John Authers, "Financial Times", 7th. February [b] Hal Weitzman, "Financial Times", 30th.January [c] Ambrose Evans-Pritchard, "Daily Telegraph", 9th. February [d] Ian Campbell, "Daily Telegraph", 30th. January [e] Melanie Smith, "Estates Gazette", 6th. December [f] Sebastian O'Kelly, "Mail on Sunday", 16th. November [g] "Practical Politics", Issue No. 168, November 2008 [h] Richard Fletcher, "Daily Telegraph", 3rd. February, citing figures from index provider IPD

(vi) "Pension schemes run by the UK's largest 100 companies have seen £65bn 'wiped off' their asset values in the past year – equivalent to 17 per cent or five years' worth of current pension contributions according to Deloitte. Investors using self-invested personal pensions (Sipps) to hold UK shares are likely to have lost more, as blue-chips have fallen 32 per cent on average, and FTSE 250 stocks by 40 per cent, in just 12 months" [a]. "Property has provided no shelter. An average house price fall of 17 per cent last year means that all equity earned on property since July 2005 has been wiped out, according to Halifax." The price of farmland slumped too, "following its meteoric rise on the back of the commodities boom" [b].

BOLIVIA

"President Evo Morales won a decisive victory in a referendum designed to enhance his own powers…The sweeping reforms will…allow the state to seize land from the rich. Under new rules, private ownership of large estates is allowed only if that property is put to 'social use'. Critics have predicted farm invasions of the kind seen in Zimbabwe. Decisions of whether the land is 'socially useful' will be taken by central government" [c]. "Bolivia has been polarised between the indigenous Indians…and the descendants of European settlers." From the presidential palace in La Paz, Mr. Morales claimed, "Here we begin to reach true equality for all Bolivians." No, Mr. President, sadly you and your people do not – not this way.

Three years ago, President Morales gave away almost 10,000 square miles of state-owned land to indigenous peasants. Already he was eyeing farmland belonging to the country's rich elite, and aiming to redistribute additional 77,000 square miles. "Seizure and redistribution are no solution. Reallocation of land is arbitrary even in this generation, is grossly unfair to future generations, and, if limited to farm land alone, leaves the urban landless to their plight. On top of this, alienating land to selected indigenous people is as morally flawed as leaving it with those of Spanish descent: how is a field hand better off if he has to pay his rent to a fellow indigene, or if he comes to depend on an indigenous landowner for his wages? Seizing land from Peter to give it to Paul does nothing for Tom or Dick or Harry – but collecting the land value does. Coupled with remission of existing taxes, this enables the whole population, without discrimination, to come into its inheritance" [d]. If the central government is capable of determining whether land throughout the country is in acceptable 'social use' or not, it must equally be capable of commissioning (possibly with assistance from valuation experts from abroad) a land valuation and levying a national land-rent charge on the basis of it.

[a] Matthew Vincent, "Financial Times", 3rd. January [b] Daniel Thomas, "Financial Times", 20th. January
[c] Gareth Rubin, "Daily Telegraph", 27th. January [d] "Practical Politics", Issue No. 150, July 2006

****

Published by the Land Value Taxation Campaign,
54, Woodway, Hutton, Brentwood, Essex, CM13 2JR,
and distributed free to selected members of both Houses of Parliament, of the European Parliament,
of the Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly.

Internet   http://www.landvaluetax.org