PRACTICAL POLITICS

December 2009 Issue No. 177

MERGER OF THE FLOUNDERING
– a land value grab at the expense of the public in two nations

Last month British Airways (BA) and Iberia announced plans to merge, with BA having a 55% stake and Iberia the remaining 45%. The deal is of course subject to scrutiny of the detail and to governmental approvals. The merged company is to be headquartered in London and listed on the London Stock Exchange, but will be registered in Spain. Beneath it there is to be one operating company in London and another in Madrid. All three companies will have their own board and staff, and the composition of all three boards will be divided between British and Spanish members. There are certainly advantages for both parties: BA is weak in South America where Iberia is particularly strong, and BA has global routes where Iberia has little or no presence. Two failures put together, however, do not necessarily make for success. Neither airline is exactly bursting with health, and BA has a big hole in its pension fund. Why, above all, has the proposed corporate structure been made so self-evidently complex and top-heavy? The explanation is starkly simple. “The rules governing landing rights made it necessary for the two airlines to retain their existing brands and operations in their respective home bases of London and Madrid. International airlines...are required to negotiate a series of bilateral relationships with other countries that allow, say, BA to fly to India, or Iberia to Peru. If BA had suddenly swallowed up Iberia outright, it would have risked losing those valuable rights” [a].

Take-off and landing slots are the *sine qua non* of flying, and at peak times at major airports are especially valuable. Air space, the space above the ground, is, in political economy, termed land, being part of the material universe distinct from man and his products. Like all land, it is not man-made and may not be the morally rightful property of any man or body corporate. Furthermore, the value of these slots is dependent on the construction and operation of the airport itself, the infrastructure that conveys passengers and the workforce to and from it, and on the attraction of the area and country in which the airport has been built and on the volume of demand placed upon it and its facilities. The value of the air slots is a public value, to be collected as part of the national land-rent charge (LVT) for exclusive use of air space. It is not a plaything for airlines: in return, they will, like every other person and business, benefit from concomitant withdrawal of present taxes.

[a] Pilita Clark, “Financial Times”, 14th. November

DEPRESSION – RECENT DEVELOPMENTS AND REPERCUSSIONS

United Kingdom

Banks face trouble. £79bn (seventy-nine thousand million pounds) of the £285bn of debt that is outstanding on U.K. commercial property is held to be problematic. "Most of these loans were issued in 2006 and 2007 – the height of the boom – and are backed by properties that...will be difficult to re-let if they become vacant." Half of the debt outstanding is "due to mature by the end of 2012" [b]. "British taxpayers stand behind more than £167bn of toxic assets in the US, Ireland, the Middle East and beyond, it has emerged as the Treasury disclosed details of what Royal Bank of Scotland has dumped in the state insurance scheme for bad debts. Most of the £281.9bn of assets RBS has placed under taxpayer protection are based outside the UK" [b]. "Lenders have avoided repossessions on many facilities where the loan-to-value covenant has been breached because interest payments are still being met. Also, in some instances, lenders have not even demanded the revaluation of properties because the loan is still performing. However, according to the Bank of England, this policy may have to be reconsidered as declines in rents and increases in the number of empty properties threatens the income of landlords, meaning loans cannot be serviced" [b]. In short, supplies of fudge from the fudge factories could be running out.

The wider scene is not bright either. "Britain is vulnerable to a 'gilts strike' because foreign investors own £217bn of UK debt, or 28pc of the total. These are footloose funds and likely to sell large holdings if Britain loses its AAA rating. They have other tempting places to park their money...where... growth prospects are better...Global markets do not believe the UK Treasury forecast for 3.5pc growth in 2011. The Government will have borrowed £1.5 trillion [£1,500,000,000,000 – ed.] in the five years up to 2014. The market response is entirely rational" [c].

Europe

Job losses in **Spain** have soared "as a decade-long construction boom ended abruptly, leaving more than 4m people, or 18 per cent of the workforce, without work. Spain's second problem – alongside the US, UK, Ireland, Italy and Greece – is the state has spent so much...that investors are nervous at the prospect of years of unsustainable budget deficits" [d].

Austria nationalised the Hypo banking group of Carinthia after it ran into trouble on previously hidden losses in Eastern Europe and the Balkans. The shock waves spread over the border to **Germany**, specifically to Bavaria. Bayern Landesbank had bought a two-thirds holding in Hypo at the height of the expansionist spree in 2007 and had itself to be bailed out by German authorities to the tune of €10bn last year. That holding was worth only a nominal €1 when Hypo went under, and Bayern LB also had to kiss good-bye to €825m of liabilities. “The Austrian state will provide [Hypo] up to €450m in fresh capital [while the] Austrian venture cost Bavaria €3.8bn” [c].

Greece is in crisis. Fitch Ratings and Standard & Poor’s have both already downgraded its sovereign debt to BBB+. “Athens squandered its euro windfall. For a decade, EMU let Greece borrow at almost the same cost as Germany...Idiot leaders mistook a bubble for their own skill...Default insurance on Greek debt jumped 40 basis points” in a week [c]. In euro-land a nation cannot devalue its currency or inflate its way out of trouble: it has to be austerity and public sector cuts – and already the street riots have begun.

An explanation

Careless and imprecise wording is leading many economists, politicians, and commentators to delude themselves and the public over what lies behind the cycle of boom and slump. Use of such expressions as real estate, property, assets, or equity, confuses two distinct factors, namely Land and Wealth (Wealth may be in the hands of the final consumer or may be in use within the productive chain, in which case it is known as Capital). In political economy, it is important to be scrupulously attentive to definition, albeit the words concerned may be used differently in other spheres (for instance, at law, in accountancy, and in casual public parlance). A house, factory, office, department store, or farm consists of buildings and other developments (all Wealth/Capital) together with the site/location (Land) upon which they are set. Wealth is man-made and production can be replicated. Land is fixed and not transportable: each site is literally a natural monopoly. Wealth/Capital loses value over time, requires constant maintenance and repair, and is prone to become first obsolescent then obsolete. Land is not man-made, and generally rises in value (sometimes, in favoured locations, spectacularly so) without expenditure of effort by the landholder (in his strictly landholding capacity). The car in the garage, and the television set and cooker in the house, are said to depreciate, until “written off” and discarded. This does not happen to Land! Talk of speculation, bubbles, property values soaring or collapsing, means that the it is the site/location value that is the subject of speculative activity, and froths, soars, and collapses. Obvious, is it not? So why do so many leading figures feign ignorance of it? As former U.S. President Bill Clinton nearly said, and ought to have said, when answering a question about what matters, It is the rôle of Land in the economy, Stupid!

[b] Graham Ruddick, “Daily Telegraph”, 3rd. December, 8th. December, 21st. December [c] Ambrose Evans-Pritchard, “Daily Telegraph”, 24th. December, 15th. December, 23rd. November [d] Victor Mallet, “Financial Times”, 12th. December

WHERE TO START THE CUTS

"The UK now has the longest tax code in the world according to NexisLexis, the publishers of Tolley's tax guide. The handbook of tax legislation now runs to 11,520 pages, a 10pc increase on last year and more than double the number of pages from 12 years ago" [e]. The full and proper implementation of a national land-rent charge (a.k.a. land value taxation) and progressive withdrawal of to-day's noxious taxes would make for a fine slim volume.

WELCOME SIGNS

(i) "The Government should replace council tax and national non-domestic rates with a land value tax", proclaimed the Co-operative Party [≠] in its 2009 manifesto, adopted at the party's annual conference in Edinburgh this September.

(ii) "A plan to scrap council tax in favour of a...Land Value Tax was proposed by Compass, a...think tank close to Gordon Brown's inner circle... The report's author Toby Lloyd said: 'Social justice demands that the gains in land value be shared more equitably with the community than at present, and a tax system that could stabilise the housing market and reduce the chances of booms and busts is in everyone's interest. With an annual Land Value Tax, all land would be taxed on the unimproved site value, which would be revalued for tax purposes annually. It's important to be clear here – we are not talking about a tax on property values...LVT is charged on the value of the land [a person's] home sits on alone.'" [f]. Sure enough, up jumped the Rabid Tendency in all its indignant ignorance (the newspaper's editorial in the lead). If these people took the trouble to understand what they were attacking, we think they might become converts themselves. For instance, Mark Wallace of the TaxPayers' Alliance said LVT would be a "huge disincentive" to buy a home. How can that be? Compass argues only for replacement of council tax by LVT. It is a replacement levy. It incentivises all developments untaxed. It lowers land prices and thereby reduces the need for a mortgage of the size required to-day. With LVT operating in its fullness, all other imposts are ultimately replaceable. With nothing to pay beyond the land-rent charge (LVT), all a homeowner has to buy is the house and the improvements that go with it. LVT appeals right across the political spectrum. Go on! Get with it!

[≠] The Co-operative Party is not affiliated to the Labour Party at national level, but its candidates stand as joint candidates of both parties and are badged Labour/Co-operative. There are 29 Labour/Co-operative MPs in the present House of Commons.

[e] Jonathan Russell, "Daily Telegraph", 7th. September [f] Sarah O'Grady, "Daily Express", 7th. August

****

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