PRACTICAL POLITICS

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LITTLE BITS

(i) Canary Wharf Group (CWG) is poised to "turn **Canary Wharf** from a mini city into a medium city". CWG already owns 25% of the adjacent 17-acre semi-derelict Wood Wharf site, and has now acquired the rest from the Irish company Ballymore (£38m for 25%) and British Waterways (£52.5m plus an annual ground rent payment, for the remaining 50%). Wood Wharf has "outline planning consent for 1,600 new homes across six residential buildings as well as 3m sq ft of new office space, shops, a hotel and a park... CWG intends initially to press ahead with the residential buildings and complete them for the opening of the Crossrail station at Canary Wharf in 2018…The whole group is ideally positioned for Crossrail" [a] or, rather, Crossrail is ideally positioned for CWG, not to mention Ballymore and British Waterways who will no doubt already have scooped some of that benefit in those selling prices (over £7.1m of the people's land value per derelict acre).

(ii) "The cost of buying a country pile has stalled in the past two years…in stark contrast to London's most sought-after addresses, where resilient foreign and domestic demand has fuelled rapid growth in value…The country market varies, however, with counties in easy reach of London and Heathrow **airport**, such as Berkshire and Buckinghamshire, the most popular among international buyers" [b]. This demonstration of the ripple effect of increases in land value from public investment in transport facilities and infrastructure in general, comes at a salutary moment. If LVT is in full and correct operation, there is revenue to be had to support any desired further development, in this case of Heathrow possibly. One must, though, doubt how starting an airport from scratch on an artificial island in the Thames estuary can make economic sense without support from LVT (and maybe even with it!).

(iii) "Over a seven-year period ending next year, Britain will have paid almost £30bn into the EU's 'structural and cohesion funds'…but will get back just under £9bn…Only Cornwall and west Wales gain from the EU arrangements…The West Midlands pays £3.55; Merseyside £2.88; and Northern Ireland £1.58…for every £1 recycled back to them via Brussels… Brussels-run **regional funding** was identified as the largest area of 'irregularities' in the EU budget by the European Court of Auditors in its last annual report. The EU's 2010 audit found that €315m of regional spending had been spent in error or against EU rules" [c]. Whitehall couldn't do worse.

In our previous Issue, No. 193, we referred to the coming 4G auction for use of part of the radio spectrum (air waves) and to the difficulty Marxism seems to encounter in seeing how the factor, land, fits in to the working of an economy. As promised, we now revisit these topics, but from fresh angles.

(i) International Airlines Group (IAG) is the owner of British Airways (BA) and of Iberia [d]. British Midland (BMI) had become a subsidiary of Lufthansa, but, by late last year, was a candidate for sale either to IAG or to Virgin Atlantic. IAG authorised BA to buy six pairs of BMI's **take-off and landing rights** at Heathrow. The sum paid was thought to lie "between €100m and €150m." BA cannot expand its services there without additional slots "because the airport is already operating at full capacity" [e]. Negotiations have proceeded apace. Neither IG nor Virgin was interested in anything more than BMI's Heathrow slots, so a deal "would likely signal the end of the BMI brand" [f]. An outline deal between Lufthansa and IAG has been agreed, it seems, subject to regulatory approval and the size of BMI's pension deficit.

Take-off and landing slots are the *sine qua non* of flying, and at peak times at major airports are especially valuable. Air space, the space above the ground, is, in political economy, termed land, being part of the material universe distinct from man and his products. Like all land, it is not man-made and morally cannot become the rightful property of any man or body corporate. Furthermore, the value of these slots is dependent on the construction and operation of the airport itself, the infrastructure that conveys passengers and the workforce to and from it, and on the attraction of the area and country in which the airport has been built and on the volume of demand placed upon it and its facilities. The value of the air slots is a public value, to be collected as part of a national land-rent charge (LVT) for exclusive use of air space. It is not a plaything for airlines. In return, they will, like all other businesses, benefit from concomitant withdrawal of present taxes.

BMI had over 80 pairs of Heathrow slots (11% of the total), in its books at a value of £770 million. Amazingly, when BA was privatised and given 40% of the take-off and landing slots at Heathrow, it paid nothing for them and they were given no value in its balance sheet! The right to fly in and out of an airport can be put up for auction – as prime time, secondary and tertiary slots – and the appropriate rental charged. The principle that the air is public property is already recognised in the practice of auctioning licences to use the radio spectrum. The state does not need to be involved directly, though. The airport operator (public or private) can do that, just as it lets space for retail shopping outlets. The presumption is that it will auction, or otherwise let, its take-off and landing slots, so as to optimise its income (within the bounds of safety and planning consents), just as assessment of *terra firma* assumes optimum use within planning and other restrictions. In this way, the value of the whole airfield site includes a value on the slots as well as the normal value pertaining to the solid ground.

(ii) "**Russia** has a very high level of **home ownership** (around 80pc) but almost no one has a mortgage. This is because the state simply gave people the homes they occupied after the collapse of the Soviet Union, in what must be one of the biggest transfers of wealth in history…This property is worth around £1,900 billion today – about twice the value of the GDP" [g]. Let us note, briefly, the unfairness of this grandiose gesture by the state (the peasant in the wilds gets a hovel, the senior bureaucrat in St. Petersburg or Moscow gets a five-star villa), and instead concentrate attention on the fact that the state gave away not just a building (which, over time, will entail costs in maintenance, repair, and modernisation), but also the land it stands on, which in most cases will increase in value (and on occasion spectacularly so). Marxists have a problem over land, which derives from faulty economic analysis. Theory would have it that value derives from the degree of labour content that goes in to the production process. That in itself is faulty, but in the case of land it is obviously absurd. Land was never man-made: nevertheless it is not automatically value-less! The rôle of land in the U.S.S.R. was never really understood and the resultant waste of resources was a major contributory factor to the failure of successive five-year plans. It does not end there, either. Marxist analysis was obsessed by the struggle of Labour against Capital. In essence, employers underpaid the workers who were thus unable to buy back all they produced. This led to surpluses, trade wars between capitalist states, and conflict between the ruling classes in the state and the proletariat. In fact of course it is not Capital that absorbs the surplus, but Land, as landowners appropriate the Rent. In the posthumously published volume 3 of "Capital", Land was distinguished from Capital and statements were made which showed that Land did indeed underlie the problem. Modern Russia has yet to escape from the earlier confusion.

DEPRESSION

"Overall, eurozone governments have to repay €1.23tn" in 2012 [h], "which could prove fraught" [j]. The **eurozone** banking sector "faces a similar funding cliff, with €500bn of new market funding to find…The European Central Bank (ECB)…has a…balance sheet stuffed to the gunnels with dodgy sovereign debt, and, increasingly, even dodgier banking assets…[It] already has to reconcile itself to write-downs on its holding of Greek sovereign bonds…Sustaining the euro requires more or less indefinite transfers of money from richer to poorer regions" [k], not a prospect that appeals to Germany, in particular.

The EU authorities have warned private creditors holding €206bn of Greek debt that "the EU will not step in with fresh money to prevent a default on March 20, when **Greece** must make a €14.5bn debt payment." The EU is demanding that the private creditors (including banks, insurers, and pension funds, let us recall) also "accept a cut in the interest rate on new bonds to 3.5pc, on top of the 50pc haircut agreed…The Commission said the EU's permanent rescue fund, the European Stability Mechanism (ESM), would come into force by mid-summer…The ESM…mandate is to withhold rescue loans until private creditors have taken a haircut" [m]

"Yields on **Portugal**'s five-year bonds surged to a record 18.9pc, reflecting fears that the country will need a second rescue from the EU-ECB-IMF Troika. Three year yields hit 21pc…The first loan package of €78bn did not acknowledge the vast liabilities of public companies, which have been shut out of global capital markets. What is lacking is €30bn" [m]. Later it was revealed that "Yields on Portuguese 10-year bonds hit a fresh record of 17.38pc" [m].

Meanwhile, **China**'s $3.2 trillion foreign reserves have been falling for three months despite the trade surplus. Hot money is flowing out of the country…Investors had thought China was immune to a property crash…Wealthy Chinese often buy two, three or more flats with cash to park money because they cannot invest overseas and bank deposit rates have been minus 3pc in real terms this year…A 'fire sale' is under way in coastal cities, with Shanghai developers slashing prices 25pc in November…Property sales have fallen 70pc in the inland city of Changsa. Prices have reportedly dropped 70pc in the 'ghost city' of Ordos in Inner Mongolia" [m]. East or West, the natural laws of economics hold sway.

INDEPENDENCE – a key issue to ponder upon

Scotland is far from the main concentrations of business and population in south-east England and lies even further from the European heartland, and must bear the consequent geographical and economic disadvantages. These are reflected in lower land values, but the lower land values are not reflected in current taxation policy. The same amount of tax has to be paid per unit of added value, regardless of whether the producer is in the City of London or Caithness. Taxation at the margin means that economic activity that might otherwise have taken place is tipped into unprofitability. At the root of discontent about the United Kingdom is this evident lack of attention to the significance of marginal locations. The Land Value Taxation Campaign is working for a fundamental change in the revenue-raising system which creates tax havens precisely where they are most needed.

The NOSTRADAMUS of our time

"The crisis will end when the solution has been found or has been articulated in a credible way" [n].

[a] Graham Ruddick, "Daily Telegraph", 19th. January [b] Ed Hammond, "Financial Times", 14th. January [c] Bruno Waterfield, "Daily Telegraph", 25th. January [d] "Practical Politics" gave details of the merger between BA and Iberia in Issue No. 177 (December 2009) [e] Andrew Parker, "Financial Times", 24th. September [f] Alistair Osborne and Jonathan Sibun, "Daily Telegraph", 4th. November [g] Ben Aris, "Russia Now", published by Rossijskaya Gazeta, 25th. October [h] We shall have to get used to trillions. A trillion is a thousand billion, 1 followed by 12 noughts, 1,000,000,000,000 [j] Robin Wigglesworth, "Financial Times", 31st. December [k] Jeremy Warner, "Daily Telegraph", 10th. January [m] Ambrose Evans-Pritchard, "Daily Telegraph", 25th. January, 27th. January, 31st. January, 15th. December [n] Douglas Flint, Chairman of HSBC, speaking at the Asian Financial Forum in Hong Kong (report by Malcolm Moore, "Daily Telegraph", 17th. January)

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