PRACTICAL POLITICS

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When our first Issue appeared, in December 1988, our main problem was to gain recognition that land actually mattered. Of course professional property developers knew all about it and its importance, but academic economists were buried happily in econometrics, in mathematical equations, and in computer programs which (following the lead of the Treasury model) did not include the rôle of land at all in representations of the functioning of the national economy. Furthermore, only a very restricted number of press commentators chose to notice the land question. In such an atmosphere of denial, it was easy for politicians and civil servants to overlook it too. Everyone appeared to think we had stopped using the stuff.

The economic crash of ’92 brought that cosy era to a close. We saw it coming, and said so in Issue No. 3, long before any establishment forecaster could spot so much as a blip. Even with all the evidence of how inattention to the land market had wrecked the economy, however, old habits died hard. In Dr. Bowdler’s lexicon of economics, only such euphemisms as “assets” or “property” or “investment” could pass. At the most, refusal to countenance use of the four-letter ‘L’ word mellowed to extreme reluctance.

Perhaps it is generational, or perhaps reality has caught up with, and indeed overtaken, make-believe. We sense that a change truly has taken place. It is increasingly accepted that central government does not possess limitless funds to hand around, and that many projects which cannot show a profit and pay for themselves will simply join the wish list and remain on the drawing board. These include almost all infrastructural schemes, such as improvements to commuter rail services. Proponents well know that these often make highly satisfactory returns that show up in increased land values, which, as matters stand to-day, go to lucky neighbouring landholders. In a not dissimilar way, “planning gain” is seen as a pure land phenomenon, an increased value attaching to a site, to a location granted the prospect of what may be considered greater productivity in use.

The danger now is not so much of neglect of the land issue as of a botched ‘solution’. Grabbing merely part of a mere increment, for instance, is discriminatory, inadequate, and unprincipled. In “Practical Politics” we shall continue to argue for assessment and collection of the national land-rent for the public revenue, and for the simultaneous removal of existing taxes.

PROPERTY AND THE PROPERTY BUSINESS

The property business, as the term is widely understood, is not about movable personal property. It covers that which is regarded as fixed, immovable – houses, factories, offices, shops, farms, mines, warehouses, airports, for example, together with their underlying and surrounding ground. 'The property business' in fact is a catch-all expression, lumping together at least four groups of participants. Landowners sell or lease out the site. Financiers organise the funds to support the land acquisition and construction costs. Constructors bring men and equipment to the site and organise and direct the building work. The professionals are those who actually carry out the work - the architects, surveyors, engineers, skilled craftsmen, general labourers, and, when all is done, the property managers.

The financiers, constructors, and professionals all perform work, by hand or brain. In the terms of political economy, they provide Labour. Some, from the plumber with his own specialised tool kit to the great civil engineering company with its cranes and bulldozers, will also provide Capital, which is to say goods previously manufactured not for direct consumption but for use in further Wealth creation. Finance comes from private savings via banks and from the resources of such as insurance companies, trusts, and pension funds. The money thus supplied is a Wealth token, representing its owners' temporary denial of gratification through consumption so that it may be used in investment, in the business of making and furnishing a building. Labour is work. Capital is a form of stored and re-circulated Labour. For all their differences and their internal divisions, financiers, constructors, and professionals represent current and past Labour.

What of the landowner? Land was not man-made. It was provided free by dear old Mother Nature. If we disallow the ownership of Labour (chattel slavery), the crucial distinction in economics is that between Land and Capital. If Land is withheld, Capital, as well as Labour, is locked out, and can produce nothing. Each plot constitutes a monopoly location: Land is not transportable from place to place. Property and property values are imprecise terms, misleading in economic analysis. The Land interest is mostly at odds with Labour and Capital, and has most to gain from the confusion. Of course we know that one person or one body corporate may perform more than one function or indeed all three (a man may own Land and provide his own Capital and perform his own Labour) but in political economy the functions are distinct, and require to be considered differently and separately. Capital and its value are private, and so too are the rewards of Labour. The value of Land comes from the economic attraction of the location, which in turn stems from natural advantage and the general presence and activity of people. Land value is public. Landowners do not want attention drawn to that.

Note:- The foregoing has been adapted from an article in Issue No. 86 (March 1999).

Land is normally thought of as "terra firma", dry land. In fact, a full definition in economics is "the whole of the material universe outside of man and his products". Land thus includes seas, lakes, rivers – and the air. Below are two aspects of air as Land.

THE RADIO SPECTRUM

In April 2000, after 150 rounds of bidding, five companies had undertaken to pay, in all, £22,500,000,000, for 20-year licences to use part of the radio spectrum, and had thereby ushered in the era of the mobile 'phone. The auction receipts are a legitimate rent (a land-rent, in fact) capitalised over 20 years in return for the right to enjoy, over that period, exclusive use of a natural resource, a thin slice of air spectrum.

What has happened since is well known. With hindsight, the successful bidders paid too much. They have not, however, been able to "pass on" the land value duty (for such it is) in extra charges to consumers, because competition has ensured prices stay at acceptable levels (and users will not pay more anyway). This neatly vindicates the arguments that LVT can not be "passed on" in the form of higher charges to occupiers and higher prices for goods and services (see our Issue No. 37). Instead, shareholders (company owners) have taken the knock, which is what equity risk is all about, and we have seen "supply-side consolidation" (especially takeovers by those who did not bid so highly for licences).

There is a further lesson here. We have, since Issue No. 4, consistently favoured basing assessments on annual value (rentals), not on capital value (selling prices). These licences involve what amounts to up-front payment on a 20-year lease. Inevitably the cash flow arrives later, not early on. Perhaps worse, there is no recourse if the payment proves excessive, as here. Annual rental, charged on frequent revaluations, satisfies the public interest fairly.

SLOTS

"BA is fairly debt-laden, and making an acquisition would put its balance sheet under further strain" (airlines analyst Stephen Clapham, quoted by Nina Montagu-Smith, "Daily Telegraph", 26th. May). Ne'ertheless BA is a keen onlooker as "Virgin and BMI [British Midland] confirmed they had held discussions on a range of 'co-operation issues'" (Montagu-Smith, *op. cit.*). What has BA, tucked away in its locker? BA has "40pc of take-off and landing slots at Heathrow". What did it pay for them? Amazingly, when BA was privatised, the slots were given no value in its balance sheet! The value of those, and all other, air rights could and should be captured for the community as a whole. They do not belong to any airline. The right to fly in and out of an airport can be put up for auction – as prime time, secondary and tertiary slots – and the appropriate rental charged.

"WHERE?" …… or maybe "OÙ?"

"Nearly 60,000 acres of agricultural land, enough to build up to 700,000 homes, lies within 16 miles of Trafalgar Square and could be built on to reduce the housing shortage in the South-East" (Charles Clover, "Daily Telegraph", 10th. March, citing a pamphlet from the think-tank, Politeia). The researchers argue that "it would be better to build the houses that are needed in London and the South-East where people want them, rather than in 'growth areas' up to 70 miles from London, as planned by…the Deputy Prime Minister." The report does not of course suggest that all of this farm land be built over, and it also calls for "tax breaks for developing brownfield land". Well now, the best way to stimulate redevelopment of "brown" land for housing, is to assess the current worth of the site for this purpose, and then raise an annual duty on it accordingly, as part of a general move to LVT. Non-use and under-use of land are then penalised, but, with existing taxes coming off, good development is fully rewarded. If the land in question is badly contaminated or otherwise in need of attention (mining subsidence, for example), special provision may be due: to allow amortisation of the rehabilitation cost, the level of the assessment can be held down for a given number of years. Incidentally, LVT would also ensure that owners of agricultural land do not continue to make huge unearned financial gains from the decisions of public authorities in reallocating land to higher use.

Meanwhile, "Eurotunnel and Kent county council are working on proposals to encourage at least 10,000 Britons to live in the Calais area and commute to England through the Channel tunnel…When the new high-speed link opens fully in 2007, train journeys from Calais Fréthun to London are expected to take 55 minutes" (Juliette Jowit, "Financial Times", 11th. April). The article does not record what the French think, but landowners at least must be happy at the prospect. There is too that brownfield site at Sangatte...

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"Cash to fund new transport projects…is proving hard to find…Land next to new transport projects goes up in value when the infrastructure is completed…There is no standard method for calculating the amount by which the price of a piece of land has gone up in response to the arrival of new transport infrastructure…The Government is already considering this subject" (extracts, "How land could pay for railways", "Times", 13th. May). So far, so good(-ish). Principled, holistic approach, or botch? *Dum spiro, spero*.

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