PRACTICAL POLITICS

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OF MONEY, PRICES, INFLATION AND THE COST OF LIVING

The purchasing power of a currency (the £ sterling, say) varies for a number of reasons. A product can be plentiful and cheap or in short supply and expensive, by reason of abundant or poor harvests, perhaps, or because of cuts in production caused by natural disasters or political upheavals or the actions of cartels. In such cases, the public has the choice of going without the product in question, having less of it, or choosing a substitute. The market responds as best and as quickly as it can to mitigate and correct the imbalance. The important point to note is that only one or a few products go out of line in each instance. The prices of most goods are unaffected. This is not inflation, even though it affects the cost of living for some or even for many people to a greater or lesser extent. There is only one way to affect all prices, and that is by increasing the money supply to disturb the balance between the goods available and the amount of money available to purchase them – the “too much money chasing too few goods”, in other words.

Who produces the “too much money”? Effectively, the Government does. Only governments have the power to bring about inflation. The Government has to pay its bills. To do so, it may levy taxes and it may, like any corporation or private citizen, go out and borrow. If it is short of funds, it may put up taxes, increase borrowing, or cut or postpone expenditure. It can, however, opt to set the printing presses rolling, thus enabling it to continue to withdraw goods and services from the economy at the derisory cost of turning pieces of paper into legal tender. Commercial banks are in the habit of lending £8 to £12 for every £1 held as a deposit, and this multiplies the effect of the Government’s ‘funny money’. The more this goes on, the more likely it becomes that the flood of money will lead to a fall in the value of the currency internationally and that investors at home and abroad will demand higher interest rates on the Government’s gilts issues, leading to rises in the cost of all borrowing. Especially when all or most major developed nations are practising inflation together, gold becomes the ultimate measure of value.

At least initially, inflation allows governments to avoid hard decisions over spending cuts and taxes. It suits banks in difficulties: using new, devalued money they can re-build their nominal reserves and can more comfortably write off losses incurred when money was worth more. Eventually, though, rampant inflation demoralises and disrupts a society from top to bottom. It favours the indebted over the savers. It sets employees against employers (including of course the state itself) in catch-up wage negotiations and strikes. Businesses falter and jobs are lost. Welfare benefit claims rise. Holes appear in pension funds. Inflation is no remedy: it is a new disease.

DEPRESSION – DUBAI and AFGHANISTAN

"Those Afghans who have amassed large sums from reconstruction contracts, corruption or the opium trade have invested in Dubai's booming markets in the past five years. But Dubai property is estimated to have fallen 25 per cent in value since its September peak and billlions of dollars of development there is on hold or cancelled…A struggling Dubai property market has forced the small but wealthy Afghan elite to pull their investments out of the Gulf and plough the money back into Kabul. Prices have been further buoyed by demand for city centre property and land from aid agencies, international contractors and new embassies" [a]. The report cites examples of spectacular price rises as Afghans sell centrally located homes and move to the suburbs to create a new land boom there. Unhappily there is also the £84 a month cook and father of six living in a single rented room costing him £35 a month. Is N.A.T.O. in Afghanistan to create a free nation or just a land fit for landlords?

Footnote on **Burma**:– When last year Cyclone Nargis struck the Irrawaddy Delta and "swept away homes, rice stocks, water pots and animals", it left the people "with little to their names – except outstanding debts". Further crop disasters have been endured while interest has accrued on mounting loans taken from rural moneylenders. "Unable to fulfil skyrocketing obligations, villagers are now losing some of their precious few remaining assets – including livestock and land – to creditors, pushing them ever closer to the edge" [b]. In a LVT régime, the assessment on land ravaged by a cyclonic tidal surge and resultant soil salinity would be hugely reduced, probably to a nominal value. As we noted in Issue No. 165, Burma is a rich country (petroleum, metals, rubies, timber). The country's woes, we wrote, "are solidly attributable to serious misgovernment." There should be no need for the rural poor to be dispossessed and become landless labourers. The nation has enough land value to grant assistance to the victims of natural disaster.

DEPRESSION – REPUBLIC OF IRELAND

In our Issue No. 170, we recorded that the Irish government had determined to nationalise the scandal-hit, debt-ridden, property-lending Anglo-Irish Bank. This it did, in mid January. The bank was raided by anti-fraud officers in February. Now the government is 'investing' €4bn to cover half a year's loan loss provisions of €4.3bn. The bank kindly pointed out that "every 10 per cent fall in land values sees additional impairments of €1.5bn" [c]. Perhaps the government can construct a sequence of events here. First, the RoI joins the EU and is handed all manner of Brussels dosh over the years, which sets in train big rises in land values, which in turn set off an explosive speculative land boom. Landowners go to the banks, and use frothy illusory values as collateral for loans, which the banks (not understanding basic economic theory) uncritically accept. The loans are churned back into further land deals, and so it goes on until the bubble bursts, bringing down the whole house of cards and spreading misery in all directions. What the Irish government needs to do is take taxes off wealth creation and the wealth creators and collect instead the annual rental value of the land. With Irish banks collectively facing “a backlog of bad property loans that are holding back lending to business”, there is no time to waste!

DEPRESSION – JAPAN

“Japanese apartment developer Joint Corp filed for bankruptcy protection with about $1.5bn in debt, underscoring the sluggish state of the property market…after revenues, mainly from real estate securitisation, dried up” [d], making it the fourth largest Japanese listed company failure in 2009.

DEPRESSION – EUROPE

“**Latvia** has become the first EU country to face a sovereign debt crisis after failing to sell a single bill at a $100m treasury auction, prompting fears of a fresh storm in Eastern Europe” [e]. West European banks have €1.3 trillion of exposure to the ex-communist bloc. “Latvia faces a calamitous hangover after blazing the trail of euro, Swiss franc, and yen mortgages.” Meanwhile “**Sweden** is preparing to part-nationalise banks exposed to the collapse in Baltic states…but will impose draconian terms…Swedish banks have lent more than $75bn to Latvia, **Lithuania** and **Estonia**” [e], and **Austria** is exposed too, with loans of “$246bn outstanding in Central Europe, Ukraine and the Balkans”.

Those who associate **Germany** with tight fiscal control will be astonished that the country faces a €80bn deficit this year, but seems prepared to rescue a threatened car manufacturer, and has already bailed out faltering banks. Chancellor Merkel, though, “does not blame the implosion of the subprime mortgage market for the economic crisis. She does not see securitisation as the culprit. Rather, she thinks the loosening of monetary policy under Alan Greenspan's Fed chairmanship fuelled the creation of asset price bubbles and encouraged excessive leverage within and beyond the financial sector” [f]. Ignore the euphemism and change ‘asset price’ to ‘land price’, and a fair statement of the reality emerges. Greenspan’s ‘loose money’ encouraged banks to advance loans against speculative land value as collateral. Had a LVT régime been in place and properly operating in the U.S.A., this could not have happened; and Germany could have protected its own people if it too had had LVT. A near miss, Chancellor! Pity!

H.M. OPPOSITION

"Our approach is to understand why people are stuck in poverty in the first place and help them break free by tackling welfare dependency, addiction, debt, poor schooling and, above all, family breakdown. By tackling root causes rather than simply treating the symptoms, we can deliver more for less and get a grip on public spending" [g].

It is inevitable that, as the organ of the Land Value Taxation Campaign, we will target the government of the day more than the parties of opposition. This certainly was the case when the Conservatives were in office before 1997, and it has been even more so since then when Labour took over. In fact, we have found remarkably little worth saying about the Conservatives, primarily because little of substance or of policy detail has been forthcoming in the areas that interest us. The above statement by David Cameron comes therefore as a welcome expression of his party's approach to policy making.

Welcome, yes; but disappointing. The truly radical question is not why people are *stuck* in poverty, but how they came to *be* in poverty in the first place. Is it all because of character defects abetted by poor schooling, or is the answer more likely to be found in a fundamental flaw at the core of the prevailing political, social, and economic system? We think it is the latter. We set down our basic case in Issue No. 26 of "Practical Politics", under three headings. The second and third were the economic argument from observation and inference, and the pragmatic argument – raising revenue in an efficient, superior way. First, though, came the moral, ethical argument. Whether there was a formal Creation or not, whether there was a Divine Creator or not, it is indisputable that the Earth was not made by Man. From this it follows (i) that all men have equal rights in the bounty of Nature; and (ii) that no man can with moral legitimacy lay claim to private ownership of any part of that which Nature has freely provided. The exertion of labour by man is what confers legitimacy on the claim to ownership: a man may not own what neither he nor any other man created.

There is of course much more to this and much, much more that flows from it. The key, however, is not to reject the self-evident. What is morally wrong can never be politically correct. Capitalism founded on the private appropriation of the Rent of Land is not honest, nor does it provide a route out of poverty.

[a] Ben Farmer, "Daily Telegraph", 2nd. April [b] Amy Kazmin, "Financial Times", 30th. May [c] John Murray Brown, "Financial Times", 30th. May [d] Reuters, "Financial Times", 30th. May [e] Ambrose Evans-Pritchard, "Daily Telegraph", 4th. June, 5th. June [f] Bertrand Benoit, "Financial Times", 6th. June [g] Rt. Hon. David Cameron, M.P., "It's Time For Change" (election leaflet), June 2009

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