PRACTICAL POLITICS

January 2002 Issue No. 110

€

Much excitability has accompanied the introduction of euro notes and coins, yet all that has happened is a switch from one form of wealth token to another in a number of countries within the EU. For two years there have been fixed exchange rates among the participants and a single rate of interest determined by the Central Bank in Frankfurt. The meaningful change, for good or ill, was made long before 1st. January 2002.

The real issues are not being faced either in euroland or the U.K. The implications are constitutional, juridical, and social, as well as political and economic. Trivialising the debate to the level of holidaymakers not having to change banknotes when crossing some European frontiers is silly, but no sillier than making a big issue of momentary economic convergence. Once in a while, the sun, moon, and earth converge, and we have an eclipse, but fortunately this is not the norm and we do not live in darkness. We think it honourable to argue for a United States of Europe with all that that entails; and equally to advocate withdrawal from the EU and reassertion of national independence. What is becoming increasingly difficult to sustain is the pretence that the EU will remain little more than a zone of economic protectionism with a measure of internal free trade – which is where we came in.

Northern Ireland, much of Scotland, much of Wales, and indeed large areas of England, lie on the periphery, distant from the concentration of economic resources in London and the south-east, let alone from the centre of the EU. Land values are lowest at the outer fringes, reflecting those regions' geographical disadvantage as compared with the centre. Taxes like PAYE, v.a.t., and motor fuel duty take no account of this, and at the margin their incidence destroys the prospects for profitable business. With such taxes replaced by nation-wide collection of site values, however, the impost bears lightly or not at all at the fringes, establishing that famous level playing field. LVT is crucial to a worthy future.

JAPAN: NO END IN SIGHT

Since Issue No. 8 (March 1990) we have been noting the course of the Japanese economy, from the late stages of the boom to the bursting of the bubble, and then painfully along the seemingly endless trough. Our most recent comments are to be found in Issue No. 105 (April 2001). Everything we see and hear about Japan is an echo of the analysis of the economic cycle set out in a special article in Issue No. 29 (July 1992).

Tokyo's Ueno Park has become "a swelling tent city housing part of Japan's growing army of homeless" underlining "the gravity of the country's decade-long recession" (Colin Joyce, "Daily Telegraph", 26th. December). "The jobless rise in November was the eighth in a row" (Ray Heath, "Evening Standard", 28th. December) "and the economy's continuing dive into recession makes it inevitable that the numbers will keep rising". "Can the Japanese economy get worse?" (Chris Giles, "Financial Times", 29th. December). "Of course. And it will…Policy is in paralysis…There is no solution in sight to the huge quantity of bad debt held by private banks." "The corporate sector is…unable to pay down excessive real debt, the banks have negative equity and cannot lend, and the government debt/GDP ratio is mounting slowly but inexorably towards default" (Lex column, "Financial Times", 5th. January).

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 ("Land so expensive that the grounds of the imperial palace were worth more than California" – see Issue No. 15). What has stood out over all these years, is the obstinate reluctance of economists and commentators to concentrate attention on the land question, preferring vaguer references to speculation in property, in assets, or in investments. Only in the BBC2 television programme, "Bubble Trouble", on 9th. January 2000, was the vital rôle of land in the boom/slump cycle unequivocally stated and repeatedly emphasised (see our Issue No. 93). Land, it seems, is the taboo subject, the four-letter word of modern economics.

There is no painless escape from a situation of this sort. Japanese land is still over-valued, and land rents and prices have further to fall before gainful production can be resumed. Doing the right thing is certainly no more hurtful than continued paralysis or a quack remedy! Clear announcement of a national valuation of all land, preparatory to the levy of an *ad valorem* duty upon it (against remission of current taxes), would, we warrant, swiftly re-energise the economy.

SKYE

Thrice before even it opened – in Issues Nos. 19 (May 1991), 25 (February 1992), and 55 (July 1995) – we had occasion to note the new toll bridge linking Skye to the mainland. “The cost of transport and infrastructure improvements that are paying propositions can”, we wrote, “always be recouped by measuring and collecting the full economic rent of land.” “If”, we argued, “a 100% subsidy were offered to make the bridge free to the user, the island’s landowners would cream off the [additional] benefit [too]…Land values on the better sites would rise accordingly (and be disguised for public presentational purposes as ‘enhanced property movements’).” Now, in an article in “The Economist” on 5th. January, we read that “The population of Skye and Lochalsh is reckoned to have grown by 20% over the past decade, making it one of the fastest growing districts in Britain”. The incomers, many of them English, are opening or renovating hotels, taking over and expanding village shops, developing tourist attractions (additional to the scenery, of course!), and introducing “hobby-style arts and crafts business”. The article does end on one sour note, however: “There are grumbles about immigrants pushing up property prices”. Well, we did say so, even forecasting avoidance of that word, land; and we do know what needs to be done, too.

ON THE WAY DOWN…and ON THE WAY UP

(i) “Sangatte, a quiet seaside resort two miles from Calais” makes the news as a shelter for asylum seekers. “The presence of the refugee centre has changed the character of an overgrown village where people were once happy to leave…their doors open” (David Millward, “Daily Telegraph”, 28th. December). According to the mayor, “Businesses have been badly hit. In peak season the tourist camp site is only half full and it is becoming very difficult to sell property here.”

(ii) In contrast, “Price increases in the middle and upper end of the second homes market” are being driven by wealthy Europeans and Americans wanting “good-quality properties in good locations” (Anne Spackman, “Financial Times”, 29th. December). “Portugal…has seen strong price rises as a result of its improvements in its infrastructure. Greece is the rising star, helped by a drastic modernisation programme.” The head of a property company is quoted: “A large percentage of a property’s value comes from the surrounding infrastructure.” If the Great and Good of our nation do not know and understand this, they can hardly be called Great. If, knowing and understanding, they do nothing, how can they be thought Good?

MORTGAGING CAN BE FUN, or The Dabble in Land Value

"High levels of borrowing…have pushed household debt beyond average annual disposable income" (David Turner, "Financial Times", 12th. January). "Mortgage equity withdrawal – borrowing against the value of a home to finance spending – was a record £7bn in the third quarter. Rising house prices, low interest rates and a sunny economic backdrop have encouraged households to free some of the money tied up in their property."

Here, "home", "house", and "property" stand surrogate for "housing land". Indeed the construction cost of a house has hardly changed of late. What, in favoured parts of the country, has been escalating so freely, is the cost of land. Land is fixed in quantity. Land where people actually want to live is more limited still. Planning authorities are often niggardly in granting new development approvals. Last and not least, there is hoarding for speculative gain. Land is scarce and dear.

In times of boom, as we explained in Issue No. 29, there is the desire to borrow (especially at low rates of interest) against the collateral of spiralling land values; and *pari passu* the tendency to save is much reduced – why bother to set anything aside when rising land values are doing one's saving for one? These are the twin delusions of land fever. That sort of boom is not upon us now (the rest of the economy is too weak), but those who get away with it this time will doubtless ignore the warning signs when they really do matter, and there is another general economic crash as in '92.

TAILPIECE

"There is more than enough value collectable annually from all land and natural resources for public revenue, leaving earnings in the pockets of those who have worked for them" (George Ticehurst, "Bath Chronicle", 2nd. January).

****

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*