PRACTICAL POLITICS

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DEPRESSION

A British banker said it clearly: "Many of our clients don't want anything to do with the **eurozone** except Germany…Can you really be sure you will get your money back when you buy peripheral bonds?" [a].

Well, you were a loser if you bet on getting it back in **Greece** – and it will get worse. After all the to-ings and fro-ings and all the ifs, buts, and maybes, Greece defaulted, but got its promised loan, served with fudge and make-believe to kid all concerned that the 'rescue' somehow averted a default. Tell that to the banks, pension funds, insurers and other private creditors who will bear the brunt of the losses! "The new 'haircut' will be 53.5pc on €206bn of bonds, a 74pc write-down with stretched maturities"[b]. To add insult to injury, Greece has had to agree to put moneys aside in an escrow account to prioritise payment to the troika (EU-ECB-IMF) over the now officially second class Greek Joe or Nick. And, yes, oh! Collective action clauses are to be inserted into sovereign bonds issued under Greek law: "Following the move, any 'hold-outs' who resist a voluntary haircut on the debt they hold will be coerced into accepting a deal provided that at least 66.6 per cent of bondholders vote in favour" [c].

Meanwhile, the Bank of England (BoE) announced "it would buy a further £50bn of **UK** government bonds over the next three months in a bid to ward off recession – taking its total quantitative easing (QE) target to £3.25bn" [d], the further to ease the Government's financial position by buying more and more of the Debt Management Office's gilts. "Some way down the line, such practices will have inflationary consequences which, once out of the box, will be extremely hard…to put back in again" [d]. "In fact, the Government is still spending at record levels. [The problem is] "too much debt – too much public debt, too much household debt and too much banking debt…The **US** has been better at unwinding the excesses of the property and consumption boom than the UK and Europe…The old growth model based around rising levels of consumption and house prices has gone…Radical supply-side reform is called for, particularly in the tax system" [e].

We do not know of any reform of the tax system that would produce the results needed. We thus continue to work determinedly for removal of the present one and its replacement by the capture of the national land-rent by means of a full annual rental charge. It is known historically as LVT. Try it!

THE BATTERSEA POWER CUT

The grade 2 listed Battersea Power Station, idle since 1983, is one of the most recognisable sights of the London skyline. Attempts to redevelop the 38-acre site over the intervening years all having failed, the property has gone into administration with debts of £324m owed to Lloyds Banking Group and the Republic of Ireland's National Asset Management Agency. "The site would be worth £470m more if a developer is allowed to knock down the landmark structure…Demolition of the structure would allow 1,200 extra apartments to be built…Flattening Europe's largest brick structure and its four chimneys would save estimated renovation costs of about £500m, roughly equivalent to the cost of demolition and apartment construction combined… The time has come for striking the right balance between what is economically viable and what respects our built environment heritage" [e]. Of course one could do nothing, and wait for the power station to deteriorate to the point of becoming first a health and safety issue and then an interesting ruin. Then again, one might care to take note that if LVT had been in operation over the intervening years, the landholder could never have afforded to pay a full annual land-rent charge on 38 acres of fine London land bringing in no income, and the problem of the erstwhile handsome building would never have arisen in its present baleful form.

Footnote: – There is talk of the prospect for a westward spur on the Northern Line of the Underground involving, *inter alia*, a new station close to Battersea Power Station. Now that would do the location no harm at all – and application of a national land-rent charge (LVT) would collect both the current and the added site value *and* go to replace contemporary taxes.

BLIGHT IN BLIGHTY'S HIGH STREETS

"During 2011, 14.3pc of all shops stood empty, equating to 48,000 units on shopping centres, retail parks and high streets…as the internet and large out-of-town supermarkets make life harder for high street shops" [f]. Shops and other businesses in our towns are generally subjected to upwards-only rent reviews, and, when asked for unaffordable higher rents, shopkeepers are obliged to close the business. Even if the landlord cannot immediately find a tenant willing to pay the revised rent, the UBR currently payable on vacant commercial premises is insufficient to provide an effective incentive to bring them promptly into use again. Businesses have thus been driven to extinction whilst the premises they previously occupied stand empty. The neighbourhood loses a facility, and might well begin to look shabby; the former tenant's goods and equipment are downgraded; jobs are lost; there is less taxable income to collect; and welfare bills go up.

With LVT, owners need to maintain the cash flow from which to pay the charge and cannot afford the risk of having their property vacant for long. To avoid this, they must set their property rents competitively. Far from killing off high street shops, LVT lifts the in-built bias against them. Other things being equal, a vacant site in a row of shops or a vacant shop situated in that same row, would be assessed at the same value as the adjacent sites occupied by functioning shops. LVT is payable regardless of whether or how well the land is actually used. It is a payment, based on current market rental value, in return for the right of exclusive occupation of a determined piece of land. Application of a national land-rent charge (LVT) would collect the annual site value of the land *and* go to replace contemporary taxes, for example v.a.t. on goods sold and services supplied, income tax on shopworkers' wages, and the returns to the capital invested in the business.

Footnote: – In cases where demand for shop premises is genuinely weak and weakening, for any of a number of possible reasons, changes to the planning regulations might be indicated, for example to convert properties to domestic use. A land valuation exercise is likely to provide useful indicative guidance.

UNEMPLOYMENT AND THE REGIONS

The official figure for U.K. unemployment is presently put at 8.4% [g]. If the conventional line is drawn from the Bristol Channel to The Wash, unemployment is seen to be concentrated to the north of it, where (probably not coincidentally) there has for long been over-reliance on the public sector. This news will come as no surprise to our readers. Disadvantaged and geographically peripheral areas are areas of relatively low land value. Activities at or close to the economic margin cannot operate profitably whilst also required to sustain the burden of current taxation on labour, capital, and their products (especially an *ad valorem* duty like v.a.t. at 20% slapped on top of everything else – as with motor fuels). Replace these taxes by a charge on land value alone, however, and, because the levy is by definition low in such areas, prospects at once alter for the better – with no subsidy! A progressive switch from conventional taxation is a pre-requisite if the remoter regions of the Kingdom are even to start thinking of prosperity.

EARTH AND AIR

Rochford, Essex, is one of only two towns in the country where house prices last year were higher than in 2007 [h]. After a lengthy absence, scheduled commercial flights return to Southend airport, courtesy of easyJet and Arann. No connection? Perhaps not, but Southend airport is located at Rochford, and, recalling what happened at Manchester and Stansted despite the forecasts of the usual dismal Johnnies, it would be no surprise if the renewed airport activity at Southend was indeed involved. Air Traffic Control, administration, fire services, baggage handling, refuelling, catering, retailing, cleaning, aircraft servicing, currency exchange, airline staff, officialdom – all must have their place, and many will want to live within easy distance of their place of work. Logically, housing in Rochford will be in demand. A new economic opportunity is pushing up its location value, and the resultant effect on site values will not be limited to the domestic sector. There is one proviso, though. If the travelling public does not respond well enough to what the airport is about to offer, all hopes of an easy boost to landholdings will collapse. Land value, we have to emphasise yet again, is a people value – ideally suited to fund the needs of the public revenue.

FAR EAST

(i) **Japan** has gone through two miserable decades since the wildest bout of land speculation brought on the spectacular crash of 1992. Now the damage resulting from last year's tsunami further threatens the country's economic future. Hitherto, "Japan has relied on its trade surplus as a safety buffer, helping to preserve calm even as public debt balloons", but now the country "has racked up its first trade deficit in 31 years…Japan relied on nuclear power for 29pc of its electricity…and had plans to boost this to 50pc by 2030". After the damage to the cooling plant at Fukushima nuclear power installation, the premier announced that it would not be recommissioned and "other nuclear sites will be phased out". Consequently "Japan has switched to imports of liquefied natural gas and other fossil fuels…and has been running a structural shortfall of $3bn a month" [b]. The country's public debt, already at ¥1,010 trillion (£8.3trillion), is understandably a big worry.

(ii) **China** has been enjoying a credit spree. "Much of this went into property, exacerbated by interest rates on deposit accounts last year of minus 3pc in real terms" [b]. Mmm, now where have we heard much the same thing before…?

[a] David Oakley and Richard Milne, "Financial Times", 4th. February [b] Ambrose Evans-Pritchard, "Daily Telegraph", 22nd. February, 25th. January, 7th. February [c] "Financial Times", 25th. February, 11th. February [d] Jeremy Warner, "Daily Telegraph", 3rd. February, 9th. February [e] Graham Ruddick, "Daily Telegraph", 16th. February [f] Harry Wallop, "Daily Telegraph", 7th. February [g] "The World At One", BBC Radio 4, 15th. February [h] News summary, 11.00 a.m., BBC Essex Radio, 16th. February

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