PRACTICAL POLITICS

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In this, the first Issue following our three-month recess, we begin by recapitulating some of the terms we aim to use with care and precision. We then move on to illustrate from recent news stories and background reports some of the many ways in which land values rise and (sometimes) fall in response to natural factors and the aggregate activity of the population as a whole. We urge the policy of a national land-rent charge (known historically in this country as land value taxation, or LVT for short) to provide for public revenue requirements, at the same time replacing taxes that currently fall on work, man-made goods, services, trade, spending, saving. The use made of land can be tax-free, thanks to capture of land rent.

Political economy (economics) is about the production and distribution of Wealth. In its most simple form, Wealth is produced by the actions of people making direct use of what the natural world of our planet has provided: Wealth is the product of Labour working on Land, to use the accepted terminology. Some Wealth is directly consumed, but some, such as tools, buildings, plant and machinery, goes to assist in the creation of further Wealth, in which case it is termed Capital. Labour, using Capital, works on Land to manufacture Wealth. The returns that go to these three prime factors of production are conventionally named Wages, Interest, and Rent respectively.

Land may be defined as the whole of the material universe outside of man and his products. Labour represents work, human effort by hand or brain. Land is God-given, or a gift of Mother Nature (according to belief). Capital is previously produced Wealth, man-made. The distinction between the two is vital. They are different in kind. Land is fixed in quantity and in location. More Capital can be manufactured in response to market demand, and, mostly, it can be moved from place to place, again to meet demand.

Strictly, economics is about the production of Wealth (consumer goods and capital goods, in other words). In practice it encompasses the provision of services too. No one would work in a service trade, or provide a service trade with capital, unless the respective returns in wages and interest were, other considerations being equal, identical. The same is true of land. The returns to Land, Labour, and Capital when Wealth is distributed, determine the market costs and the rewards which those same factors can command when in use for provision of services. By similar extension, Land acquires a value in response to social demands such, notably, as that for housing.

In to-day's complex world, a landholder may be a person, a group of persons, or a corporate body. It is not necessary to be a freeholder, for anyone holding a long lease where the value of land has significantly appreciated, will have a substantial *beneficial interest* in land, an interest which can be sold or sub-let at profit. Again, landowners may perform some sort of labour and provide capital, and similarly owners of capital and those providing labour may also perform either or both of the other functions to some extent. For all that this is true, the rôles of Land, Labour, and Capital in the workings of an economy are distinct and have to be treated as such if error and injustice are to be avoided.

LAND – ACQUIRING, AND (occasionally) LOSING VALUE

(A) ABP (Associated British Ports) has surplus 'parcels of property' around its U.K. ports. "The most lucrative future land sales" could be in Newport, Plymouth, and Southampton ("Estates Gazette", 4th. September). The company's finance director reportedly declared, "The value we create comes from changing consent from port use to residential or retail". Whoa, Dobbin! Who is this "we" who create? Remember, no one ever made the land in the first place, unless it was the Almighty, and even He has gone out of the real estate business. Secondly, it is the representatives of the community at large, politicians and bureaucrats, who grant change-of-use planning permission. Thirdly, not even they "create" land value. They *release* it, by allowing it to express itself in given places for given purposes. The demand, previously suppressed, comes from people's need for land on which to live, work, trade, and enjoy their leisure. Planners have no moral justification for disposing of what is rightfully the people's value in this manner, but until there is a general awakening and a change in the public revenue laws, we shall continue to lurch from one economic crisis to the next and one social problem to another.

(B) "A land value tax (LVT) on economic rent – the amount of money land would generate if leased – is the only fair way to ensure that we all share nature's bounty…Development or planning gain taxes do not [enjoy] the advantages of LVT. If you tax an event, such as the development of land, then the owner can avoid the tax by avoiding the event. Previous land development taxes all failed because they froze the land market, reduced supply and hence raised land prices…Why accept a one-off payment when LVT can provide annual revenues? Why lose out on increases in land values created by the activities of future generations?" (Dave Wetzel, "New Statesman", 20th. September). On top of that, a development land tax ignores all land value existing prior to the development event and all land value not connected with a specific development application. Development land "accounts for less than 5 per cent of all land". It has to be LVT – accept no 'substitutes'! Measly land-related taxes are *not* the taxation of land *values*!

(C) Appropriation of land by adverse possession (12 years or more of uncontested squatting) is more difficult than it used to be before the Land Registration Act, 2002, came in. How lucrative it could be, was illustrated by the recent case in the Court of Appeal in which a farmer gained the chance of a windfall of millions from successful squatting on a 13-acre strip of land bordering the Lancaster Canal. The farmer had been leasing the land since 1964. A succession of ownership changes, of which the farmer was not made aware, ended when a property development company acquired it. From 1983 to 1996, the farmer had unfettered, exclusive, rent-free possession and use of the land. When the developer wanted planning consent to build 535 new homes on the site, he found his ownership contested, with the land eventually awarded by the Court to the squatter. (Account based on report by Russell Jenkins, “The Times”, 28th. October).

Boo – wrong? Hooray – great? Well, at least the farmer used the land while the developer lay speculating. The outcome makes interesting law, but it is bad government and bad economics. Land value is people value: neither the farmer nor the developer deserves to pocket what ought to be public. The villain is H.M. Government, which tolerates and, yes, promotes this outrage.

(D) What one might call the traditional way of enhancing land value is finding mineral riches below the surface – oil, say, or diamonds, or gold. Two recent gold finds have been reported, in Northern Ireland and in Madagascar. Jubilee Platinum revealed that “a recent gold discovery near an abandoned mine in central Madagascar could contain ‘significant’ amounts of gold” (Kevin Allison, “Financial Times”, 23rd. October). “Two rock samples… contained ‘very high grade’ gold deposits”. Meanwhile, in Co. Tyrone, Tournigan Gold Corporation, of Vancouver, has found “a deep vein of gold that goes at least 1,600ft down” at Curraghinalt, “set in hills near the small town of Gortin” (Thomas Harding, “Daily Telegraph”, 14th. October). Opinions range from a “Celtic Klondike” to being “a long way off from…a gold rush”.

The principle in cases like this is clear, or ought to be. The value of gold in the ground is public. The difference between that value and its value after being brought to the surface and refined is private (“high-grade gold mineralisation” produces only “0.6oz per ton” – Harding, *op.cit.*). A licence to explore followed by a licence to mine for a given number of years ought to do the trick, although, for well-established operations, more traditional valuation techniques will be adaptable for LVT purposes.

(E) “Britain’s first super-fast commuter rail service” is promised, “slashing journey times to London when the Channel Tunnel Rail Link is up and running” (David Spittles, “Evening Standard”, 3rd. November). Services starting at Ramsgate and Folkestone will join at Ashford, go on to Ebbsfleet, where they will pick up a third service starting at Sittingbourne, and thence go under the Thames to Stratford and on into St. Pancras…Ebbsfleet to the newly enlarged St. Pancras will be only 15 minutes”. Developers are, naturally, moving in to the favoured parts of Kent, to cater for the expected new commuters. In Chatham, in recent memory in distress after closure of the dockyard and a nearby oil refinery, “two-bedroom flats start at £275,000”. It is not the bricks that cost so much, but the ground they stand on. The article, otherwise gushing, makes no direct reference to the enrichment of neighbouring landowners which follows public and private investment in infrastructure. Even education enhances land value: “The government has just announced a £47.5 million boost to universities in the Medway [sic]…The idea is to make Chatham a centre of learning. Student numbers will rise”.

(F) Mapping technology developed by an insurance company "can now pinpoint with military precision houses prone to flooding. While this could cut premiums for some homeowners, experts say it could leave some homes uninsurable" (Lucy Warwick-Ching, "Financial Times", 14th. August). "A recent survey…found that properties in flood plains were becoming increasingly difficult to sell". The buildings are the same, but the location of some is now much less desirable. Luckier neighbours gain. It is all about land value.

THE MEANING OF WORDS, AND SHARIA BANKING

We began this Issue with some definitions. We should note that the term, Labour, covers management as well as physical work, and that Wages cover all remuneration, not just the wage packet but also salaries, fees, tips, perks, payments in kind, and deferred wages in the form of company contributions to pension schemes. The Rent of Land is limited to the annual site value of Land, excluding payments for such man-made objects as flats or shops, or rentals for cars or television sets, all of which are Interest on Capital. Land, to a lawyer, is land plus fixed hereditaments such as buildings set on it, although in common parlance no one thinks of a house as land. To make matters more confusing for the unwary, an accountant drawing up a balance sheet regards both the factory and the land it stands on as capital. In economic analysis, it is important to use terms with precision and with consistency. Mischief and defective policy arise from failure to do so.

"The first specialist Islamic British bank, operating according to Sharia law, was last week authorised as a deposit-taker by the Financial Services Authority" (Kate Burgess, "Financial Times", 14th. August). Leaving aside the difficulties the new bank faces in fitting in with the FSA's consumer protection rules, we limit ourselves to lending and borrowing. Islamic law "prohibits the giving and receiving of interest", so special arrangements are needed, which work "on the basis that the bank buys a product…and in effect sells it on to the customer over time at a higher price including a profit margin. Alternatively, the bank buys a product, leases it to the customer and sells it to him at the end of a fixed term. Mortgages…will operate in a similar way". There is nothing in this that suspends the laws of political economy, just a modification of the meaning of words. The site for a house bought/acquired with a bank loan/with a rental fee, is still Land; and the man-made structures are still Wealth. The rental fee is still Interest (on the structures) and Rent (on the site, the location). Neither the new Sharia banks nor conventional banking practice (which also ignores the distinction between Land and man-made goods and therefore the difference between Rent and Interest) will be respecting the language of economics. There is no shame in that. It is, though, a challenge to the nation's policy makers.

The layman is entitled to go on using familiar words in the familiar way, whatever economists, lawyers, accountants – or bankers – may think. Dishonesty arises only when vested interests accept or promote divergent usage deliberately to confuse. The task of those engaged in debate on economic issues is to establish amongst themselves, and for the benefit of third parties, exactly what it is they are talking about, then to stick to it.

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