PRACTICAL POLITICS

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SCOTTISH DEVOLUTION AND THE CHIMAERA OF POWER

A review of devolution in Scotland on its 10th. anniversary has been conducted by a commission chaired by Sir Kenneth Calman. The principal recommendation is to manipulate the raising of income tax (IT). Under the Calman proposals, the Barnett block grant formula will be retained for the present, but the rate of IT across all bands for Scottish workers will be cut by 10p, to be balanced by a reduction of £5 billion off the £33 billion Barnett payment. This leaves Scottish ministers to decide whether to make spending cuts or fill the gap by opting to raise IT on their own initiative (clawing back the 10p cut, in fact). It is all very much left hand/right hand stuff, allegedly giving responsibility to Holyrood whilst at the same time holding it to account, thereby ticking two boxes in the great word game of contemporary public life. The Scottish Parliament is also to be given powers over stamp duty, landfill tax, air passenger duty, and the aggregates levy paid on mineral extraction. VAT and offshore oil and gas remain reserved to Westminster.

There are other recommendations of an essentially non-financial nature which will doubtless be generally welcomed in Scotland without causing distress or concern to the rest of the U.K. There is an interesting proposal, though, to allow Holyrood to borrow money to fund infrastructure projects. This is where accountability runs into the sands. Many kinds of infrastructure project rarely make a return on investment, or, if they do, rarely make one early enough or substantial enough to be viewed as commercially justifiable. A new or resurrected railway line in the Borders, or a new road bridge over the Forth, for example, will be approved by users and most of those affected. Tolls at a bridge, of course, will largely be resented, although, curiously, passenger fares on trains will, in principle, be accepted. The key point in both cases, however, is that the cost of the investment is very great, and that tolls and fares can never make these projects economically viable. Yet there is a paradox here, because in fact the benefits do exist. It is just that they are not within the reach of the projects' builders. Bridges and railways add to land value in the areas they serve, both in the immediate vicinity and in the ripple effect on neighbouring land. With a policy of LVT in operation, the increased value is added in to the pre-existing value and becomes available for collection in a national land-rent charge. This is the revenue-raising source the Scottish Parliament really needs, not the Calman folderol. We urge MSPs to press for this option. 'Scottish land values for Scottish people' perhaps?

DEPRESSION

(i) "Ahead lies the danger of inflation, a logical fear when government policy is designed to create it" [a].

(ii) "Early this year, the owners of the John Hancock Tower in Boston defaulted on a few loans. Foreclosure fast followed – the building was auctioned off in March. The price? $660m…It last changed hands for $1.3bn – back in 2006…Commercial property prices in the US are still coming down so fast [and] residential prices remain under pressure (nearly 1 in 10 mortgages is in default)…The fate of the banks is inextricably linked to US property prices…Policymakers are big on the idea that you can make things better by making people feel more confident. But what good is confidence to a consumer with no cash?" [b].

(iii) There is the fear "that the Federal Reserve, and other central banks, will get its 'exit strategy' wrong. Its policy since the crisis broke out has been to encourage inflation. This is defensible, as the least painful way to get out of a big overhang of debt is to make the debt cheaper, through inflation. It will have to raise [interest] rates to choke off that inflation, at some point" [a].

(iv) "We have to wean ourselves off debt. The result? Less lending" [c]. Of course! For every lender there has to be a borrower, and *vice versa*. In the boom, lenders made loans on the strength of illusory, frothy, speculative land values offered as collateral, and borrowers used unreal land values to get loans to support more land speculation (if you insist on euphemisms, call it "asset/property/housing investment") or to indulge in extravagant life styles.

(v) "Investors are increasingly spurning Russia…The comatose economy is barely twitching in response to government stimulus…Igor Shuvalov, deputy prime minister, warns the decline could be 9 per cent…with projected budget deficits in 2009-10 enough to wipe out the stabilisation funds into which Russia has squirreled energy tax revenues" [d].

(vi) "If proper consideration of the rôle of land in the functioning of the economy is not in the syllabus, then it should be. If land is not represented in computer models of the economy, then it should be. If people who can see no difference between land and capital are in positions of influence, then they should not be…The price of maintaining establishment economics is paid by the victims of the recurring cycles of disruptive boom and disastrous slump. The doctrine that land is not important, must be interred. There will be few mourners, outside its own priesthood" [e]

[a] John Authers, "Financial Times", 27th. June, 13th. June [b] Merryn Somerset Webb, "Financial Times", 20th. June [c] Damian Reece, "Daily Telegraph", 19th. June [d] Lex Column, "Financial Times", 27th. June [e] "Practical Politics", Issue No. 29, July 1992

FORTY YEARS ON

A three-bedroom mid-terrace house in Morriston, Swansea, has finally been sold after lying empty for 40 years. When the last owner died in 1969, the house went up for sale at £950, but "inheritance was disputed and no one wanted to maintain it" [f]. Eventually the council forced a sale and the dilapidated property "was snapped up by a developer for £45,000". Other houses nearby go for £100,000 plus, so the developer will have assessed the land value at £45,000, and will be expecting to do a major revamp of the building for another £45,000 and sell it on for a profit. Good! But if LVT had been operating in 1969, those quarrelsome would-be inheritors would have been obliged to pay the land-rent charge and either sell or let the house while they carried on with their disputes. The neighbours would assuredly not have had to wait 40 years to rejoice, and the general public would have had the benefit of a steadily rising income from this and all other land in the Kingdom.

BE SCARED, BE VERY SCARED

Landbank GB, a residential development company, is planning to raise funding to invest in land at the bottom of the boom/slump cycle. Landbank "is confident it will find land at good prices from banks, housebuilders, receivers and landowners" caught out by the downturn [g]. It will "look to 'optimise' the value of the land it buys, mainly located in the South of England, through 'improving or gaining planning rather than just playing the cycle'…The strategy is to hold the land for three to five years and sell it, wholly or in part, at 'much higher levels once the land cycle has turned'…It envisages it will have sold all of its land holdings between the next six and nine years". The company is trading, quite legally and openly, in public land values and public planning consents. To us, it looks many times more outrageous than welfare scrounging, but neither the government nor the opposing parties care a hoot.

"The value of residential development land fell by half last year" [h]. "Welbeck Land, a property development group, is hoping to raise £100m in new equity…to obtain planning consents for farmers [*i.e.* owners of farm land – ed.] to increase the value of each acre from £5,000 to more than £2m in parts of Sussex". Cavendish & Gloucester Properties aims to launch a land fund "to purchase land with residential planning permission and then resell it to developers as the market recovers. Planning permissions may also be renegotiated to maximise profits."

Be scared, very scared. Lessons are not being learned. The seeds of the next depression are being sown even before this one is fully developed!

[f] Sarah O'Grady, "Daily Express", 5th. June [g] David Craik, "Daily Express", 29th. June [h] Ellen Kelleher, "Financial Times", 20th. June

JUST A THOUGHT (nothing to do with LVT, really)

We have noticed that sections of the House of Commons, faced with recent regrettable disclosures, have sought to divert attention away from behavioural change to matters constitutional. Prominent amongst these has been reform of the method of election to give representation to parties in the legislature that is more proportional to votes cast. The system known as first-past-the-post is used exclusively for Westminster. The Scottish Parliament and the assemblies in Wales and in Greater London, use a hybrid of first-past-the-post and a proportional regional top-up taken from lists supplied by the parties. For the European Parliament in England, Wales, and Scotland, it is done entirely by proportional voting from regional party lists. What is the point of giving party bureaucracies the power to determine who gets on the list and in what immutable order? How does that produce a better quality of representative? There is one part of the United Kingdom which really does have a much superior system, and that is Northern Ireland, where all elections, except for Westminster, are by single transferable vote in multi-member constituencies. Parties put up lists, but voters are free to deploy their preferences in any order, and across any parties (including independents and party recalcitrants) they want. The implications for democratic choice are many. Power to the people!

ENVOI (everything to do with LVT – really!)

The system of landholding must be changed. Land is not man-made: it is a given, a condition precedent to the creation/evolution of *homo sapiens*. For practical purposes its quantity is fixed. It can not be moved from place to place. Each parcel is unique in its attraction as a location in comparison with all others. Its rental value derives from natural advantage and from the past activity of the community as a whole; but, more importantly still, that rental value is constantly being maintained or varied by what society does in the here and now and by what it has in mind for to-morrow. The value of land is public; but the value of man-made wealth, of wages, of interest on man-made capital, is private. That is the great truth, and it is the business of politics, of economics, and of philosophy to proclaim it. **Take taxes off wealth and the wealth-creators. Take instead that which is already public. Fund the public revenue from collection of the annual rental value of land.**

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