PRACTICAL POLITICS

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UNFITTING C.A.P.

"Farming in rich countries, is the industry from which market forces have been driven out. Instead it is surrounded by tariffs and ruled and rigged by a system of quotas and subsidies. Cows, in these countries, belong to a privileged class. Thanks to the Common Agricultural Policy, every cow in Europe has a private income of $913 a year, and Japanese cows are even richer" (Christopher Fildes, "Daily Telegraph", 14th. June). "The World Bank defines extreme poverty as an income of less than $365 (a dollar a day) and a billion people, more or less, still live in it…The CAP is a storehouse of waste, a seedbed for fraud and an instrument of oppression. Its proponents in Europe should think twice before they lecture Africans." He might have added that farmers and their labourers are not the gainers: the gainers are the owners of agricultural land (cow pastures, in the present case) who absorb the subsidies in the rents they charge or, if they are also themselves working farmers, pocket the cash in their landowning capacity.

ADVICE FOR THE PATIENT SPECULATOR – sorry, 'investor'

"Looking for a long-term stable investment that has matched returns from the Footsie and can be passed on to your heirs free of inheritance tax?" (Clare Gascoigne, "Financial Times", 26th. June). "The type of land is crucial; not just whether it is top quality…but its position relative to other properties… The dream for speculative investors, of course, is to buy land close to villages and towns that is subsequently granted planning permission…After all, while agricultural land may go for £3,000 an acre, greenfield residential building land can go for 'anything from £150,000 to £2.5m an acre', according to [an agent]…The tax breaks of land can be significant. Farm it yourself or let it on a short-term, 12-month tenancy and after two years of ownership it can be passed on free of inheritance tax (IHT). Even rented out to a local farmer on a long lease, your estate will get a 50 per cent reduction on IHT." She might have noted that agricultural land prices are swollen by having to pay (a) for the privilege of subsidy, and (b) for access to those very prospects she holds out as attractions. It is always worth recalling that the owners of land regularly skim away the cream. Without unwilling gifts from the general taxpayer, farm land would be more affordable to new entrants.

PROPERTY = LAND + BUILDINGS, and land is the economic bell-wether

In Issue No. 29 (July 1992) we examined the development of an economic boom, its arrival at bursting point, and the subsequent rapid slide to slump. Since the crash of 1992, economic commentators in the developed western world have feared two further major recessions, first in 1998 and then in 2002. On both occasions we disagreed ("The country is not about to enter a slump" – Issue No. 82; "This is not a re-run of 1992" – Issue No. 116). We have, however, expressed our unease at the way the seeds are being sown for trouble some five years down the line (Issues Nos. 118, 121, 128, and 132). It is against this background that we read "Sell signs are flashing – but don't panic", an article on commercial property in the "Estates Gazette" of 3rd. July by Alex Catalano.

"Interest rates are rising, and there is a huge amount of debt riding on property. But the yield gap has narrowed, not disappeared. Though there has undoubtedly been some fancy lending going on, I doubt much of it is truly wobbly" (Catalano, *op. cit.*). "Going forward, it will be much harder for borrowers to make the numbers work without putting in more equity."

As always with property, we have to distinguish the given from the man-made, the location from the building and other developments set in and upon it. In the conduct of contemporary business, land and man-made capital assets are more often than not lumped together and treated as one; but in economic analysis they have to be kept separate. Land, as we know from Mark Twain (and a few others), is not being made any more, and the only response to rising demand is a higher and higher price. By contrast, in response to market signals and price increases, capital goods (and, of course, consumer goods too) can be produced in greater numbers and can be moved from where demand is low to where there is short supply. Thus land and manufactured goods are different in kind and behave markedly differently, especially in the stressed conditions of an economic boom.

Ms. Catalano is doubly right to foresee that developers will have to put in more equity (more of their own money) "to make the numbers work". First, they will not be able to borrow (or borrow at prime rates) if they are unwilling to risk their own funds: the debt/equity ratio imposes a certain discipline. Secondly, rising land prices, "going forward" in to a boom (not upon us yet, obviously!) stimulate big capital projects. As land prices rise, it becomes necessary to build high, to get enough usable floor space to justify the outlay on the site. Capital is also laid out to get around other land problems – rail and road infrastructural improvements, for instance, to make distant or poorly served land more accessible. Savings sunk in such long-term capital projects produce nothing in the short-term. Only a disciplined economy can withstand this sort of check. One gripped in speculation, reading exaggerated and misleading signals from the land market, does not. The whole sorry tale is elaborated over six pages in Issue No. 29. Is it all to happen again, or is a principled, practical land policy to be set in train in time to prevent it?

ECONOMIC GLOAMING – OR BRIGHT NEW DAWN?

"The Scottish Executive predicts that, in Glasgow alone, the number of inhabitants will fall by 10% over the next 14 years, while the national head count will decrease to below 5m for the first time by the end of the decade."

"Glasgow performed very well economically in the late 1990s and over the past few years…but the success of the property market will depend greatly on having a skilled labour pool and a steady occupier demand."

"Investment decisions, whether for new build or redevelopment, will centre much more on a property's proximity to a stable population and financially active areas".

"The popular view in the property world is that low-rate business parks in Lanarkshire will not encourage businesses to move from Glasgow or Edinburgh in a bid to reduce occupancy costs. Instead, pundits believe the market is more driven by the need to be where operations can benefit from easier movement of goods and people…Occupiers place a high premium on geographical location."

[quotations from two articles by Andy Moore, "Estates Gazette", 3rd. July]

"In a climate of weak demand, Ayrshire is regarded as peripheral to occupiers that see plentiful and cheap supply [of industrial space] in the central belt between Edinburgh and Glasgow."

"The launch of aviation giant Goodrich's Prestwick facility demonstrated the importance of the sector to Ayrshire's ailing industrial market."

"Ayrshire figures highly in the [Scottish] Executive's aerospace strategy and we want to target companies that manufacture and overhaul aircraft…Over time, the growth of this sub-sector will affect rents in Ayrshire."

"[A property consultant] says that developers should take advantage of rock-bottom prices to realise massive gains when the market turns around."

[quotations from an article by Adrian Morrison, "Estates Gazette", 3rd. July]

So, what is to be learnt from all this? Property is an imprecise term, one to banish from careful economic discussion: is it Nature's gift of land or man-made developments that the writer is referring to (consciously or otherwise)? The attraction of a location is dependent on people, their presence, skills, and level of economic activity: land values are people values. Within reason, people will gladly pay a higher rent to get the benefits of a prime location; and, special considerations apart (such, Prestwick hopes, as aerospace) they will shun peripheral areas, however cheap. Where there is growth, land rents and prices rise (and will doubtless be mis-labelled property price rises, even though construction costs may well have remained steady). Landholders siphon off the economic gains won by labour with the aid of capital: land rent could and should be the basis of public revenue needs. For Scots (and others in their position close to the margin of economic activity, away from south-east England and from the heart of "Europe"), the message is that current taxes add to production costs and operating costs, and hit especially hard those faced with high transport bills to reach distant markets. At or near the margins, profitability is under constant threat. Except for a few hot spots, though, land values are low. Thus collection of the rental value of land in place of the harmful taxes now endured, is both justice and stimulating relief!

LAND GRABBING in Africa, LAND DISPUTE in South America

(i) Conflict around Yelwa, in Plateau State, Nigeria, may look like tribal or religious war. "But they are more like Matryoshka dolls, one stacked inside the other, said Alex Vines…at the London-based Royal Institute of African Affairs. The smallest doll, he said, the one at the very core, is often a contest over land" (Somini Sengupta, "New York Times", 1st. July). "In the Darfur region of Sudan, competition over land and water underlies tensions [which] have fed into a terrifying civil war, with Arab militias backed by the Sudanese government chasing black Africans off their land." The headline over the article reads, "Where Land Is the Prize, Ethnic Killing Knows Few Limits".

(ii) Bolivia is "a poor, landlocked country" where violence erupted, "fuelled by opposition to plans to export liquefied gas to the US via Chile, a historic enemy" (Mark Mulligan, "Financial Times", 22nd. May). There is also the thought of "using Bolivian gas as a bargaining chip in future negotiations with Chile over disputed territory on the Pacific coast." Thus we have gas which, in the ground, is a natural resource, classed in political economy as land. A pipeline through Chile requires a way-leave, a right of way over land. To top it off, there is a dispute over possession of a chunk of land. Meanwhile an indifferent world looks on, and the region's landless poor continue to suffer.

RAISING THE WIND – CROWN SHOWS HOW

The Crown Estate manages Her Majesty's property portfolio. Last year "the marine estate rose in value by 13.1pc" (Helena Keers, "Daily Telegraph", 14th. July). The chief executive explained: "The rise was attributable to offshore wind-farms. We granted options to lease 15 sites around the coast, which was reflected in the capital value." One does not need to do anything at all. One licenses others. If only the Queen's ministers would take note, and bring this practice on-shore too! The time has come for the Crown to reclaim the land and to require annual site rents of all beneficial landholders. These can finance public expenditure, and ministers can make themselves popular by removing taxes from work, man-made goods, services, trade, spending, saving. The use made of land can be tax-free, thanks to capture of land rent.

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