PRACTICAL POLITICS

February 2004 Issue No. 128

THE WAY THINGS GO…

“Public borrowing…can be a wayward aggregate, derived from two very big numbers: government spending…and tax revenues” (leading article, “Financial Times”, 24th. January, under the heading “Good news now; tough action later – Britain’s economic exuberance will require official restraint”).

Euroland is struggling, with Germany and France flagrantly running deficits beyond their own Pact’s prescribed rules. The U.S.A. borrows mightily; both Japan and China effectively peg their currencies to the U.S. dollar by purchases of U.S. Treasury bonds (selling goods for dollars and reinvesting those dollars for promissory paper).

The world’s leading economies are thus all running budget deficits, and seem set on preventing their currencies from appreciating in the foreign exchange markets; their governments are now, or threaten soon to be, resorting to the printing presses to pay their bills (debasing the currency – inflation, in other words). Against this background it is no surprise to see the gold price bestir itself, recording how all the major currencies are losing value against the metal’s rather more rigorous standards. Ultimately we expect a precipitate flight to land speculation as hedge against this inflation.

“Inflation is the logical consequence of the long period of excessively loose monetary policies in the western world…Money has chased assets, rather than goods…allowing debt levels to rise even further. The eventual collapse will thus be all the more painful” (Tim Lee, economist, quoted by Philip Coggan, “Financial Times”, 15th. November).

“The Bank of Japan sprang a surprise today by relaxing its monetary policy. The central bank is expanding its target volume of current account deposits…to between 30 trillion yen (£155 million) and 35 trillion yen from between 27 trillion and 32 trillion yen” (“Evening Standard”, 20th. January).

For our analysis of the 1992 crash, please see our Issue No. 29. For our views on the next slump, please see Issue No. 116. Catastrophe is some way off, but already the seeds are being sown. There is still time to act, but first the authorities have to recognise the key rôle of land in the economy.

JAPAN: AT LAST SOME HOPE (but the pain is not over)

“For over a decade, Japan has agonised in deep recession…The problem dates from the late 1980s and is one of frenzied over-borrowing and over-lending against the illusory collateral of ridiculously spiralling land values. When the bubble of land speculation finally burst, recession set in, banks tottered, big industrial and construction projects failed, hundreds of medium and small companies were ruined, unemployment spread, and the very fabric of the nation ripped apart…Are banks to fail? Are borrowers to be bailed out by massive printing of banknotes, to debase the currency so that loans may be repaid in devalued money?” (“Practical Politics”, Issue No. 125).

Inflation, it seems, is indeed to be the ‘solution’. Ashikaga Bank is “manifestly undercapitalised” (Barney Jopson, David Pilling, and Jennifer Hughes, “Financial Times”, 22nd. November). “Without an injection of public funds, it must fail. Other regional banks are similarly troubled.” The Bank of Japan has been supporting “enormous currency interventions” by the Ministry of Finance “by flooding the domestic money market with funds” (Anatole Kaletsky, “Times”, 20th. January). “The monetary base has increased by ¥14 trillion since…late March”. Furthermore, “the zero interest rate policy [will] be kept in place for years, not months” and “tax increases have been firmly ruled out for at least three years. The 30 trillion yen (£157 billion) deficit limit has been totally abandoned” (Kaletsky, *op. cit.*).

Inflation is a tax in disguise: it devalues every yen (or pound or dollar or euro, as the case may be) that is already in circulation. Currency debasement favours debtors over creditors. It cheats the latter out of purchasing power (money’s worth). It destroys confidence in the monetary system, disturbs the relationship between goods and services and the amount of money available to trade in them, and the result is a rise in the price of everything. Pensioners and employees are condemned to a seemingly perpetual struggle to catch up with this falling purchasing power, and, at best, manage to do so only in arrears and in gross (pre-tax) pay.

In this doleful context, inflation ‘works’ – for a while, until people expect it and ‘aim off’ in advance. In the short run, it will enable borrowers to repay loans in money terms if not in ‘real’ terms, and will make happy those who, like bankers, just need the numbers to balance (never mind that they have lost a good part of their meaning).

The true problem with this beguiling ‘solution’, is that all it will do in the end is put Japan back where it was, none the wiser as to what actually brought about its decade and more of misfortune, and therefore unprepared for when it all comes round again.

Footnote:– In our Issue No. 125, we reported on signs that land rents and prices in Japan are at last falling low enough to enable economic activity to pick up again. This has since been corroborated. “Unemployment fell to 4.9 per cent from 5.2 per cent, having started last year at a record high of 5.5 per cent” (Jopson, Pilling, and Hughes, “Financial Times”, 31st. January). This underlines our call for a national valuation of all land, preparatory to the levy of an *ad valorem* duty upon it, with concomitant remission of current taxes. That would be the real stimulus and, if fully implemented, the real solution.

CROSSRAIL AT THE CROSSROADS

The Crossrail scheme has been around in various shapes and forms for some years. It involves a tunnel across London from Paddington to Liverpool Street. Differing plans have provided for different sets of extensions to this basic proposal, both to east and west. Behind the continuing delay in coming to a decision is prevarication over who is to pay to build it.

Last July, Cross London Rail Links put forward a proposal involving extensions to Shenfield via Stratford in the east and to Heathrow and Norbiton in the west, at an estimated cost of £10 milliards (ten thousand millions). The Department of Transport approved, but only in principle. Nothing has happened since. Now the Corporation of London is backing a less extensive proposal to connect the Heathrow-Paddington Express to Crossrail in the west and to extend to the east to Eurostar services at Stratford. Completion (but don’t hold your breath) is projected for 2013.

“Up to 50 major City institutions are backing a proposal to add ‘two to three per cent’ to business rates to build Crossrail” (Ross Lydall, “Evening Standard”, 22nd. January), “so long as the Government provided the majority of funding…[and] they would not be asked to pay anything until the line opens”. The reduced scheme is costed at £4 milliards. “But a spokesman for the London Chamber of Commerce warned: ‘Not only is Crossrail going to benefit central London, it’s going to have regional and national benefits. Why are businesses in central London being singled out in this way?’”

The authorities are largely bereft of principle on matters of revenue raising, which leaves them thrashing about for a palatable plan. In the nine years or more to commissioning, there is ample time to value all the land in the Kingdom, to have collected several *tranches* of LVT, and made at least one major revaluation. Whatever the advantages of the site, wherever it is, and whatever might be the factors affecting it, the location value may be collected in a series of progressive percentage steps – much better than higgledy-piggledy. With LVT, he who pays gets the benefits he pays for.

SOUTH AFRICA

The newly passed Restitution of Land Rights Amendment Act “gives the minister of agriculture the power to expropriate land for restitution…to… blacks [who] were forcibly removed under the colonial and apartheid regimes” (Nicol Degli Innocenti, “Financial Times”, 31st. January). Some fear “a Zimbabwe-style land grab.” This move is sad to contemplate. Site value rating (SVR) was well established in South Africa (as covered in some detail in our Issues Nos. 16 and 18). What was needed was to remove the anomalies where they existed, and to extend the system to collect the national land-rent for the public revenue (LVT) in place of existing taxes on wages, production, trade, and savings. The amount raised by SVR is useful and beneficial, but is too low a percentage of the whole land value to bring the macro-economic advantages which derive from thoroughgoing LVT. SVR is but the germ of an idea which is much more than just a local government financial expedient. Seizing land from Peter to give it to Paul does nothing for Tom or Dick or Harry – but collecting the land value does. Supporters of LVT must now ponder whether the practical conclusion to be taken from this episode is that a full and effective national land-rent charge is a goal better sought direct than along what look to be the by-waters of SVR.

WALES’ HOUSING CRISIS

According to the House Builders Federation, “Wales’ housing stock is the oldest of any western European nation…with 8.5pc classified as ‘unfit’ with a total repair bill of £1 billion and 4pc derelict” (Philip Aldrick, “Daily Telegraph”, 26th. January). Much of Wales is on or close to the economic margin. Production can pay wages and remunerate capital, with little or nothing left over to pay land rent, let alone the high taxes that the economic ‘hot spots’ can afford. Replace those taxes with LVT, and Wales will be relieved of an insupportable burden. Houses will then be repaired, and built.

LAND VALUE, PREMIERSHIP CLASS

“A rescue bid for Leeds United could involve the hefty sale of land” (“Daily Mail”, 29th. January). The club has “freehold land and buildings worth more than £36.6m. Practice grounds could raise millions on the open market.” Is there not therefore a case for relocation, relocation, relocation?

****

Published by the Land Value Taxation Campaign,
54, Woodway, Hutton, Brentwood, Essex, CM13 2JR,
and distributed free to selected members of both Houses of Parliament, of the European Parliament, of the Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly.

Internet http://www.landvaluetax.org.uk