PRACTICAL POLITICS

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"**All winners and no losers in the London land bonanza**" blared the headline. "Anyone in London lose money? Nope", echoed the article's closing paragraph [a]. The listing of the rich, compiled by the "Estates Gazette", is headed by the Duke of Westminster (with most of Mayfair and Belgravia), Ernesto and Kirsty Bertorelli (Crosstree Real Estate), the Earl of Cadogan (Chelsea), Viscount Portman (Marylebone), Howard de Walden (Harley Street Estate), and the brothers Reuben. "Rising property prices are pushing up the wealth of those owning real estate in the capital".

Hang on, chaps! Stop there! Real estate consists of the site in question plus the fixed hereditaments put upon it (principally buildings of a permanent nature). In political economy, the two are distinct – the land (which is not man-made but came freely provided as Planet Earth) and the buildings, surrounding walls, and so forth (which are indeed the result of the labour, physical and mental, of men and women). In so far as real estate gains in value arise purely from the hereditaments set upon them, they will have been due to the quality of their management and to the care and upkeep expended on them. This is not true of the site, however, where the value depends upon its position (the views it enjoys; the public utilities and many other public and private services available to it; the cultural, recreational, and entertainment opportunities on offer; the transport links to the surrounding areas, the rest of the nation, and the world at large; and of course the countless other millions of people whose industry, skills, and level of economic activity deliver the many blessings of modern civilised living).

Where landlords receive what, in everyday speech, are called property rents, economists see two distinct factors – rent for the land (the site, the location) and interest for use of the owner's personal or corporate capital (the man-made improvements set on the land). We regard land rent as the obvious source for the public revenue, and we hold in turn that wages (the reward for labour) and interest (the return on capital) are private values that ought not to be subjected to taxation. We argue for the collection of the annual rental value of land, progressively to abate and replace existing taxes.

So, once again, "Anyone in London lose money?" Yes! Everyone except the landowners! Londoners, denizens of the London commuter belt, citizens throughout the U.K. whose activities in fields, factories, offices, shops, and homes go to make London the great capital city it is. All pay taxes so that landowners may pocket land rent. Parliament has to remedy this! Meantime it ill becomes the Fourth Estate to make light of such injustice.

Since our previous Issue (No. 191, July 2011), events at home and on the European continent have moved at such a pace that, at times, each succeeding news bulletin seemed to tell of a fresh disaster, followed by feverish activity, minimum light, and large servings of fudge. All we can do here is hark back to a few of those moments.

(1) DEPRESSION – at home

Shares in Lloyds Bank are currently trading at 40% of book value – there are "£24bn of distressed property loans still on its books after the HBOS deal" [b]. The Government had taken over 41% of Lloyds shares to save the bank, and now taxpayers find themselves nursing the loss.

Quantitative easing (QE) had already reached £200bn. The Governor of the Bank of England (BoE) announced plans to increase it to £275bn, but might have "to inject as much as £500bn into the economy to rescue Britain's faltering recovery, economists warned" [c]. This would be nothing more than a money-printing programme. "Public sector net debt of £1 trillion this year [is] rising to £1.4 trillion by 2015-16" when the debt "for every man, woman and child in the country…will have grown to £22,061…The Coalition hasn't even begun to deal with our debts as a country, whatever the rhetoric" [d]. It seems the Opposition would consider it clever to borrow even more.

The BoE has been keeping base rates at 0.5%. Top banks and businesses can borrow cheaply. The official inflation figures are at around 5%. This means that real interest rates are negative (borrow at 2%, say, and repay later in money-of-the-day that is devaluing by 5%). In short, why are banks announcing there are few takers for loans when, theoretically, enterprises almost cannot afford *not* to borrow? The answer is partly that potential borrowers held to be most trustworthy have currently no sound low-risk projects to invest in, and partly that banks themselves need the money to rebuild and strengthen their balance sheets (and are actually under EU and Government orders to do so). This suits Government (the biggest debtor of all), for one effect of low short-term interest rates is to direct money into longer-dated bonds and thus to reduce the pay-out needed on them too: in fact 10-year money may currently be had by H.M. Government at 2%.

The losers in all this are the savers and those already dependent on their savings. It is a cruel world, and there is no easy way out of a slump. The only solution is not to have one. We do try to emphasise how to achieve that!

(2) DEPRESSION – abroad

"Europe's inspectors are to establish an occupation office in Athens to ensure 'full implementation' of austerity policies. **Greece** has been stripped even of the pretence of sovereignty, reduced to a Sanjak again. Yes, Greece has gained debt relief: €100bn if pension funds 'volunteer' to join banks in accepting a 50pc haircut" [e]. The Prime Minister, George Papandreou, had been slung out for daring to suggest a referendum, and pressure was applied by threats to cut off an agreed loan payment – but what is democracy to the EU? "There is no shame in putting such a big issue to the people. Indeed, perhaps 10m Greeks would have been better served in the end by stashing their euros under the mattress, taking out a big bank loan, and voting NO" [f].

The unelected eurocrats next marched on **Italy**, toppling another prime minister and installing a whole Cabinet of unelected technocrats – but what does the EU know of democracy? "The European Commission stepped up its surveillance demands, calling for a list of state assets to be sold and 'additional measures' to balance the budget by 2013" [e], but really "Italy is in crisis because it cannot compete. It is in the wrong currency" [e]. "Bond yields on short-term Italian debt [briefly spiked] above 8 per cent" [g]. The exposure of European banks to Italian sovereign debt was given as France €307bn, Germany €119bn, U.K. €114bn (almost half of it with Barclays), and Netherlands €38bn. The figure for the U.S.A. was €35bn.

The contagion is spreading. **Belgium**, **France**, and **Luxembourg** were involved in rescuing Dexia, a bank whose problems include "billions of euro loans to local governments in Greece and Italy" [h]. Stress is passing from the eurozone to central and eastern European banks. In **Poland**, the zloty has sunk against the euro, and "bond yields [have been] rising sharply" [j]. In **Hungary**, "almost two thirds of mortgages and household debt are in the über-strong Swiss franc, creating a lethal currency mismatch with the tumbling forint", whilst in **Austria** the central bank has ordered three of its banks "to restrict lending in Eastern Europe to what they can raise in local deposits" with **Ukraine**, **Croatia**, **Bulgaria**, and **Rumania** also suspect [e].

Certainly not the least of eurozone worries is **Spain**, whose "official bank rescue fund has nationalised three more struggling savings banks…all of which have been affected by the collapse of the Spanish property bubble since 2007" [k].

Meanwhile, further afield, in **China**, "In less than a week the authorities have had to…prop up the banks, rescue the insolvent railway system, and save the near-bankrupt city of Wenzhou from a spectacular debt crash" [e].

Footnote on the EU and the eurozone: – "The political and bureaucratic class, by and large, has no experience of business. They seem to believe that prosperity derives from treaties and agreements. In fact it emerges from the efforts of millions of ordinary people and thousands of businesses going about their often humdrum tasks – if they are allowed to…The only club we need to belong to is the world, of which we are already a member" [m].

YES, INFRASTRUCTURAL INVESTMENT *CAN* BE MADE TO PAY FOR ITSELF

Haverhill is the largest town in Suffolk not connected to the national rail network. Now, however, a proposal to link Haverhill to Cambridge is under serious consideration. "One possibility is a guided bus link, where specially adapted buses run on concrete tracks and join roads in urban areas" [n]. There is also a school of thought which favours "reinstating a rail link from Cambridge via Haverhill to Sudbury." It will come as no surprise that there is a range of issues to be overcome, quite properly "including the financial viability of any proposal." Popularity does not guarantee profitability.

Tim Yeo, the local M.P. (Suffolk South), has noted that "Many jobs are expected to be created at Addenbrooke's Hospital over the next few decades and many people will end up living in Haverhill." A bus or railway service, however, requires an income large enough to pay not only for current operating costs but also to remunerate the initial investment. There will be the passenger fares and charges for goods traffic of course, plus parking fees, plus advertising revenue and rents from concessions at the stations and maybe also on board the vehicles. These will probably be insufficient, very possibly prohibitively so. The real benefit from any transport system (public or private) will show up in rising land values and will be accepted as a wonderful gift by the landowning interests. Methodical capture of land value for public revenue could well make the difference between a pipe dream and viability.

ENVOI

They hang the man and flog the woman
That steal the goose from off the common,
But let the greater villain loose
That steals the common from the goose [p].

[a] Article by Peter Bill, "London Evening Standard", 11th. November [b] Sarah Gordon, "Financial Times", 26th. November [c] Philip Aldrick, "Daily Telegraph", 7th. October [d] Damian Reece, "Daily Telegraph", 6th. October [e] Ambrose Evans-Pritchard, "Daily Telegraph", 31st. October, 10th. November, 31st. October, 14th. November, 22nd. November, 12th. October [f] Lex Column, "Financial Times", 5th. November [g] Richard Milne, "Financial Times", 26th. November [h] Harry Wilson, "Daily Telegraph", 6th. October [j] Neil Buckley, "Financial Times", 26th. November [k] Victor Mallet, "Financial Times", 1st. October [m] Roger Bootle, "Daily Telegraph", 21st. November [n] Ross Bentley, "East Anglian Daily Times", 18th. August [p] English ditty, included in a Letter to the Editor, "Financial Times", 20th. August

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