PRACTICAL POLITICS

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OF THE KATHA AND THE TAKA, OF THE ENRICHED AND THE IMPOVERISHED

Bangladesh has a population of 165 million living on 144,000 square kilometres of land. It is described as a poor country, dependent on foreign aid, emigration, remittances from abroad, and the manufacture and export of textiles and clothing. Although a negligible contributor to GDP, agriculture accounts for 60 per cent of the workforce. State-owned enterprises are inefficient and power supplies are unreliable.

Over the last 20 years, the price of apartments in the capital, Dhaka, "in posh areas", has increased by "between 1,500 and 2,000 per cent"…Yet there was no dearth of buyers. The non-resident Bangladeshis and the *nouveaux riches* who have amassed wealth by fair or foul means until recently were the main buyers"; but "the demand for residential apartments is now at its low ebb…Fears are mounting over [the realtors'] business prospects…and equally worried are the financial institutions which have a substantial level of exposure to the sector".

So far, this is a situation easily recognisable from the developed 'western world' of speculators in land (location) values nursing badly burned fingers. In Dhaka, though, the realtors, buyers, and bankers had help from the state-run electricity and gas enterprises, when "the government stopped giving gas and power connections to the newly built apartments due to severe shortage of both." At the previous Housing Fair, "builders could manage booking and sale orders worth Tk 12 billion", but at the latest Fair the take was a meagre Tk 1 billion, despite 15 per cent reduction offers and "attractive gifts including free plots, cars, refrigerators *etc*.". According to the Real Estate and Housing Association of Bangladesh, the number of unsold apartments in Dhaka is now around 12,000. "It would not be out of place to mention the unrealistic rise in the prices of both land and apartments in Dhaka city over the last few years…Everyone having some disposable income is trying to grab a piece of land…Yet how realistic is the value of a katha of land in [posh areas of Dhaka] that has shot up to Tk 50 million in a country with a *per capita* income of $800?" [a]. The lifetime savings of middle class people "would not even be a fraction of the value of a small apartment."

We note that (i) the value of land is hugely influenced by factors external to any given plot and independent of anything the landowner can do (in this case two of the usual utilities have not been made available, and this has negated much of the effect of would-be land hogging); and (ii) Bangladesh is not the poor country it is said to be, but, as the squeezed middle classes in the larger cities show and as the subsistence living eked out by the land-poor and the landless toiling in the fields further underlines, the nation's wealth is being, in effect, confiscated by the landowning interests. This, instead of just the supply of electricity and gas to the posh enclaves of Dhaka, is what ought to be concerning the government.

THE EXCEPTION: we are not all in this together, it seems

It is a fair generalisation to say that the one sector which has escaped the slump is agricultural land. "Prices for Suffolk farmland have hit an all-time high" with the region's average price-per-acre pushed to £5,813, according to a survey by the Royal Institute of Chartered Surveyors (RICS). "These strong farmland prices are mirrored in higher rents for arable and grassland as the RICS survey identifies" [b]. Clearly, being a farmer does not pay too well, but being an owner of farm land decidedly does. For the typical farm – not, therefore, in atypical Suffolk, presumably – an agent is reported as saying that tenant farmers face paying "a total increase in rent of £3,100 p.a., from £16,400 to £19,500…over a three-year rent review cycle" [c].

"Farmland values have grown by 204 per cent in the past 10 years…As well as institutional investors looking to cash in on rising land values, wealthy people are using farmland as a way of avoiding the UK's onerous inheritance tax regime…Farmland and farm buildings usually qualify for agricultural property relief…In other places, usually close to cities…investors snap up sites in the hope that they can get planning permission for developments" [d].

In Scotland, so-called 'perfect' estates "– those free from road and air noise, easily navigable and with few intrusive public rights of way – are now rare and attract competitive bidding from prospective buyers…Those most in demand are the sporting estates with land and rivers well-stocked with deer and salmon respectively. These are mainly in the Highlands." An east coast estate has the added attraction of "agricultural land earning £72,000 per year in European Union farm subsidies". Another in East Lothian "is dominated by 1,800 acres of arable land, more than 200 acres of pasture and 350 acres of woodland. These combine to generate £233,000 a year in EU subsidies" [e]. Buyers and tenants will of course have to pay for the privilege of harvesting those subsidies! Owning land undoubtedly beats working for a living.

DEPRESSION

In the **U.K.** the Financial Services Authority (FSA) issued a 452-page report in which it admitted that in supervising the activities of the Royal Bank of Scotland (RBS) "its 'light touch' approach to RBS' growing real estate exposure was one of the underlying factors that contributed to the downfall of the bank in 2008…At the end of 2008 the bank's commercial property loan book totalled £106.6bn. This comprised £48.3bn against UK housebuilders, construction and property companies; a £19.7bn loan book from its Ulster Bank subsidiary, across corporate, commercial, residential and development; a £3bn US real estate lending loan book; and a further £35.6bn in its Global Banking and Markets division " [f]. H.M. Government now owns 82% of RBS!

A year after spiralling losses from Anglo Irish Bank (AIB) pushed the **Republic of Ireland** "into the arms of the EU-ECB-IMF troika, the economy has at last stabilised – unlike the downward spirals in Greece or Portugal, or the aborted recoveries in Spain and Italy…What Ireland had was a property boom, made worse by eurozone interest rates of minus 1pc in real terms for seven years…The bubble destroyed the banks…Wherever there is a reckless borrower, there is also a reckless lender…Dublin had no idea what it was taking on…when it underwrote AIB, essentially a real estate speculation fund with €100bn in liabilities" [g]. "The bulk of distressed loans in Ireland have been taken over by the National Asset Management Agency (NAMA), the country's bad bank. However, NAMA will not take loans with a value of less than €20m, leaving the lenders to dispose of them" [h].

"The construction industry has been at the forefront of the downturn after **Spain**'s property bubble burst " [j]. "Madrid property consultants RR de Acuna predicts that prices will have to fall another 20pc before the market clears an overhang of 1m homes" [g]. As materials and construction costs are not likely to vary much, that means that land prices will have to take the whole knock and absorb all of that further 20% reduction on the final cost of a home (land + building). That is the grisly measure of Spain's problems over land speculation – and not just Spain's problems. **Alas! Alack!** If the private appropriation of the rental value of land is allowed to go on and on, and policymakers persist in doing nothing about it, what we shall get in exchange is a succession of booms and slumps. **It is literally LVT or bust!**

With Greece in particular, Portugal, Italy, and now even France, also struggling, the **eurozone** is in a mess. "The interbank lending market is broken". German sensitivity notwithstanding, "the ECB (European Central Bank) is having to step in as intermediary to do the lending…The ECB lent banks €489bn at 1pc for three years…to head off a credit crunch" [g], but banks used the money "to buy bonds at yields at 5pc …because returns could be fabulous provided the euro holds together " [g]. In addition, the ECB "launched an array of measures to ease banks' liquidity problems, such as accepting lower-quality collateral in return for loans" [k]. All this finessing did nothing for banks' customers by resuming lending to businesses to promote growth, but it certainly boosted banks' cash holdings, relieved some of the pressure on holders of sovereign debt, and transferred some junk and near-junk from individual banks to the Central Bank.

Footnote: – "One of the biggest threats to financial stability in the **U.K.** is potential interference by the **European Union** (EU)…the Bank of England has warned …in a consultation document from [its] Financial Policy Committee". *Inter alia*, though, the EU had stated it might wish to impose "capital buffers or demand larger deposits from homebuyers to prevent dangerous bubbles forming in the financial system" [m]. Could this imply stumbling into the discovery that something very like land speculation lies behind the present malaise? Carry on searching, Brussels! The answer lies in *la réforme foncière,* specifically in *l'impôt unique*.

LITTLE BITS

(i) The intended auction of licences for fast mobile internet (the next generation, 4G), has been delayed to the fourth quarter of 2012. "The process is seen as key in the drive to create a digital economy alongside fibre broadband services. The **4G spectrum** comprises **airwaves** suitable for supporting high speed internet surfing…Licences could cost as much as £500m judging by prices paid in other European countries" [n]. It is worth taking a good look at the economic implications of the auction. Significantly, the air is being regarded as no one's individual property. Part of the spectrum is to be auctioned for use under licence. It is not being assigned for absolute ownership in perpetuity. Contrast this with the way dry land (*terra firma*) is owned. Users must pay a landowner for access to a plot of land and then pay taxes to the government on the fruits of their labour and on the capital they provide. This auction, most properly, works without a formal owner, with users paying rent directly to the government. The air, like the dry land and the nation's territorial waters, was not man-made. It is right that rent should be paid for exclusive use of part of it, and right that the community as a whole should benefit from allocation of the rental income to support public expenditure. The anomaly is seen again when comparing the treatment of air in the radio spectrum with air in the case of airport take-off and landing slots.

(ii) "**Cuba** is to allow property to be bought and sold for the first time since the early days of the revolution". An analyst in Arlington, Virginia, commented that "the state is granting property rights that didn't exist before" [p]. It shows that Marxists still do not see how land fits in to the working of an economy.

We are proposing to refer again to both these topics in our next Issue.

[a] Shamsul Huq Zahid, "Financial Express" (of Dhaka, Bangladesh), 28th.December. The taka (Tk) is the national currency of Bangladesh, with a U.S. dollar and the £ sterling worth respectively around Tk 75 and Tk 120. A katha is a land area of 80 square yards (therefore approximately 60 kathas to the acre) [b] Chris Harris, "East Anglian Daily Times", 18th. August [c] David Harris, "Estates Gazette", 13th. August [d] Ed Hammond, "Financial Times", 1st. October [e] Graham Norwood, "Financial Times", 12th. November [f] Bridget O'Connell, "Estates Gazette", 17th. December [g] Ambrose Evans-Pritchard, "Daily Telegraph", 6th. December, 20th. December, 29th. December, 9th. December [h] Ed Hammond and Jamie Smyth, "Financial Times", 26th. November [j] Louise Armitstead, "Daily Telegraph", 30th. December [k] John Authers, "Financial Times", 10th. December [m] Philip Aldrick, "Daily Telegraph", 21st. December [n] Daniel Thomas, "Financial Times", 8th. October [p] "Daily Telegraph", 4th. November

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