PRACTICAL POLITICS

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THE CRISIS AND THE DISCARDED KEY

To drag or coax the nation out of the slump, the Government has at its disposal a number of economic weapons. (i) It can put up taxes. (ii) It can cut spending on long-term capital projects and on current programmes and activities. (iii) It can borrow from the existing pool of money, using National Savings and gilts. (iv) It can create new money by quantitative easing (QE). (v) It can create new money by classic inflation, the printing and spending into circulation of unbacked paper currency, the effect of which is to devalue the spending power of all existing notes and coins. Distinguishing this from QE raises a fine point. The Bank of England (BoE) was supposedly to print new money to support businesses by buying corporate bonds, but in fact almost everything so far has been devoted to buying government bonds. The QE operation is meant to be closed by the future sale of those bonds by the BoE into the general money market. It is unlikely HMG will welcome such competition with its own planned gilt issues, in which case QE could well turn out to be straightforwardly inflationary. (vi) With the advent of inflation, or with a view to its discouragement, HMG can, and probably will, turn to higher interest rates, and (vii) will have to watch the international value of sterling float downwards (further devaluation, forsooth). It does not augur well for an early or easy escape to prosperity.

Sadly the powers-that-be have thrown away the key. They have forgotten the distinction between land and capital, and do not appreciate the significance of the rôle of land in the functioning of the economy. The key is the abatement and eventual replacement of current taxes on work, goods, services, trade, spending, and saving, by the capture of the annual rental value of land for public revenue purposes – the policy known historically in this country as land value taxation (LVT). Half a year has been lost, but there is yet scope to affect the direction of future policy in the lifetime of this parliament. It could begin by tabling a financial resolution in the Commons, "That an annual duty (which may be called the National Land-Rent) in respect of the annual rental value of land apart from improvements on it shall be charged at the rate of … for each pound of such rental value. That it is expedient to authorise the payment, out of moneys provided by Parliament, of any expense or remuneration payable in connection with any valuation of land or premises for the purpose of any duty charged thereon by any Act of the present Session." The National Land-Rent Bill itself is to specify that the national land-rent is a first charge on the land, above all others [a].

LAND AND CAPITAL

Here we explain the difference between land and capital to uncover why it matters. We record the case that land rental value is amply sufficient to support public revenue needs. In our next Issue we shall illustrate the rôle of land in two important respects – its significance at the economic and geographical margins and its relevance to the ownership of capital and the rich/poor divide.

(i) Land and capital can both to-day be owned and bought and sold. There the similarity ends. Land is defined as the material universe apart from man and his products, and came as a free gift from God or Nature. Capital is a manufactured product, the fruit of human labour, of physical and mental effort. Such production creates wealth, some of which is directly consumed but the rest of which, called capital, goes back into the wealth-creating process and greatly assists in further production – for example tools, machinery, industrial or agricultural plant, commercial buildings, transport vehicles. Land is fixed in quantity and location. The amount of capital can be increased by diverting production to its manufacture or by moving it to where the requirement for it is greatest. Whilst the supply of capital responds to market price, the price mechanism does not work in the case of land: if more is wanted, supplies cannot be moved in, nor can more be produced, so that each site (each location) is a natural monopoly. Land was not ever made by man, and, in the economic sense, has no cost of production. The value of each location is determined by the general level of economic activity of the population as a whole in accordance with its requirements for living, working, and leisure space. Land value is maintained, increased, or in decline as the days, months, and years pass: it is a *people value*. Land, as such, just *is* and wants no maintenance, but capital needs regular attention and, over time, decays or grows obsolete and has to be discarded and replaced.

(ii) What is the potential yield from the capture of land rental value? The prices of the likes of what are called properties, houses, offices, shops, hotels, and entertainment venues in our big towns and cities are eye-watering. Probably around half is for the land. In housing "hot spots" in suburbia, land can account for 60% or more. The best farm land was unaffected by the slump. Land value is a constituent of company dividends to shareholders, and makes up part of the national non-domestic rate (the UBR), the council tax, and the stamp duty on real estate (the SDLT), as well, of course, as of the inheritance tax. Add in the rental value of farmland (currently exempt from UBR) and of derelict and unused land (also currently exempt, however valuable), and top up the total with all the good land that is being under-used (held by a speculator, maybe, when it already has planning consent for higher use) and the figure is already beginning to look big.

During the transition period following introduction, the yield from LVT will inevitably be partial, though increasing. While this situation continues, some contemporary taxes will have to remain, albeit at declining levels. The time will be reached when transition is complete. It will almost certainly have become obvious by this stage that all taxes come ultimately at the expense of land value. Removing remaining taxes of the contemporary sort will therefore lead to a further rise in total land value, at which point the total land-rent fund would be at least enough for normal peacetime public revenue requirements, and any surplus would be available for distribution to all citizens *per capita* (a poll tax in reverse).

That all taxes come ultimately from land we have explained previously in some detail [b]. That word, “ultimately”, is important though, because in the meantime any tax increase has to be carried by the wage earner (or the retired or unemployed or welfare benefit recipient); and while the effects of conventional taxation are working through the system – a process which can take years in some cases – injustice and the maldistribution of wealth persist. LVT is systematic and logically targeted. Society grants exclusive use of a plot or area of land, conditional on annual payment by the landholder of his land-rent charge, which compensates the rest of the community for having agreed to forego its right of access to that land. The beneficiary pays for what he gets, and gets what he pays for. Haphazard occasional collection of bits of land value in the course of levying penalising taxes aimed at labour and capital (the wealth creators) is unhelpful and unacceptable.

It would be an exaggeration to claim that the national land-rent fund must amount to to-day’s tax burden plus to-day’s land value, but it must be a huge figure all the same, well in excess of either of these elements alone. This natural fund has been created by, is sustained by, and is usually progressively increased over time by, the collective economic activity of the citizenry. Why give it away? The result is to pay once (to a landholder) for access to land to live and work on, and then to pay a second time in the form of conventional taxation to fund the government. Why?

DEPRESSION

"The issue for markets is an increasing lack of belief that any policy is likely to prove effective" [c]. Quite so – we wrote above, that the key had been discarded! "Ireland's problems have resulted from an old-fashioned property bubble,…an explosion of property speculation…Spain is also facing the consequences of a mega property bubble" [d]. "The cause of Ireland's problems [is] a property and construction boom that's turned to bust" [e]. Much of the lending in Ireland had been "secured on land, hosting nothing more valuable than grass and mud" [f]. That is the trouble with land: it just *is*, and buying it does nothing whatsoever to increase the wealth of a nation – instead it sucks funds away from productive capital formation. "When the bubbles burst, the destruction of so much illusory wealth brings economic disaster" [d]. In Leonardo da Vinci's Château du Clos Lucé, numerous of the great man's thoughts are on display, including "Oh Lord, you send all things to man at the price of effort". Land was a gift (it came with the planet), but wealth comes from work: that is the point, and for us it has profound implications for how a civilised society must in future organise its economic activity. Collect land rental value and un-tax everything else!

Meanwhile, let us note some of the chief steps in the woeful progression since our previous Issue (No. 183, July 2010). The **U.S.A.**, having previously put $1,700,000,000,000 into circulation by way of QE, is to go for $600,000,000,000 more. This looks less like a stimulus package and more like printing to pay the Federal Government's bills. **Ireland** has had to be bailed out by the European Central Bank, the IMF, and the EU, plus a bit more for luck from the U.K.; but

Ireland's ability to meet its debts *and* rescue its banks still causes concern. **Greece** remains on the slippery slope. **Portugal** is widely held to be facing trouble. The big scare, though, is **Spain**, whose banks are thought to be concealing the extent of the dodgy loans on their books. "Foreign banks have €850bn of exposure to Spanish debt [and] Spain must roll over or raise €175bn of debt next year" [g]. "Some investors think Spain is Ireland, only with bigger sums. The country had a serious property bubble. Its savings banks…are in dire straits" [h]. For the first time, a core EU country has been added to the risk list – **Belgium**, no less. "The Belgian government must replace €62bn of its bonds in 2011 – more than Ireland and Portugal combined" [j]. Belgium does most of its trade within the EU and is perhaps suffering from taking in too much of its neighbours' washing. **U.K.** banks are heavily exposed in Euroland, what with holdings of government bonds and, in Ireland particularly, through commercial loans that might be prone to default. "The U.K. will raise £200m more from bond sales in the current financial year than originally expected…Total gilt issuance for…2010-2011 will now reach £165.2bn" [j]. As for the world's leading **currencies**, they are *all* sliding down, measured against gold.

Footnote 1 "Politicians blame the bankers for our present dire predicament… but we should blame politicians for providing them with the climate in which they appeared to flourish but in truth all but ruined themselves and us" [k].

Footnote 2 "China's property bubble has a new casualty: the corpses of Shanghai. In spite of stacking bodies seven or eight deep in graves, the squeeze on space in the city of 20m people has prompted the government to support burials at sea, part of a 'green funeral' movement that is challenging deep traditions of filial piety". A funeral director is quoted as stressing, "Land is a non-renewable resource…There is land also under the sea". Indeed, in political economy the sea itself is classed as land, being part of the material universe apart from man and his products. "Families are even disinterring ashes and distributing them at sea because some cemeteries offer a refund of burial fees" [m].

[a] The wording of the resolution is from "Nature's Budget", by James Dundas White (Allen & Unwin, 1936)
[b] "Practical Politics", Issue No. 124 (July 2003), pages 3 to 7 (especially, in this context, pages 5 and 6)
[c] Kleinwort Benson Quarterly Review, September 2010 [d] Roger Bootle, "Daily Telegraph", 22nd. November, 4th. October [e] Alistair Osborne, "Daily Telegraph", 19th. November [f] Philip Aldrick, "Daily Telegraph", 1st. October [g] Ambrose Evans-Pritchard, "Daily Telegraph", 16th. November [h] Lex Column, "Financial Times", 27th. November [j] Harry Wilson, "Daily Telegraph", 29th. November, 30th. November [k] Brian Sewell, "Daily Express", 7th. October [m] Patti Waldmeir and Shirley Chen, "Financial Times", 27th. November

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