# PRACTICAL POLITICS

February 2002 Issue No. 111

## FUNDS A-PLENTY – BUT OFF LINE

Rail commuters to London and other big centres complain of wretched travel conditions, old rolling stock, broken rails, failing signalling, and dirty stations. The response from commentators is of past underinvestment and current underfunding. Commuters rarely appreciate the heavy investment in carriages, track, and signalling equipment required for peak-hour use – so much of it unnecessary at other times. Fares are derisory in the context of covering the capital outlay. Taking London as the prime example, who gains from these commuter services and from the extensive Underground railway system?

Westminster, Whitehall, the City, Docklands, and the West End could not continue without the supply of people carried to and from their places of work to perform all manner of daily tasks. Without commuter transport, offices, shops, hotels, restaurants, and places of entertainment would close or relocate. The skyscraper-high land values at central locations would collapse. The whole hinterland of south-east England would be affected to greater or lesser degree, and land values would fall in suburbs and in dormitory towns and villages.

The astounding nexus of communication that permits so many thousands to travel to work (comparatively easily, if not always comfortably), is a massive gift to the holders of city-centre land, on top of all the other locational benefits they enjoy. Given the contribution of the commuter railways to this concentration of site value, can one still pretend they are all loss-making?

Collection by the Exchequer of the rental value of land would put transport subsidies in a different light. Furthermore, after proper appraisal of land value growth forecasts to accompany individual projects, governments could themselves either invest directly in the railways or else invite private investment financed by Treasury bonds issued on the prospect of consequential growth in public revenue from land. We do not have to go on as we are.

## OXFORD AND OXFORDSHIRE

**(i)** “Pedestrian flows have been pulled away from the Queen Street end of town by the recent pedestrianisation of Cornmarket Street, which has taken over as the prime retail pitch in the city” (Lucy Allen, “Estates Gazette”, 26th. January). “Rents on Queen Street have dropped from £230 per sq ft to £200 per sq ft and on Cornmarket they have risen to £235-260 per sq ft. But [a property expert] believes that a planned Westgate extension will reverse all this. ‘The extension will swing the balance away from Cornmarket Street and the city’s prime pitch will move back to Queen Street’”. Thus are landholders seen to be as powerless to push their takings up as they are to prevent their falling back. They are not rent creators, but rent takers. They profit from official decisions and changes in public activity. They charge for use of land which neither they nor any other man ever made in the first place.

**(ii)** The chairman of a firm of surveyors predicts that, in Oxfordshire as a whole, rental levels will stagnate for a while “and he is advising landlords not to increase rents until confidence in the commercial sector rises” (Adrian Morrison, “Estates Gazette”, 26th. January). Land value depends on future expectations. It is constantly being maintained and increased by this “confidence”, the expectation of stable social order and of continuing and probably rising economic activity. Again we see that site owners are not rent creators, but rent takers. What they take is not theirs. Meanwhile, those who work and provide capital are taxed on their incomes to fund public revenue needs. Verily, ’tis a mad world.

## JAPAN

In our last Issue, we noted further evidence of the duration and depth of the slump that we have been following since Issue No. 8 (March 1990). More has since come in. “Japanese banks accepted land as collateral to buy more land” (Murray Sayle, “Evening Standard”, 15th. January) “and when prices got into the stratosphere, to buy shares in Japanese companies” [more particularly in those companies that themselves had substantial land holdings – note by ed.]. “The banks had lent huge sums against wealth that never really existed. Now they cannot collect on their loans and dare not lend more, so struggling firms, starved of capital, go under; jobs are lost, spending falls, more jobs go…and Japan slides even further into its economic black hole.” All this directly supports the general analysis of the boom/bust cycle in our special article in Issue No. 29 (July 1992).

## THE EU, THE U.K., AND REGIONAL POLICY

Increasing attention has been paid of late to the argument that individual nation states within euroland really do need separate currencies to retain control over interest rates and exchange rates. Contrary voices have attempted to deflect this assertion by pointing out that the same line of thought would support the case for separate currencies for regions within the same country!

Only in very small countries will one interest rate do for all. In larger countries, a high interest rate will tend to squeeze out economic activities in the marginal areas, whilst a low one may abet a land price boom (disguised as a property boom) in more favoured regions. For a single currency to function effectively over a wide area, as in the U.S.A., it is necessary to have ample land and an absence of barriers to movement (language, housing and other ties). This does not apply in euroland.

The solution is to tailor the tax system to locational advantage. This is done by replacing taxes on production, trade, and earnings, by collection of the rental value of land. Concentrations of land value yield high returns; but levies at the margins are light. The policy is widely known as land value taxation.

## DERELICT LONDON

“London has a chronic land shortage…At the same time, thousands of streets are scarred by empty spaces, abandoned for years behind temporary hoardings that attract graffiti and flyposting” (Sara McConnell, “Evening Standard”, 23rd. January). “In a period of rising land prices, a site may change hands a number of times; in a slow market, owners may hold onto land until they can sell, which can depend on getting the right planning permission.”

Examples are given of blots on the landscape, sites that are derelict, unused. Add land that is under-developed, and London’s problem is staggering. A site in Deptford, “vacant for considerably more than a decade”, may be marketed soon, now that “the Docklands Light Railway [is] bringing Canary Wharf within a 15-minute commute”. “A boarded-up, flyposted site… in the heart of prime South Kensington”, owned by the Islamic Republic of Iran and vacant since 1991, is used as a car park. “[An] estate agent estimates it is worth £20 million.” That represents about £1 million per year in LVT revenue, just thrown away.

## ONE STAMP FOR ALL?

There has been recent excitement at the suggestion of introducing competition into postal deliveries. The possibility of differential charges for handling mail at far-flung rural outposts has unhinged some observers. Now, it is already accepted that places that are cold, windy, and wet are less attractive to most of us than locations that offer warmer, calmer, and drier conditions. This affects demand for living, working, and recreational space. Relative ease of access to schools, proper medical facilities, and so forth similarly affects location values. Lifestyle and environmental factors weigh in the balance too. There is surely no *a priori* reason for not admitting differential postal charges: there are already differential rates for telephone calls, after all. The effect on peripheral areas of higher costs for letters would be slightly further to depress land values. In a LVT régime, monetary compensation would be provided automatically. One could, contrarily, point out that to-day's single postage cost, by subsidising distant rural living, is actually sustaining land values above their logical level. We argue here neither for nor against abandoning the one-cost-fits-all arrangement: we just underline that, once again, the problems of marginal areas arise, or are magnified, solely because we do not have full LVT. Point taken?

## £12

James Barrie wrote a delightful one-act play in which the bored second wife of a newly created baronet found out that the typist brought in to do the replies to all the congratulatory letters was none other than the first wife who sustained her freedom on the strength of the £12 laid out to buy her typewriter. That was then. Nowadays it takes two big fat incomes to bring in enough to keep body and soul together and meet the monthly mortgage payments. So much for Women's Lib! "The average London house price has doubled to more than £200,000 since 1996" (Mira Bar-Hillel, "Evening Standard", 5th. February). "Prices are all about location". Indeed they are! "Wentworth Estate, Surrey. Just under 0.4 acre plot with detailed planning consent to build a new luxury…residence. Approx 250 metres from the 18th fairway…Offers in the region of £1 million" (advertisement, "Estates Gazette", 26th. January).

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