PRACTICAL POLITICS

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INFLATION – BACK FROM A BRIEF HOLIDAY

Readers will search in vain, until this moment, for any reference by us to the word, deflation. Whilst commentators month after month were worrying that western economies were about to plunge into a strange new disordered world in which – the gods forfend! – the buying power of the currency in circulation would actually rise, we were continually pointing to the danger of the opposite, inflation (please see our Issues Nos. 116, 118, 121, and 128). As Bank of England interest rate increases in consecutive months now show, it is not we who were off the mark.

"Inflation is said to exist when there is a sustained and broad based rise in the price level in the economy, thus reducing the purchasing power of money" (Simon Briscoe, "Financial Times", 12th. June). This tells us how we recognise inflation, but it does not tell us what it is. Significantly, "broad based rise" makes it clear that inflation is not the result of individual factors such as a poor harvest in X or a drop in oil supply from Y. It is a monetary matter, the deliberate debasement of the currency by printing and issuing paper notes in greater quantities than justified by growth in the productive economy. Why is this? Essentially it is because Government needs more than it has collected in taxation or can borrow on the money markets at what it deems to be acceptable interest rates: there are contractors' bills to meet, the armed forces and civil servants to pay, welfare benefits to distribute, and so on – and the money has to come from somewhere! These 'borrowings' are backed, in theory, by future taxation receipts, so the Bank of England dutifully accepts Government's IOU, and cranks the presses. "High and fluctuating [inflation] rates [the "and fluctuating" is here superfluous, we think – Ed.]…distort economic behaviour and damage confidence in the economy" (Briscoe, *op. cit.*). "They also encourage speculation, undermine planning, encourage borrowing instead of saving and redistribute income (mainly by making those on fixed incomes worse off)."

Speculation soon centres on land, viewed initially as a 'hedge' against the declining value of money, but rapidly seen as a 'get-rich-quick' game in its own right – for reasons, and with the baleful consequences, set out in our Issue No. 29. The boom before the next crash is still to come, so there is yet time to act. First, though, it is advisable to contemplate the vital rôle of land in the economy in general, and in the destructive trade cycle in particular.

LAND NATIONALISATION IN ZIMBABWE

Zimbabwe is in a mess. As we have been confidently predicting, the policy of land seizure, land division, and land re-allocation, is inherently flawed and is now being admitted to have failed. Favouritism, corruption, and brutality have merely hastened and further debased the process. On top of this is the initial mistake of equating land solely with farmland.

“John Nkomo, the lands minister, told the official *Herald* newspaper all title deeds will be declared void and the state will hand out 99-year leases for productive farmland” (Peta Thorneycroft, “Daily Telegraph”, 9th. June). “A national land board would be set up to supervise the process and ensure the effective use of land.” Nkomo added (report by Jan Raath, “The Times”, 9th. June) that “All land shall be state land, and there will be no such thing called private land”. This smacks strongly of Eastern Europe, pre-1990.

“Why not nationalise the land? It is not necessary and not desirable. LVT collects site values for public revenue purposes, and leaves the owner secure to use his land as he wishes, to make improvements, and to reap his just reward in full. The community does not need to own the land and control its detailed use. It is sufficient to take its value” (“Practical Politics”, Issue No. 2, February 1989).

The 99-year lease proposal has an echo of the system of crown leaseholds of 50+ years operated in Hong Kong (and intended to last up to 2047). In Issue No. 57, we explained how a significant sum was indeed raised from land value for public revenue, but that a defect at the heart of the system allowed beneficial landholders to pocket a rising proportion of the potential yield from it. Any possible theoretical parallel with Zimbabwe cannot of course be pushed too far, because Hong Kong land value is predominantly urban, and was brought about and maintained in an open, free market, entrepreneurial setting. It is, to say the least, unlikely that Zimbabweans will be offered this.

SLOTS AND RUNWAYS

Heathrow and other congested airports need to “overhaul the present slot allocation system” (letter printed in “The Times”, 10th. June). The writer’s solution is the strong-arm one: throw out airlines facing bankruptcy, airlines making little or no money, and airlines using slots for short-haul feeder flights to continental airports. There would then be sufficient capacity for economically viable airline services without the need for additional runways.

As set out in Issue No. 68 and reproduced in our last Issue (*q.v.*), the air above the ground is, in political economy, classed as land (it is part of the material universe outside of man and his products). The right to fly in to and out of an airport has a value which can be realised by charging a competitive rental for the slots. “Airlines unwilling to pay the going rate would have to fly elsewhere. Planners would know the worth of adding to existing facilities. The principle is to let the market operate and the exchequer collect the rent.” This surely is a more defensible policy, and one decidedly more politically and commercially acceptable than arbitrary allocation, doling out slots like chocolate biscuits *and* ignoring the true public interest? Whether additional airports or runways are needed, and where best to locate them, are ultimately matters for political decision. With LVT operating, and the value of the take-off and landing slots included in the valuation of the whole airfield site, the public will get its entitlement – without the need to seek to pry into the routes or accounts of airline operators!

BITS AND PIECES

(i) **Halifax** is not a boom town. The Disability Discrimination Act is set to cause it particular problems. “Much of the town centre is on a slope, so many properties have steps up to them and many occupiers cannot find the investment needed to satisfy the act. Much of the town centre is also in a conservation area” (Sean Cronin, “Estates Gazette”, 22nd. May). With LVT in place of current taxes, the reduced attraction of difficult location would be compensated for, by quick revision to the valuation roll.

(ii) An advertisement in the “Estates Gazette” of 22nd. May heaped praise enthusiastically on “a superb redevelopment site” with detailed planning permission, set “in a lovely sylvan setting”, considered “a unique prime residential location” in **Brighton/Hove**. The cost of the land alone works out at almost £200,000 per apartment. Immediately below is an advertisement for land in **Crewe** at some £40,000 per flat on a development site “two minutes walk from town centre and easy reach of main station”. Are Sussex landowners veritable Brains of Britain, able to conjure up much higher rents and prices than those northern dunderheads in Cheshire? Or is there another explanation? What makes one location better than (or, indeed, inferior to) another? Just how does location value arise?

(iii) The City of **Derry** airport operators want to build a runway extension to take larger planes. “The airport brought more than 217,000 passengers into the local economy last year, spending around £8.3m” (Noella Pio Kivlehan, “Estates Gazette”, 22nd. May). The snag is, “The airport authorities want £20m from the government to fund the plan.” The real problem is that the benefits of the improved facility will accrue only in part to the airport operators. The rest will be absorbed by landholders, in the form of higher values for the sites on which stand Derry’s offices, hotels, shops, and places of entertainment. Mmm, if only the government collected land values…

(iv) A shortage of industrial land is reported in **Belfast**. All land currently allocated has been taken up. “Belfast is constrained by its geography, water and hills on three sides and green belt on the fourth” (Will Ellison, “Estates Gazette”, 22nd. May). Lucky landholders are enjoying rising land values.

HARMONY IN BOARDROOM AND BROTHEL

The EU has a “tax harmonisation agenda…The average corporate tax rate in the [10] new countries is significantly lower than in the old 15 states” (Ruth Lea, Director, Centre for Policy Studies, “Daily Telegraph”, 24th. May). German Chancellor Gerhard Schröder thinks this unacceptable, and, with French President Chirac, “has pushed for the harmonisation of corporate tax rates. Such a harmonisation is little more than old-fashioned protectionism.”

Meanwhile, “German auditors have recommended that brothels be taxed” (Hannah Cleaver, “Daily Telegraph”, 7th. May). Jochen-Konrad Fromme, a senior member of the federal legislature in Berlin, opined that “Of course it will be complicated as it is a cash industry and we cannot expect to see the ladies issuing receipts, but I am confident we will be able to devise something sensible to tax the industry.”

The Land Value Taxation Campaign does not support ‘harmonisation’ of taxes within the EU, as such. However, we like to be helpful. The EU ought to finance itself from LVT, levied at a uniform rate on the rental value of all land in the member states. Some member states, being sensible, will base all revenue-raising on land value and remit or abolish existing taxes. Others may go just part of the way. Some will keep the bad old system intact. The relative attraction of these policies will feed through into location values (land values), along with all the other factors. We know which states will win this ‘game’!

We can help with Germany’s brothel problem too. The trick is not to try to tax the ladies. Instead, collect the annual rental value of the site, assessed on the assumption of optimum use within existing planning laws and any other applicable restrictions. It does not matter then (fiscally, that is) whether the site is used as brothel or bakery. That is a decision for the land user. We suppose it depends on how one likes to loaf.

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