PRACTICAL POLITICS

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PROPERTY: distinguishing what is private from what is public

Nobody thinks Man made the Earth. The world abounds with evidence to-day that personal ownership of part of the planet's surface for private gain is a comparatively recent contrivance. The North American Indians, the Inuits (Esquimaux), the Australian Aborigines, the Bushmen of the Kalahari, all regard Land as a communal heritage, and have great difficulty in coming to terms with the alien concept of paper land titles. The private ownership of land is against Nature.

Free access to land suited the hunters and gatherers, and even the migratory herdsmen. Arable farming, however, and, later, the development of industry, required trading centres and settled communities, and encouraged fixed capital formation, the division of labour, and population growth. Security of tenure on the land assumed increasing significance.

There was, and is, no difficulty in reconciling this with access to land for everyone on equal terms. Different parcels of land, whether urban plots or rural spreads, have differing attractions, for any of the myriad reasons we are familiar with from daily life; and the occupier is free, within the law, to enjoy them and to exploit them. Location values can readily be assessed and updated. A rental payment by the occupier to the public exchequer is at once a due payment for benefits received and a compensation to the rest of the community for the value it foregoes in agreeing to be deprived of access to the land in question. This rental revenue from land is the natural, logical way to meet essential public expenditure.
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What confers the right of private ownership is work – the production of wealth (capital goods as well as goods for consumption) by physical labour, mental effort, and human ingenuity. Neither political economy nor moral philosophy provides the least justification for private ownership of any part of our planet. No land owner or predecessor in title ever made the land, nor is a land owner responsible for the creation and, crucially, the maintenance of the revenue stream that enriches him.

Exclusive occupancy and security of tenure may both be legitimately attained by proper application of the fiscal system known historically in this country as land value taxation. LVT abates and replaces existing taxes that fall on work, man-made goods, services, trade, spending, and saving, and that disproportionately afflict the geographical and economic margins. Until such a national land-rent charge is fully and properly operating, the economy rests on flawed foundations, and all of us pay the price of inefficiency and injustice.

The above article is a slightly extended version of one that first appeared in Issue No. 89 (June 1999).

DEPRESSION

(i) "Governments which go on borrowing willy-nilly in the end either have to default on their obligations or debauch their currency to inflate away their debts" [a].

(ii) In one week this month, the euro "came under renewed pressure" and fell against the U.S. dollar, the yen, the Swiss franc, and, yes, sterling too [b]. "**Europe** alone has to raise $1,500bn of debt this year…With gross debt rising in **G7** countries from $24,000bn in 2007 to an expected $40,000bn by 2014, there will be far more competition for the world's limited pool of savings" [c], which will surely raise the borrowing costs of sovereign states with high deficits. In coming months, "**Italy** has to refinance 20pc of its entire debt...**Belgium** has to roll over 22pc of its substantial debt…**France**'s Société de Financement de l'Economie has issued €77bn of state-backed bonds since 2008 and the Caisse d'Amortissement de la Dette Sociale has amassed liabilities of €103bn. **Austria**'s infrastructure financing companies, used to buttress state stimulus programmes, have €23bn in debts. This hidden iceberg of debt kept off balance sheet is likely to be the next focus of bond vigilantes" [d].

(iii) In the **U.S.A.** the seemingly good economic news turns out to be not so good after all. The trade deficit shrank during January, but only on account of "a fall in imports of oil and foreign cars, suggesting US consumer demand is waning…The latest data showed a continued rise in the number of people claiming unemployment benefits…However the current [employment] numbers are being artificially buoyed by the US government's hiring of approximately 750,000 temporary workers as part of the 2010 Census currently being undertaken" [e].

(iv) "**China** is digging in its heels against US and EU demands for a revaluation of its currency…Premier Wen Jiabao…was still worried about China's considerable holdings of US Treasury securities, currently standing at just under $900bn". President Obama is facing "growing demands from US businesses and unions to impose trade sanctions against cheap Chinese products [but] Mr Wen maintained that…China relied heavily on imported components for its exports and said 60pc of them were made by foreign companies or through joint venture arrangements" [f]. Meanwhile, "in a surprise move that unsettled markets, the Reserve Bank of **India** hiked rates for the first time since July 2008 to contain rising inflation" [g].

(v) **Japan**, after its near-suicidal splurge into absurdly bloated speculative land values in the late 1980s, has languished in stagnation ever since the resultant crash. Now, "Japan's net debt is close to the 120pc of gross domestic product mark. The deficit is still climbing every year…Its debt interest payments and refinancing costs account for more than 20pc of its annual spending…The savings rate in Japan, which stood at around 14pc in the early 1990s, is now below 4pc – one of the lowest in the OECD…The omens are not good" [h].

(vi) Behind this mess of financial breakdown lies **the rôle land plays in the functioning of an economy**. We know that land is unique, in that it is not man-made, is fixed in quantity, and is immovable. Each plot of land is a natural monopoly. When times are good, the demand for land, and especially for the better land, rises. When it changes owners in a boom, prices inevitably rise and soon land speculation takes off in a big way. A plot of land already commands a rent (economic rent), which is the differential between its value and that at the economic margin which cannot sustain a living and has, in effect, no current value. Because there is as yet no systematic capture of the annual rental value of land for the public revenue, its buying/selling price rolls up not only the annual rental value but also all that mad soaring speculative froth – the bubble that is fated eventually to burst. Before that, though, beneficial landholders can "pop" this false speculative surplus at the bank as collateral for loans which can either support expensive lifestyles or risky business ventures or even go back into further land purchases (!). Banks love the security represented by land at this time (or so they like to think), and do all they can to attract borrowers into taking the profitable loans they can proffer. **Introduce LVT**, take land value out of the banking casino, and banks will no longer be awash with illusory funds to lead the economy astray. **Orderly growth** follows **– no more boom/bust.**

[a] Roger Bootle, "Daily Telegraph", 1st. March [b] Peter Garnham, "Financial Times", 20th. March [c] Lex Column, "Financial Times", 20th. March [d] Ambrose Evans-Pritchard, "Daily Telegraph", 12th. March [e] James Quinn, "Daily Telegraph", 12th. March [f] Roland Gribben, "Daily Telegraph", 15th. March [g] Michael Mackenzie, "Financial Times", 20th. March [h] Edmund Conway, "Financial Times", 8th. March

LESSONS ARE <u>NOT</u> BEING LEARNED

Banks involved in loans to the commercial sector "have indicated a willingness to finance new developments again, on *site acquisitions*" [j] and "Bovis Homes will take advantage of *low land prices* to begin building up its pipeline of new houses, after edging back into the black with a £4.8m pre-tax profit last year" [k]. The italics are ours. These statements prove two things. First, the high cost of land kills jobs: both labour and capital are unemployed, and seekers after business premises and homes are losers too. Activity resumes when prices drop again. Secondly, without LVT, the ground is being prepared (literally and metaphorically) for the **next boom/slump cycle**. We see no signs yet that the élites understand the fundamental weakness of contemporary economic analysis – ignore land and you are done for!

[j] Graham Ruddick, "Daily Telegraph", 16th. March [k] Rowena Mason, "Daily Telegraph", 9th. March

DECLINE AND RISE OF LAND VALUES

(i) For many years **St. Austell** thrived on the success of its china clay pits, but has fallen back in recent decades, matching the decline of clay mining. Fortunately for the town, it just happens to have "significant attractions nearby. It is only two miles from a traditionally popular stretch of southern coastline…and on the doorstep of two of Cornwall's most important and enduring visitor attractions – the Eden Project and the Lost Gardens of Heligan…[A] new eco-development of 5,500 homes is planned for the clay-working areas just outside the town. The government has announced an injection of £9-£10m to get the scheme started, [which] includes plans to revitalise Par Docks, the unsightly departure point for clay exports, into a smart new marina. That is bound to benefit the area's tourist image" [l]. So, taxpayers' money, the enterprise, initiative, and management skills of developers, the deployment of capital, and the indispensible efforts of the workforce, combined with surrounding attractions (both man-made and natural) and the expected influx of tourists, all make land more valuable. What does the landholder do, except smile at the gullibility of the rest of us?

(ii) Dominical is a small town on the southern Pacific coast of **Costa Rica**. In 2004, two acres of untouched jungle land to the south were bought for $55,000. To-day they are valued at seven times that. Costa Rica enjoys "a good quality of life under a stable government [and] is a haven for retirees, mostly from the US and some from Canada, and is becoming an increasingly popular destination for second-home buyers…Unspoilt beaches line the Pacific coast south of Dominical and are accessible by what is now an easy drive down a two-lane highway" [m]. Previously the journey from Quepos airport to Dominical was on a treacherous unpaved road. What is more, a new four-lane highway is being built, linking Quepos to San José, the capital. Road infrastructure is clearly improving fast. Land prices south of Dominical "depend on location, proximity to the beach, flat versus sloped land and whether the property has an ocean view". As in Cornwall, so it is in Costa Rica, it seems. Don't landholders do well? Why do we still let this happen, preferring to beggar the labourer and bear down on the providers of capital?

[l] Faith Glasgow, "Financial Times, 6th. March [m] Amy Yee, "Financial Times, 13th. March

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