PRACTICAL POLITICS

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The trade cycle is a real worry, but when is it a threat to the whole of the real economy, as distinct from a blip, a sectoral disturbance, a correction of the worth of wealth tokens traded on stock exchanges? In this Issue we devote much of our space to looking back over the last 20 years and to taking a look forward. The trade cycle is of course avoidable…

THE HOW AND WHEN OF THE NEXT SLUMP

The past

"Almost every economist and forecaster reckoned a year ago that 1999 would see a recession", wrote Tim Martin in the "Daily Telegraph" of 7th. February 2000, by which time it had become clear it had been a false alarm. "Practical Politics" had been sure, however, that the forecasters were wrong: "The country is not about to enter a slump" (Issue No. 82, November 1998). In the prevailing gloom of mid 2002, we make a fuller citation from our earlier article:-

"1998 is not a re-run of 1992. It is more 1987 revisited, but with new undercurrents. The economic collapse that was signalled unmistakably in June 1992 followed a boom of several years in the late 1980s, characterised by feverish speculative activity in the land market. The course this took was analysed in "Landing In Trouble" in our Issue No. 29. By contrast, 1987 was a stock market correction, a sharp and severe fall in the price of overvalued shares, but no more than a blip in the fool progress of the real economy, which continued for a while to spiral upwards, eventually to peak and, in 1992, to crash out of control.

1998 is similarly seeing a correction of an over-valued stock market (the bears coming on at the end of the bull run), but there are important differences from 1987. 1987 occurred as the economic cycle was moving towards its peak, and Japan and the developed western world were travelling in heedless concert. By mid 1998, the U.S.A. and U.K. had already pulled away from the bottom of the depression, but Europe was only beginning to do so, with Japan still trapped deep in its slump. There is no crazed, land-driven speculative boom."

In 1998 the complications came from the East. Japan had been joined by South Korea, Thailand, and Malaysia, who had all had the classic symptoms of boom, land speculation, over-building to justify the rising cost of over-priced land, over-lending by banks against the illusory security of spiralling land values, and finally the burst. "Weakened western economies must withstand the wash" we wrote. "Provided their governments do nothing unusually foolish, though, the bear markets will bring grief but not a slump".

The present

In 2002, there is again a bear market, with correction of over-valued stock (particularly the “dot com” companies) and scares that in the aftermath there have been over-zealous attempts to “massage” corporate accounts and so conceal loss for long enough for it to mutate to catastrophe. Every cloud now has a darker lining. There is international terrorism. There is Argentina. Japan languishes in its decade-long trough. The U.S.A. is running a huge budget deficit, and so are several EU countries. There is particular and justified concern in the U.K. that parts of the housing market are, as the saying goes, “over-heating”, with prices rising unsustainably, and too much consumer spending based on the false comfort of the rising value of housing land. This indeed is potentially an indicator of a coming depression, but it is too limited in scope to provoke a general slump. In any case, agricultural, industrial, retail, office, and commercial land generally, are not in febrile, speculative grip. Neither here nor abroad is there a trade cycle reaching its peak and fit to burst. Thus, although some will face pain from over-enthusiasm for new technologies and from unwise indebtedness, the nation is not about to plunge in to general economic recession. This is not a re-run of 1992.

The future

In the U.K., government spending is rising at the very time that the consumer mini-boom is about to come unstuck. Despite pretending to have put or kept some components of public expenditure off the government’s books of account, HMG is walking into greater and greater commitments – in the social services, health, education, policing, transport, defence. Constraints on the productive economy, imposed by the EU and from Westminster, are starting to be felt. Dwindling receipts and increasing outgoings can be juggled only for a year or two. Expenditure cuts prove hard to make. Higher interest rates make people think of horses, locks, and stable doors, and in any case they squeeze and inhibit the wealth creators. Tax increases are unpopular (especially with another Election in the offing). Thus the seductive solution of currency debasement beckons. This is called, politely, increased government borrowing; but in fact it is inflation – meeting the bills by causing the requisite currency notes to be printed (at the cost in materials and labour of about 3p each).

Inflation is a dangerously mischievous device. Money can no longer be relied upon to keep its purchasing power. People then begin to look for something that will. Land, irreproducible and immovable, is the perfect “hedge”. Those who can not or will not recognise the difference between capital and land in political economy, talk of “property values” or “asset values”, but what really rises is land value. When money is pumped into circulation, banks want to lend it. Borrowers can point to rising land value as collateral for a loan. Businesses and individuals save less and spend more. Spend before money loses its value! Why save when land values keep going up and doing one's saving for one?

Expansion breeds exuberance. The speculative frenzy and the crucial rôle played by land are explained in our article in Issue No. 29 (already referred to, above). It may well be that the boom the next time round will be less extravagant than that of the late 1980s, so perhaps the next slump will be less serious than 1992. Be that as it may, the seeds are being sown now, the mechanism will be the behaviour of land, and the timing – well, probably around seven years hence.

"This boom and bust cycle remains an unsolved problem" (Andrew Crockett, general manager of the Bank for International Settlements, quoted by Ed Crooks and Peronet Despeignes, "Financial Times", 22nd. June). The problem is not unsolved. Rather do Mr. Crockett and his friends prefer to go on as if it were unsolved. For the Last Word, we cite again from "Practical Politics", Issue No. 29:-

> "A slump is but the tragic and erratic correction of the fevered disorder that is a boom. Booms are based on illusory expectations, mis-interpretations of the signals coming from the behaviour of land. If land values were to be taxed, such speculative activity would be damped down. If the economic rent of land were collected in full – as we think it should be – then land speculation would disappear entirely. If the mere holding of land produced no income stream to the possessor, land as such would have no selling price. The capitalisation of zero is zero. If site rents were paid to the national exchequer, not only could existing taxes be removed or at least abated, but private profit could be made only from the activities of labour and capital. Undistracted by the siren call of huge speculative takings from land dealing, the economy could and would grow in an orderly manner, consolidating productivity gains and ensuring the rewards of enterprise and effort went appropriately to those responsible for producing them."

THE COMMON AGRICULTURAL POLICY AND THE TERRAIN IN SPAIN

"Whitewashed Baena was once the classical Andalusian village" where some of Spain's best olives were produced (Isambard Wilkinson, "Daily Telegraph", 10th. July). "But now, as European Union subsidies have encouraged farmers to plant as many acres of olives as possible, the top soil is blowing away and a sort of desert is encroaching on the land". The C.A.P. is a forced gift from Europe's taxpayers to owners of agricultural land, who either pocket the money directly if growers, or indirectly through higher rents from their tenants. LVT, operating fully, will usually render subsidies redundant, since higher land value brings a correspondingly higher LVT demand. Assessments are based on the assumption that the land is "in good heart", so that there is good reason for not working it to exhaustion.

OTTAWA

Ottawa, seat of the Canadian federal government, is “small and manageable…nestling in Anglophone Ontario yet looking across the water [the Ottawa River] to Francophone Quebec” (Gerald Cadogan, “Financial Times”, 29th. June). “The city is now growing fast”, however, “and the property market has boomed. Often homes are on the market for just a day.” Ottawa has “a range of new museums, galleries, art complexes and other *grands projets*, including embassies, new restaurants, cafés and renovated housing. The airport is being enlarged.”

Unsurprisingly, land values are rising fast. The activity of people, collectively, is responsible for this, yet landholders are allowed to take the cream, and everyone else has to pay for access to living and working space and fork out in taxation to replace the revenue so foolishly foregone.

People do discriminate, of course. “Less spoken of in Ontario is the Quebec housing market across the river where prices are estimated to be 20-40 per cent less than in Ottawa…Schooling conducted strictly in French is seen as a drawback…Politics, with talk of Quebec separation from the Canadian federation never totally dead, is also an issue…If you don’t speak French, you will be given a hard time in Quebec.” Verily, land value is a people value.

A PROFITABLE SQUAT

In a fascinating judgement on 4th. July reported in “The Times” the next day, the House of Lords granted claimants possessory title to 25 hectares of agricultural land in Berkshire. Because of the former owner’s inaction, the victors enjoyed use of the land without payment for 12 years, and have now been further rewarded with free grant of its ownership. It could not happen under LVT. Someone would have been paying the national land-rent charge (LVT bill) for the land, leaving the public interest largely unaffected. Do we give the impression this is mere farm land? As a result of the judgement, “A farmer’s widow is set to become a multimillionairess. The land, which borders her farm near Newbury, would be worth an estimated £10 million to developers” (Laura Peek, *op. cit.*). LVT would collect the annual site value of that too (excluding, therefore, the value of any man-made developments).

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