

PRACTICAL POLITICS

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BANKER BASHING

We open this Issue with a puzzle. Presumably the banker bashers know what investment bankers do for a living and why their services are required. How is it that said investment bankers can command such high wages and bonuses? Why do the banks' owners, *i.e.* the shareholders, agree to dole so much dosh to their employees? Why are there no long queues of graduates outside all the home and foreign banks in the City of London clamouring for these highly paid jobs? Is there no competition which would bring wages down a bit? Have the banker bashers themselves applied or even thought of applying?

TAX AVOIDERS

There is another puzzle. Why is any person or any corporate body to be expected to pay more tax than the law requires? What is dodgy about doing what is necessary but going no further? Surely none of us pays over the odds for a 'bus ticket or a daily newspaper or a packet of chewing gum. This is so self-evident that we find ourselves obliged to deplore the recurrent trend to give tax avoidance a bad press. Of course, tax evasion (failure to declare income and pay taxes in conformity with the law) is illegal. Tax avoidance is simply common sense. It is too easy to sensationalise as “tax dodgers” people and businesses who are behaving entirely rationally and, indeed, lawfully. A headline like, “Corporate tax avoidance is costing us all billions” is self-evident non-sense. More to the point would be “Ill thought-through and wretchedly prepared legislation is costing us all billions” or, more challengingly, “Tax loopholes sustain businesses and preserve jobs” [a].

A NATIONAL LAND-RENT CHARGE (LVT) – THE PUBLIC'S DUE

We stand second to nobody in opposing taxes on wealth production and trade. In their place we aim to collect the annual rental value of the land. To-day it is entirely legal and sensible for a landholder to seek to extract the maximum proceeds from his activities, including by rank speculation. It is the system of landholding which is at fault. It is a system which has to be changed. The value of land is public; but the value of man-made wealth, of wages, of interest on man-made capital, is private.

INFLATION

If ever a word has been mis-used to the point of practical uselessness, that word is inflation. It used to mean an undue increase in the quantity of money resulting from the issue of unbacked paper currency (put popularly as 'too much money chasing too few goods'). Nowadays it has come to mean any rise in the cost of living, however caused. At "Practical Politics" we still regard inflation as a purely monetary phenomenon. It has one cause (the undue issue of unbacked paper money) and one inevitable consequence (the price of everything goes up). This tends to harm savers and lenders, because money goes less far; but it may give a helping hand to spendthrifts and the indebted who can now repay loans in devalued money. Inflation further redistributes wealth by damaging the trapped and defenceless majority and favouring the fortunate few who are able to protect their living standards. Nasty! By the way, it is looking increasingly likely that the once vaunted quantitative easing will turn out to be inflationary after all. It need not have done, but we have all suspected it would, have we not?

JAPAN

Japan had an out-of-control land boom in the 1980s, followed at last by the inevitable (though widely unanticipated) collapse. The country has never really recovered, but not until last month did Standard and Poor's rating agency downgrade its sovereign debt to AA-. The economy "is the same size today in nominal terms as it was in 1992, yet public debt has tripled...Tax revenues covered just 52pc of spending in 2010. Almost half the budget was borrowed...Japan has certainly been shielded from global vigilantes so far because 95pc of its debt is held by local investors, allowing Tokyo to issue 10-year bonds at just 1.21pc...It is far from clear that this can continue" [b]. The population is falling. "Its median age is a world record at 44.4 years, and rising fast...[An expert observer] said the country's ageing crisis would bite in earnest in two to three years...depleting reserves needed to soak up state debt...Foreign investors will demand higher yields...The government will not be able to pay". The worst case would be repatriation of funds invested abroad, higher taxes, inflation, even hyperinflation. The worst can still be prevented by attention to land policy. After all, failure here is where it began.

CHINA

(i) It has been our understanding that there is no absolute private ownership of land in China. This indeed seems to be the case, but, as there is no mechanism for the government to assess and collect the annual rental value of the land, observance is more notional than practical. Worse, in rural

areas and amongst the urban underclass in particular, practice is inclined to be arbitrary, corrupt, and even intimidatory. "After years of debate, the [Communist] party is still tiptoeing around a property tax" [c]. A fatuously delicate and error-strewn start has just been made, with the introduction of "the country's first home-ownership tax in the cities of Chongqing and Shanghai." It takes the form of a tax on the composite capital value of land + building developments, but "In Chongqing it applies only to luxury homes and in Shanghai only to owners of multiple top-end properties", at trivial rates of, respectively, 0.5-1.2% and 0.4-0.6%. Local governments are not keen: "For them, grabbing residential land and reselling it to developers is a huge source of revenue." All the mistakes of the decadent West with brutality added! We advise China's rulers to look to landholding and taxation in Hong Kong (as set until 2037) and indeed to Taiwan: both are less than text-book versions of what we want, but neither is as far off course as this.

(ii) "Land prices in Beijing have risen 800 per cent in the past seven years...That's the kind of growth that rarely ends well – just ask Ireland, Iceland, Spain and the US" [d]. "China's economy grew by 10.3pc in 2010, buoyed on an enormous wave of new money and easy credit...The banks are lending more than twice as much as they were before the financial crisis and they are also printing new money – money supply is up 50pc from a couple of years ago" [e]. "Buyers have aggressively bought multiple properties with every penny of free cash flow. As the Chinese authorities raise interest rates to control inflation, many of these highly leveraged buyers will be left stranded" [f]. "The Chinese central bank [has raised] the one-year lending rate to 6.06pc from 5.81pc" [e]. "While the world sees a buoyant and exuberant China, the mood inside the country is more muted...The world economy is finding it harder and harder to soak up Chinese surpluses...For the past few decades China has been able to rely on roughly 10m new workers joining its enormous labour force each year, but...because of the one-child policy...the number of 15 to 24 year-olds joining the workforce is falling annually...between 2011 and 2015, there will be only 3m new workers each year...That news, however, appears not to have sunk in. China threw nearly £1 trillion of new bank loans into the economy last year, much of which went into building new infrastructure and factories...With more jobs than there are workers, and cheap money sloshing around the economy, there is a risk of overheating" [e]. The first two lines of this paragraph look prophetic.

RECOMMENDATION

Readers with internet access might be interested in the document that currently can be found by using the following link:-

<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtreasy/memo/taxpolicy/m10.htm>

A BIG IDEA FOR A BIG SOCIETY

We are non-party, editorially impartial. We just like to help where we can. The policy of a national land-rent charge to collect the annual site value of all land is a vote winner. It takes nothing that has been brought about by individual human effort. It is a liberating replacement for taxes on production, trade, goods and services, earnings, and savings. So, tax cuts galore, then! Those who provide their labour or supply capital are no longer cheated of their full reward (capital being wealth created previously and devoted now to further production – tractors, store-rooms, offices, machine-tools, and such).

This is a policy which fits well with modern Conservative aspirations. Revenue is collected efficiently in a way which, far from producing adverse side effects, positively benefits the economy. Distinguishing land from capital, purges capitalism of taint. The slogan could well be, "Honest Capitalism".

That said, we do not see LVT as necessarily a single-party issue. After all, it is not likely that other parties would want to oppose it. Labour has writhed for 65 years in unavailing quest for a viable alternative land policy. Liberal Democrats will recall that LVT was enshrined in the constitution of the old Liberal Party. Scottish Greens are already actively in favour. 'Local' parties in Scotland, Wales, and Northern Ireland will see that disadvantaged areas pay little in a LVT régime – that is the point of a charge on location value! UKIP will note that a proud nation may, if it wishes, stand confidently and prosperously on its own. Harmony through fiscal justice, then? [g]

In a nut shell, for practical purposes the quantity of land 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 intends for to-morrow.

[a] Headline from the "Observer", 29th. June 2003, as cited in "Practical Politics", Issue No. 124 (July 2003)
[b] Ambrose Evans-Pritchard, "Daily Telegraph", 28th. January [c] "The Economist", 3rd. February
[d] Merryn Somerset Webb, "Financial Times", 15th. January [e] Malcolm Moore, "Daily Telegraph",
21st. January, 9th. February, 15th. February [f] Kamal Ahmed, "Daily Telegraph", 27th. January [g] From
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