

# PRACTICAL POLITICS

April 2009

Issue No. 173

## DEPRESSION

*Since our previous Issue, AIG is causing the predicted ruckus in the U.S.A., whilst in the U.K. the Lloyds Banking Group has followed RBS in hauling its can of toxic ashes through the doors of the Bank of England in exchange for wads of the taxpayers' succour. The BoE, with base lending rate now almost at zero, has begun "quantitative easing". This fools no one. Straightforward inflation beckons. The timing may be in doubt, but who believes that the whirr of printing presses will not again be heard in the land?*

This is the moment to remind ourselves of the hierarchy of noughts:—

million	one, followed by six noughts	$10^6$	1,000,000
billion	one thousand million	$10^9$	1,000,000,000
trillion	one thousand billion	$10^{12}$	1,000,000,000,000

*Footnote:—* In the still comparatively recent days of imperial measures, a billion was a million million (*i.e.*  $10^{12}$ ) and a trillion was a million billion (*i.e.*  $10^{18}$ , one followed by eighteen noughts, 1,000,000,000,000,000,000). The word, milliard, could have been deployed for  $10^9$  in this sequence.

The refrain, "regulation, regulation, regulation", echoes around all discussion of the future supervision of **banks**. There is no shortage of reproof to the City of London, but let us not forget that our trio of regulators (Treasury, Bank of England, FSA) also spectacularly flunked their test this time round, together with the entire apparatus of Government and a panoply of politicians, practising economists, commentators, and academics arrayed around them. The boards of many major financial institutions either lacked or abandoned commonsense; but are we confident that the regulators and those who write the regulators' terms of reference have any greater understanding – do they, for instance, recognise the difference between risk avoidance and risk management?

Before anyone smothers the next generation with onerous rules designed to re-fight a carbon copy of the current conflict, perhaps someone will ask who, in the next wave of bankers, will want to repeat the errors of his predecessors. No fast-rising lad thinks well of the bosses who created this present mess – have we no faith in the ability of to-day's 35-year-olds to invent new forms of mischief?

Banking regulation clearly does merit careful attention, but the real lesson to be drawn from this disaster is the much greater one of the authorities' failure to take account of the **behaviour of the land market**. They either did not spot, or they did not draw correct conclusions from, the increasing divergence between land rental values and land prices, and they compounded this by ignoring completely the handful of critics (us amongst them) who forecast this crash uncannily accurately (back in 2002 in our case). In short, our masters have lacked sound economic theory.

Free market capitalism (so-called) has been allowed to operate, and is still being allowed to operate, within a warped and unjust régime – one which accepts and, worse, abets the private appropriation of publicly created land value. **Land value is the one thing that should never be privatised.** The consequence for the public revenue of this shameful and catastrophic give-away of the national land-rent fund, is having to replace it by taxing what ought to have remained private wealth. That double incubus has to be removed. Bring in LVT, fully and properly implemented! Along with a number of other important benefits, there will be **no more illusory booms built on speculation in land value: no false speculative value means no fevered over-borrowing and no wild over-lending.**

Meanwhile, “publication of official figures showing a further deterioration in the public finances” has taken “the total deficit for the first 11 months of the fiscal year to a record £75.2bn – more than triple last year’s total” (Tracy Corrigan, “Daily Telegraph”, 20th. March). Unsurprisingly, tax receipts are down and the cost of various welfare payments is rising. The IMF has warned that “the country’s public debt” will soon be “the highest in the G20 group of industrialised nations” (“Daily Express”, 20th. March).

**Free Trade**, or what passes for it in this wildly imperfect world, might be at risk in the present crisis. It is true we have argued, in our Issue No. 39, that Free Trade is not enough; but that does not mean that we have a soft spot for Protection. Here are three simple statements of the obvious. (i) A bargain struck between two parties must, in the absence of coercion, be profitable to both sides or it would not take place at all: there can be no *a priori* justification for stepping in to prevent it. (ii) As producers, we are split into warring sectional groups each seeking monopoly or other advantage to place its product on a rigged market. All of us, however, are consumers, and, as such, we have the identical overall interest of wanting the widest choice of goods and services and the ability to select what we wish to buy to satisfy our cost and quality criteria. (iii) Particularly in a period of widespread economic distress, what sense is there in adopting a Protectionist policy deliberately designed to support privileged interests with the premeditated effect of raising the cost of living to the detriment of the population as a whole?

## DEPRESSION: 1992 AND 2009 COMPARED

*The feature, "Landing In Trouble", first appeared in "Practical Politics", Issue No. 29, in July 1992. It was subsequently reproduced by the Land Value Taxation Campaign in the booklet, "Crash Course", in June 1993; a second edition was brought out in September 2002, with the accompanying material revised. The text of the original 1992 article was brought out again as Uncoloured Supplement No. 2 and distributed with Issue No. 161 of "Practical Politics".*

In 1992, the principal players were the U.S.A., Japan, the U.K., and Western Europe. This time, Russia and China are major newcomers; Eastern Europe (Baltic to Balkans) has joined in; and the "Asian tigers" (South Korea, Taiwan, Thailand, Singapore, Malaysia, and the Philippines), whose previous boom crashed in 1997, have now synchronised their misfortune with the rest of us. The speculative land boom, very often mis-described as a property boom, has been especially noticeable in the U.S.A., the U.K., the Republic of Ireland, Spain, Estonia, Latvia, Lithuania, and Hungary, to which we must add Japan which was still grappling with the effects of its previous crash. One may add others who have not been immune, for example France, Germany, and Poland among the larger nations.

The authorities have been alleging that bankers are behind all the trouble. This is untrue, as careful reading of our analysis in Issue No. 29 and elsewhere will show. Illusory land values, arising during the growth of the boom and subsequently swollen as wild speculation took over, induced banks and building societies to lend more and more against land as collateral – buildings need constant maintenance, adaptation, and eventually replacement, so play little or no part in the flurry of rising property values, whatever the deluded and self-deluding may wish to believe. The beneficial owners of that land ("those properties") also imagined that every day brought more mysterious and painlessly won wealth, and dashed out to spend as if there were to be no reckoning on the morrow. Any of the nations affected could have prevented this happening to its own citizens, had a LVT régime been in place and properly operating. **This slump was not inevitable.**

Financial institutions did, of course, do rather more this time than just allow themselves to be dragged in as mere pawnbrokers and near-heedless lenders: some of them also became participants in frolics of their own devising, mixing merchant banking and retail banking, and adding toxic potions neither they nor their regulators understood. They were disposing of bad and risky debt – but **that bad and risky debt arose from loans made against speculative land value as collateral.** Cut out land speculation, and none of this would or could have happened.

In this 2009 depression there have been four other divergences from the sequence applying in 1992. In the late 1980s the focus was much more on expenditure on large capital projects, whereas this time the emphasis has been primarily on consumer spending. Devaluation of sterling was delayed last time because of the country's dogged attachment to the rigours of the ERM, whereas on this occasion the floating pound has been able to drop at once to its realistic level on the world's currency exchanges. The third divergence from before is a matter of degree – the size of the already big (and potentially fast growing) burden of government debt. Finally, inflation, which got out of hand at the peak of the last boom, was contained in the early years of the present century by higher interest rates than major competitor nations felt obliged to offer, but is now a clear threat and is set to become a prime preoccupation of the Treasury and the Bank of England.

### **COME, FORTH, AND SUBTRACT!**

Forth Ports, as we have noted on previous occasions, is an important property company thanks to the land it owns as a port operator. This year, however, it has had severely to mark down the value of its holdings "including swathes of water-front land in Edinburgh, from £282m to £60m, recognising 80pc of the land bank had no immediate development value" (Alistair Osborne, "Daily Telegraph", 17th. March).

### **GO FORTH, CHANNEL TUNNEL RAIL LINK, AND ADD!**

Domestic commuter services are scheduled to be added later this year to the international lines running across Kent from London to Folkestone via Ebbsfleet and Ashford. Connecting lines run from Dover to Folkestone, from Ramsgate via Canterbury to Ashford, and from Margate via Faversham, Sittingbourne, the Medway towns and Gravesend, to Ebbsfleet. An extensive article (Bob Sherwood, "Financial Times", 21st. March) plus map, details the reduced journey times to London and forecasts the house price increases and other benefits that will accrue. We leave interested readers to discover the *minutiae* for themselves, noting merely that, even in these distressed times, our government can still dozily watch the returns to public investment leach out to private landholders. No wonder railways are loss-making! Latecomers to these newly favoured parts must fork out, though, to buy their way in to the privileges now being bestowed on those already in place.

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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.

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