PRACTICAL POLITICS

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PARTYING

The Westminster summer recess leads to party conference time. It is something we do not look forward to but know we have to get through. Labour was not talking much about tax, unsurprisingly, for it is still fiddling about with variations on its old failed policies of a development land tax or even just a tax on construction itself (the so-called Milton Keynes roof tax). The Liberal Democrats had the only clear sets of proposals on display, but they included last year's rejects, this year's radical green-wrapped replacement range (weren't last year's supposedly radical too?), and a promise to look further into other prospects, including, remarkably, the taxation of land values. As this was enshrined in the preamble to the constitution of the old Liberal Party for most of the last century, deferring its reconsideration to the future suggests failures of understanding or of will, or both. We welcome the news, but at present with only a one-handed clap.

If Liberal Democrats, who have no immediate prospects of government, strew tax policies over the table by the scuttleful, and if Labour, which is actually in government, keeps its stealthy head well down between its knees, the Conservatives, who aspire to return to government, shamelessly display the bareness of their own cupboard. In succession, Opposition Leaders (William Hague, Iain Duncan Smith, Michael Howard) all set up study groups to develop policies – more, one suspects, to put off the need to publish anything so inconveniently awkward too soon. David Cameron follows the path of the passionate vacuum to near-perfection.

All parties should be proclaiming and explaining the direction they expect to take. It is Labour and the Conservatives, however, who need to display the specific wares they have on offer. The Liberal Democrats have no pressing need to do so. They need only clarify and hone basic principles and policies for raising the public revenue and be clear on the outline plans for implementation. Although it may be fun to do, and may satisfy the soul, detail laid out for next year's alternative Budget soon becomes out of date, even irrelevant. We counsel taking up LVT, theory and implementational issues, at an early opportunity. To tarry could just be to find others getting there first.

Footnote:- Inflation – the printing of banknotes to fill the gap between Government income and expenditure – is in effect a tax too, and is on the rise, devaluing the purchasing power of all the money already in circulation. Did anyone mention that at the party conferences?

U.K. OFFSHORE OIL – NOTHING (or almost nothing) TO SHOW FOR IT

Norway has been setting aside a portion of its North Sea revenues against future needs. The State of Alaska has done likewise. So have some other oil producers. The U.K. has not. All that revenue, which, to an economist, is really rent from a special form of land, has been squandered on day-to-day expenditure. “There is one notable exception…In the days when Shetland was poised to become the UK’s oil capital by providing the Sullom Voe terminal handling the huge fields around its waters, the Shetland Island Council negotiated a royalty deal with the oil giants” (Roland Gribben, “Daily Telegraph”, 24th. October). “The income has provided a nest egg of around £525m or £23,000 a head”. Meanwhile, the Chancellor “is on course to collect £12bn from offshore production in the current financial year”.

SAHARA’S ICE AGE WATER

Your editor was recently in Libya, where he heard of vast subterranean water resources, most of it fed by rain that fell 25,000 to 75,000 years ago and collected in formations of sandstone over impervious rock. Though finite, Libya’s water resources are “almost unimaginable in scale: the equivalent of a lake larger than Germany and hundreds of yards deep” (Patrick E. Tyler, “New York Times”, 2nd. March 2004). “The Kufra Basin in southeast Libya has an estimated groundwater storage capacity of nearly 5,000 cubic miles”. Work is in hand to bring eventually “about 200 million cubic feet of water per day” by pipeline to the Mediterranean coast, where most Libyans live. Professor Edmunds of Oxford University is quoted as concurring that, even if Libya pumps the water for 100 years, “there will still be ample reserves for future generations.”

Like petroleum deposits, this water is a gift of Nature. It is to be hoped that its supply will be carefully managed, and that owners of land, agricultural and urban alike, will not be allowed to make private profit from its benefits, but will be faced with an annual land-rent charge to reflect all the advantages (and any partially off-setting disadvantages) of the space they lay claim to.

THE LAND SPECULATOR’S DILEMMA (but it’s worse for the landless!)

“The average price of a home in London has reached more than £286,000” (Rosalind Russell, “Daily Telegraph”, 19th. October). How long should a family hoping to escape to the country wait “for property prices to level out? If you leave too soon, you could miss out on your only sure-fire chance to make a lot of money without working for it.”

THEN AND NOW

"The speed of change in the security situation is mirrored by a phenomenal growth in property values, as more people realise the pleasures of living in Northern Ireland. Returning émigrés, investors and British and other Europeans seeking a more relaxed lifestyle have bought homes – unbelievable as it would have seemed a decade ago" (Paul Gosling, "Financial Times", 11th. November). Unbelievable? No, obvious: –

Land values will rise when peace returns. We feel constrained to add words of caution. A lot of people are going to be very unhappy when they find decent housing priced out of their reach; when the cost of taking a shop, setting up a little business, or acquiring a smallholding rises beyond their means. The rising expectations of landowners will both cream off the benefits of progress and tend to retard the growth of economic activity. There will be disappointment, discontent, perhaps even social and political disaffection. Hopes, after all the years of strife, will rightly be high, but for peace to mean real prosperity there will have to be a radically new fiscal policy in the Province.

The foregoing is abridged from "Practical Politics", Issues No. 8, March 1990, and No. 52, April 1995. The pieces cited referred to the boost to tourism, "returning émigrés", demand for second homes and retirement homes, and the spur to business development.

AIR and RAIL

(i) "The area has strong transport links into London and is close to Heathrow, which offers lots of opportunities with the coming of Terminal Five in 18 months time. Hounslow is benefiting from huge regeneration" (Sheila Prophet, "Daily Telegraph", 19th. October). "Hundreds of millions of pounds are being poured into the area...The Heathrow Quarter is taking off for buy-to-let investors." Are they aware they are speculating not in houses but in housing land value? Will either the landowners or their tenants know that the country could be run from progressive capture of the annual site rental value of land, in place of existing taxes imposed on goods, trade, wages, and the provision of capital? Who, amongst the political parties, is telling them that?

(ii) Eurostar has announced plans "to halve the number of international rail services from Ashford", Kent, including "its four direct daily services to Brussels" (David Millward, "Daily Telegraph", 13th. September). Now there are fears Ashford "will become a virtual ghost town". The big losers will be those who own land in Ashford who thought they had it made and now see the candies taken away from them. "Eurostar has also effectively mothballed the £210 million Stratford International station in east London." Who gains? Well, "Services will be shifted to Ebbsfleet station in north Kent." For the sleazy story of how Ebbsfleet was first selected, see our Issue No. 48, November 1994, which cited a three-page feature in the "Evening Standard".

JAPAN

"Positive news, such as a further rise in land prices (in central Tokyo, residential property prices climbed 18%) were largely ignored" by the stock market (Dresdner Bank Quarterly Review, 30th. September). Surely punters were just being sensibly cautious? After all, Japan is "a case study for the length of its recession" (Scheherazade Daneshkhu, "Financial Times", 15th. July). The boom in the1980s was characterised by "a large bubble in property and other asset prices" which burst in 1991. Property here stands for land, and the other assets were shares in companies with valuable land holdings.

LESS STAMPING ON SAVERS

Contemporary taxes destroy jobs. Fidelity Special Situations, "a £6bn unit trust", has split in two "and half the money is reinvested overseas" (Ian Cowie, "Daily Telegraph", 18th. September). Fidelity reckons half of the shares now going abroad are traded in a year, meaning the Exchequer stands to lose £7.5m a year in stamp duty, which in the U.K. is charged at 0.5% per share bought. "This country is one of the few markets which still imposes this tax on investors."

WHY IT MAKES SENSE TO TAX LAND VALUES

Property taxes "are easy to collect compared with taxing wealthy people and companies, which can move to lower-tax jurisdictions…Tax competition means it will become harder to tax mobile elements like capital and profits" (Vanessa Houlder and Chris Giles, "Financial Times", 21st. October). "There is only one factor of production that is genuinely immobile and can be taxed without discouraging enterprise" (Samuel Brittan, "Financial Times", 20th. October). "This is land, by which I do not mean business or residential structures, which are normally treated together as one lump of capital-and-land [by lawyers and book-keepers – ed.]. I have in mind pure space, which is commanding higher and higher returns because there is so little of it in favoured locations. A land levy has long been a favourite of otherwise not very leftwing market economists, but has never really been understood by businessmen, politicians or lawyers."

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