PRACTICAL POLITICS

June 2008 Issue No. 166

DEPRESSION – THE SIGNS ARE MOUNTING

The “Daily Telegraph” of 11th. June had a prominently displayed photograph of a caterpillar vehicle making its way over the wreckage of a large terrace house – a deeply ironic, if unconscious, commentary on the current state of Barratt Developments. “Barratt has been the hardest hit [but] there are fears many housebuilders will now be forced into drastic writedowns in the value of their land banks” [a]. “Construction costs are only one element in a package of overheads in which the value of land, a sought-after commodity, is critical” [b]. True – except that land is no ordinary commodity: it is a finite, fixed resource, not a man-made product, and this distinction makes it special in economic analysis. “Estate agencies are going to feel real pain and surveyors, lawyers and banks will all join them” [c]. So might auctioneers. At a London sale last month, 65 of 181 commercial property lots went unsold [d]. Meanwhile, “The number of companies being successfully sued in court for non-payment of bills has rocketed…County court judgements are seen as an ‘early indicator’ of corporate distress and rising insolvencies” [e]. “Unlike a bricks and mortar investment, freeholds tend not to be affected by the ups and downs of the property market. So portfolios of freeholds, and entitlements to ground rents, can provide lower-risk exposure to the market, at a time when many investors have seen capital values falling” [f]. Quite so – readers will recall how often we have drawn attention to the siren call of unrealistically swollen speculative, and therefore unreliable, capitalised land values.

“In countries such as France, Germany and Italy…capital values are starting to fall back” [g]. “Spain’s property slump could throw 1.1m people out of work…Long-term private investors are pulling their money out of the eurozone at the fastest rate since the creation of the single currency, according to…the French bank BNP Paribas” [h]. “Russia, Brazil, India, Vietnam, South Africa, Indonesia, Nigeria and Chile…have all had to raise interest rates or tighten monetary policy in recent days…The inflation genie is out of the bottle: easy money is the culprit… Hong Kong’s industry federation has warned that 10,000 firms operating in the south of China may soon go out of business” [h].

Lenders and borrowers alike have fallen for the lure of the fool’s gold that is unreal land value. The fault lies in a wrong understanding of political economy and a seeming determination not to learn from, and therefore to repeat, these recurring episodes in Everyman’s life of subservience to the landed interest.

[a] David Litterick, “Daily Telegraph”, 11th. June [b] Chris Tighe, “Financial Times”, 14th. June [c] Damian Reece, “Daily Telegraph”, 11th. June [d] Information from Estelle Maxwell, “Estates Gazette”, 24th. May. [e] Richard Tyler, “Daily Telegraph”, 16th. June [f] Elaine Moore, “Financial Times”, 24th. May [g] Sharlene Goff, “Financial Times”, 14th. June [h] Ambrose Evans-Pritchard, “Daily Telegraph”, 30th. May, 13th. June

REVIEW OF THE REVIEWS

Local government finance has been under scrutiny of late. First to appear was the report on **Scotland** by a committee under the chairmanship of Sir Peter Burt, in November 2006. This was considered extensively in our Issue No. 153. In fact the Report's discussion of LVT ended limply, with no formal recommendation either way. Burt noted "the many positive features of a land value tax…particularly its progressive nature" but felt that the fact that LVT is not in full and proper operation anywhere was sufficient reason to doubt convincing theory and other persuasive evidence. For all that, LVT came out of the review rather well. Everything else was rejected except for a proposal similar to the new domestic rating system in Northern Ireland, which the Scottish Executive dismissed even before it was formally published!

Next up, in March 2007, was the report on **England** by the committee under Sir Michael Lyons, which we considered in Issue No. 156. We told how the report laid out the arguments for LVT in an approach that was clearly leading to urging implementation of the policy. To obviate this, an excuse was found to divert attention to mere tinkering with the existing system. Lyons first accepted the case for LVT, but, finding no substantial counter to it, he just sloped away.

A new domestic rating system was introduced in **Northern Ireland** in April 2007 under Direct Rule, based on the composite capital values of land + buildings and other improvements (i.e. on buying/selling prices). The Executive conducted a review. The Land Value Taxation Campaign submitted a response. The Executive's outcome document was published in December 2007, from which it emerged that the Executive had commissioned the School of the Built Environment at the University of Ulster to conduct an overview and carry out research into LVT. The Campaign prepared and issued a rejoinder, to set the record straight on a number of important issues where misconceptions and misunderstandings seemed to have crept in. The Executive, abetted by the University of Ulster, found that LVT is "conceptually sound", which of course is gratifying to the Campaign, but nevertheless concluded "that there are sufficient doubts about the suitability of a land value taxation system as an alternative to the rating system here [i.e. in Northern Ireland] to suggest that the matter should not be pursued." A system which is conceptually sound is held to be unsuitable, and is overlooked in favour of one that, in the stated circumstances, cannot be labelled as other than conceptually <u>un</u>sound! The University thought "introducing a system of land value taxation to replace the current domestic and non-domestic systems would be difficult and not in line with international trends." Noting that the University baulked at listing the steps it thinks the Executive would find it difficult to take, the Campaign rejects this finding, and is disappointed that the Executive decided to accept it.

The **conclusion** to be drawn from these three reviews would seem to be of a triple set-back. In fact, they are no such thing. Collectively, they undermine lazy repetition from the Layfield Enquiry of 1976. Even more significantly, they all found the LVT case compelling and each looked seriously close to putting it forward for adoption. We are far from disheartened. LVT is winning the arguments. It is the right thing to do – but maybe safer not to do it, eh? All that is missing is political will.

NORTHERN IRELAND – AN OPPORTUNITY LOST

"The largest infrastructure investment programme Northern Ireland has ever seen is under way…The proposals will have a dramatic effect on the commercial property sector in NI, be that through direct development, transport improvements, ironing out regional disparities, or improving cross-border growth with the Republic of Ireland…The investment strategy for Northern Ireland 2008-18 should see £6bn-worth of infrastructure delivered during the next three years, mounting to a phenomenal £20bn by the end of the programme" (Adrian Morrison, "Estates Gazette", 24th. May).

The Executive will "acquire and develop 200 acres of land for inward investment, in areas where there is demonstrable market failure." Why? There must be reasons for this "failure". Why not establish what they are and do something positive to remove them? The Land Value Taxation Campaign might be able to make suggestions here. The criterion is to "spread wealth beyond Belfast into underperforming areas". It is that problem over the geographical and economic margin again: again, LVT provides the solution.

"It is anticipated that more than £3.8bn will be invested in road and public transport by 2018". Great! Land values will shoot up in the areas served, to the scarcely concealed delight of the beneficial owners of neighbouring land. Road and rail users will pay fares which may well not even cover running costs, and the capital costs will be written off as irrecoverable. With land value given away with such insouciance, the public will be required to meet the revenue needs of its local government and its Executive through otherwise replaceable conventional taxation. Great? Bah!

The failure of central government to learn from the crash of 1992 is obviously not helping. Northern Ireland is now finding it is not immune to this latest depression. The housing market is already falling and affecting the construction industry. "If this down-tools by developers lasts a long time, it could disrupt high-profile projects" (Graham Norwood, "Estates Gazette", 24th. May). Proposals for full rating of empty properties and maybe for a derelict land tax, are feeble gestures towards the LVT option the Executive shunned so recently and so unwisely.

BOOM AND BUST

“Unemployment is going to rise...This will have a serious effect on aggregate consumer spending power, on consumer confidence, on the housing market and on credit quality…Whatever happened to the end of boom and bust? Remember that one? Disappeared into the thin air whence it came – along with Prudence and Stability” (Roger Bootle, “Daily Telegraph”, 19th. May). “No one should be surprised. The economy bites back.” Sadly, it is no surprise to us, for we forecast this in Issue No. 116 (July 2002) when nobody was willing to listen. “The seeds are being sown now”, we wrote, “the mechanism will be the behaviour of land, and the timing – well, probably around seven years hence”.

MOVING THE GOALPOSTS

There is something in the air of Brussels, affecting not only its denizens but also all 27 élites it deals with. Long renowned as the body that consistently fails to get its accounts cleared by its auditors, the EU has now become the sole entity on Earth where no one, no matter what language he speaks, is able to grasp the meaning of the word, “NO”.

Leaving other concerns aside, at least for the moment, we stress that the Republic of Ireland, Northern Ireland, Wales, Scotland, and much (maybe later, all) of England, lie at the geographical and economic margin of the European heartland (shifted, after recent accessions, even more decisively eastward and southward). In the absence of a LVT régime fully operating Europe-wide, fiscal and monetary “harmonisation” is one of the last things the economies of the British Isles need (as is apparent from the Land Value Taxation Campaign’s prescient paper, “Overcoming The Odds”, February 1999). Paris had “let slip that France’s incoming EU presidency would push for ‘harmonised’ business taxes” (Ambrose Evans-Pritchard, “Daily Telegraph”, 26th. May) – though these may look rather less likely now. Whilst it is true that all five of the “home” nations are absent from the current U.E.F.A. shindig in Switzerland and Austria, the Republic of Ireland has shown that (to adapt an earlier Danish jibe) even when you cannot join ’em, you can still beat ’em!

****

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