PRACTICAL POLITICS

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DEPRESSION: DO WE ALL FEEL REASSURED NOW?

Insurance companies do not issue policies involving paying out against what is inevitable, but only against the prospect of a risk that some specified event might occur. Thus it is undisputed that rain will fall on a particular village green in the Home Counties at some point in the future, but will it rain on the day of the village summer fête? Insurance can be arranged to cover that, at a premium related to the nature of the cover and the conditions to be satisfied.

The Government is to set up an insurance scheme for the nation's broken banks. The Royal Bank of Scotland (RBS) is to put £325 billion of assets into the plan, paying a fee of £6.5bn. and agreeing to absorb the first £19.5bn. of any future losses itself, but getting the Government (*i.e.* the taxpayers) to accept 90% of all further losses. The Government has undertaken to put £19.5bn. of new equity into RBS (the "B" shares, which carry a 7% interest obligation but do not "kick in" until RBS is back in profit) and will make available a further £6bn. All RBS has to do now is set up a new division to hold its "toxic assets" that are destined for the Government's insurance scheme, and agree to the Government's insistence that it will make loans ("safe" loans, of course) amounting to additional £50bn. (in mortgages and to businesses) over the next two years. It is expected that other banks will follow, in search of similar treatment.

What U.K. taxpayers have to decide is whether H.M. Government has made a successful entry into the slump-damage insurance market. If this is not insurance at all, in any commercial context, is it just "spin now, pay later"? Does it look that insurance has been arranged at a premium related to the nature of the cover and that the conditions to be satisfied are reasonable?

There is no easy or pain-free way out of an economic depression. The only solution is not to have booms and slumps in the first place, and that can be achieved only by full implementation of the Campaign's policy of land-rent capture for the public revenue – the policy known in the United Kingdom as land value taxation (LVT).

Footnote:– A national land-rent charge replaces contemporary taxes that fall on work, on man-made goods, on services, on trade, and on spending and saving. The *quid pro quo* for adoption of LVT in its fullness is that the benefits stemming from the use of land for living, working, and recreational purposes are tax-free.

JAPAN

Within living memory, the world had gold and two reserve currencies, the U.S. dollar and the pound sterling, to fall back on. Three new candidates, the euro, the rouble, and the renminbi, have stepped forward, with the yen hovering in the background. Gold, of course, is still good, but the others are all, at best, questionable. Russia and China are both dependent on exports (the former especially of primary products), and both have balance of payments surpluses; but neither is riding high at the moment, to say the least. The U.S.A. and U.K. are both carrying big trade deficits, but, whereas the strength of the weakened dollar has been recovering somewhat of late, sterling has taken a dive. The euro remains reasonably buoyant for the time being, but is under a great deal of stress with cracks beginning to spread. Gold is the fall-back. *Faute de mieux*, the U.S. dollar is the choice of the remainder of the developed world, including “Europe”, which looks in hope to the latent industrial strength of the U.S.A. In the East, the likes of Taiwan, South Korea, Thailand, Singapore, Malaysia, and the Philippines, look, if also only by default, to Japan. Japan has never recovered properly from the crash of 1992, and is dependent on exports of high-grade industrial and electronic goods. In recession now, however, the West, significantly including the U.S.A., cuts back on its imports. China does too. So, how is it that the yen has been holding up?

For years, the Bank of Japan kept interest rates at practically zero in attempting to stimulate borrowing for consumption and investment; but in the aftermath of the truly disastrous crash of 1992 Japanese people and Japanese businesses were primarily interested in saving and in repairing the wreckage. Yen savings, earning almost nothing and being very cheap to borrow, launched a new phenomenon, to be known as the carry trade. Investors, domestic and foreign, borrowed yen and took them abroad to exchange for much higher-yielding currencies. Now that the depression has set in and many of those currencies are in disarray or even free-fall, the Japanese have been busy repatriating the yen, coincidentally driving up its exchange rate. Now, however, with the collapse of the export trade and a stronger yen, the expectation is that Japan will in desperation resort to the printing press to flood the markets with new money in the hope of at last boosting the economy. The yen, thus devalued, will have precluded itself from becoming a safe haven currency. Already the Japanese are buying overseas bonds and foreign investors are bailing out of Japanese equity holdings. Only the U.S. dollar will be left: but will it last? And if it does not…?

Footnote:– The genesis of the Japanese crisis was the wildly extravagant wave of land speculation that overtook the nation in the 1980s, and whose effects linger still. “The government said land prices have fallen by an average 12pc in Tokyo, Osaka, and Nagoya since October” (Ambrose Evans-Pritchard, “Daily Telegraph”, 26th. February). “Japan still has many of the world’s best companies and the most advanced technologies” (Philip Stephens, “Financial Times”, 27th. February), but it remains the worst ever example of the malevolent cycle of boom and bust, and really must now address and solve the land question.

LITTLE BITS on tax havens, housing land, school land, and a U.S. insurer

(i) "Much of our current taxation falls on production and consumption – the very activities the government, especially at present, is supposedly trying to re-energise. Politicians should be looking instead at an annual tax based on the rental value of land. It would remove the speculative element in land prices which arises from anticipated capitalisation of future rental values. Land cannot be concealed, disguised or exported offshore" (John Digney, letter, "The Guardian", 10th. February).

(ii) "Sales of new homes were lower last month than in any month since records began in 1963. With foreclosed homes offering cheap alternatives, builders have made limited progress getting rid of their huge overhang of unsold houses…Lower house prices make consumers less wealthy and inhibit their spending. For banks, lower prices leave more people in negative equity and so reduce the ultimate value of the 'toxic' mortgage-backed bonds on their books" (John Authers, "Financial Times", 27th. February). Exactly the same illusory speculative land value has deluded lender and borrower both. The cost of paying for the materials needed for house construction, the interest to be paid on the equipment and machinery employed, and the wages due to all concerned for their labour (both of mind and body), do not differ vastly from one end of the country to the other, but the land value does. Competition for the available sites where people wish or need to live underlines the uniqueness of each location. Not being man-made, not being reproducible or transportable, land is a natural monopoly.

(iii) Private schools could be under threat from this slump. Some will struggle to survive. "New investors are eyeing the sector, too, attracted by solid long-term demand, income paid thrice-yearly in advance, and valuable freehold property" (Lex Column, "Financial Times", 17th. January).

(iv) "American International Group has set a doleful record. The insurer has reported a $61.7bn quarterly loss – the largest ever. The swelling of its woes also makes US taxpayers even bigger losers. AIG is getting yet another government rescue" (Lauren Silva Laughlin, "Daily Telegraph", 3rd. March). "The basic idea seems to be that the insurer pays less to get more. The interest rate on AIG's credit line from the government is to be lowered. There are $30bn of preferred shares, which will pay no coupon at first. And AIG's interest on its existing prefs is falling by $4bn…Six months after AIG's initial bail-out, it is disappointing so little has been done to reduce the insurer's risks. The government could have spent the time unwinding AIG's positions. A separation of the insurer into good and bad could have been completed… The law provides no easy means for rescuing this huge institution. But taxpayers have been let down by inadequate efforts to keep AIG's difficulties from expanding at their expense." Do vibes reach Westminster? Whitehall?

AMENDING THE UBR: FROM BURDEN TO STIMULANT

The National Non-Domestic Rate, implemented by application of a Uniform Business Rate (UBR), is based on the assessed rental value of a property in its existing state of development (although in some cases it is in effect just a turnover tax). Valuations are quinquennial. The most recent was on 1st. April 2008 and comes into effect on 1st. April 2010. The total take from existing properties is allowed to rise annually in line with the retail prices index (RPI) as measured in the previous September, with new enterprises and added developments slotted in as extras of course. Empty properties are accorded three months' grace from UBR payments; in the year 2009-2010 small properties valued at £15,000 or less will be exempt from this charge.

UBR revaluations are very likely to produce significant variations overall from the last time, on top of which there are always going to be swings both between the regions and between business sectors. This time, there is also the inevitability that the economic prospects of April 2010 will not correspond to those foreseen back in April 2008. Furthermore, the RPI increase over the year to last September (which is being used for the 2009-2010 UBR) was 5%, whereas now it stands at only 0.1%. This economic depression is going to hurt businesses rather harder in the UBR account than expected, especially as a rising number of empty properties will now be liable to the rate – increasing the temptation to tear down unlettable buildings. Things might be so bad that landowners even have to think of lowering rents!

Our suggestion is to alter the basis of the valuation from land + existing developments to site (location) value only, thereby de-rating buildings and other developments in or on the land. At the same time, unused and derelict land is to be brought within the compass of the UBR. All land is re-assessed on its optimum legally permissible use, disregarding its current state of use, mis-use, or non-use. These provisions remove any advantage to be gained from deliberate vandalism. Instead, there is incentive to good development and redevelopment, which are now rate-free. Withholding land or crassly under-using it is now penalised. This will involve revisiting the 1st. April 2008 revaluation and deferring implementation of the new land-value UBR to 2011; but in present circumstances that might itself well be seen as an advantage. The eventual review of the council tax can then bring that too in line with the site value rating system proposed here for the UBR.

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