

PRACTICAL POLITICS

February 2008

Issue No. 162

LITTLE PRINCIPLE AND MORE BOTCH

“The government has been searching for a means of capturing some of the rise in value that happens immediately after a developer is awarded permission to build on land” [a]. Why only on the *rise* and why only on *some* of it? Why, indeed, is it to be only a single hit at the time consent is granted? What of increases in land value resulting from all other causes, such as demographic change, improvements to existing infrastructural facilities, or the achievement of civil order as in Northern Ireland? What of increases that arise subsequent to the grant of planning permission? What of the underlying land value that arose before that grant and will continue and no doubt increase afterwards? What of land that loses value (yes – it does sometimes happen) as a result of neighbouring development?

The government’s long-delayed planning gain supplement scheme was abandoned even before any attempt at implementation. Labour’s latest proposals involve a community infrastructure levy or statutory planning charge akin to the Milton Keynes roof tax. Schedule 106 agreements are to remain, but their scope will presumably be scaled back. “There remains a strong government desire to control the process and not leave individual developers to negotiate tariff payments with local planning authorities” [b]. This package “is promoted as a ‘fairer’ means of securing contributions from developers – ‘fairer’ presumably than PGS. However... we have to wonder whether some form of national betterment tax which avoids the pitfalls of previous attempts might not be a more attractive option after all” [c]. Starkly, “if the [new] scheme does not provide a satisfactory return to developers and fails to reward landowners through the price mechanism, development will not happen” [b]. This, translated, means that if there is not a prince’s ransom in it for landowners, said landowners will withhold their land and block progress until the offending financial provisions are repealed.

There is a way, using that price mechanism. It is LVT. The land is valued, and an annual land-rent charge is levied on the assumption of optimum development within the limits of planning and other constraints, regardless of the use or mis-use to which the site is actually being put. Landowners will then be delighted to initiate development without further prompting. “What is really required to produce the revenue required to maintain and modernise the national infrastructure is taxation based on the annual value of land, in other words the economic rent” [d].

[a] Daniel Thomas, “Financial Times”, 13th. October [b] Simon Pemberton, “Estates Gazette”, 3rd. November [c] Professor Frances Plimmer, R.I.C.S. Journal, January 2008 [d] John Allen, “Economic Monitor”, Spring 2008

THE WAY DOWN – 1

“High real interest rates are now seen as necessary, (a) to encourage saving, (b) to hold back the trade deficit, (c) to attract and maintain foreign loans to finance that deficit, and (d) to hold back inflation, for output has not been keeping up with the growth in money supply during the easy credit associated with the latter stages of the boom” (“Landing In Trouble”, special article in “Practical Politics”, Issue No. 29, July 1992).

The Bank of England has just lowered the base rate by 0.25%, rather than raise it. The Bank would really like to face both ways. Arguments (a), (b), and (c) from “Landing In Trouble” already apply; (d) does too, or almost so, and nearly everybody admits that it soon will. For all that, the rate is being lowered, in a last-ditch bid to boost spending on consumption and investment in the vain hope of warding off the looming economic depression.

There is one interesting difference between the 1992 crash and the coming one, though. This time, sterling is not caught in a strangling exchange rate mechanism as it was then (in the ERM) – unlike, incidentally, the nations of euroland, locked into a “one size fits all” of incompatibilities. This time, the U.K. will approach the abyss with flexible exchange rates and without raging inflation – yet. The pound, though, has started falling, under strain as the speculative land bubble contorts, fit to burst. As the effect spreads over the economy in coming months, tax revenue from incomes and company profits will fall, welfare bills will rise, the cost of borrowing on the money markets will go up, and HMG will succumb to the allure of meeting its bills by recourse to the printing press – classic currency inflation. It may be difficult now, but it will be a lot worse as we go through 2009. “Inflation can be a lagging indicator. It often continues rising for six to nine months after an economic downturn has already begun [e]”.

THE WAY DOWN – 2

“The world’s central banks have again resorted to shock tactics to unfreeze the credit markets, flushing the global system with \$530bn (£263bn)...in the biggest injection of liquidity ever recorded. The European Central Bank alone lent over half a trillion dollars (€349bn) to lenders...at...far below the market cost of short-term money” [e]. The euro is at the start of “a long slide to levels that reflect a sluggish, half-reformed bloc in demographic decline...We are nearing the moment when the ECB must decide whether it is a bank or the political guardian of the EU Project. It cannot be both” [e]. “Spanish banks are issuing mortgage securities and asset-backed bonds on a massive scale to park at the European Central Bank, using them as collateral to raise money at favourable rates from the official credit window in Frankfurt...The data appear to confirm suspicions that the EU authorities have carried out a covert rescue of the Spanish mortgage banking system” [e]. In the U.K., Northern Rock has become “for essentially political reasons...the most expensive industrial support operation yet undertaken by a British government”, in the process riding roughshod “over all the competitive principles the Government has ruthlessly applied to manufacturing and other industrial sectors” [f]. In the

U.S.A., “some consumers are heavily indebted. They already face the toxic mix of falling house prices, tightening credit conditions and even elevated food and energy costs...Meanwhile, banks...worry about the impact of rising unemployment on consumer defaults. They could be tempted to raise credit standards, and reduce credit availability further” [g].

THE WAY DOWN – 3

A depression does not hurt only those who may have over-borrowed and those who may have made loans carelessly. Many now believing themselves safe may come to find they are vulnerable.

“The markets have been shocked by the sudden downward spiral in British accounts. Monthly borrowing vaulted to £7.8bn in December, while the current account deficit ballooned to 5.7pc of GDP in the third quarter...Foreigners currently own £148bn of British Gilts, according to the Debt Management Office...It leaves the country vulnerable to a sudden exodus” [e]. After all, what is to be gained from a higher interest rate in London if the pound keeps slipping and losing its value?

“Falling stock markets and interest rates have wiped £15bn off the value of UK company pension schemes so far this year...reviving concerns about underfunding” [h].

“The turmoil in credit markets has dealt a big blow to the government’s defence procurement programme, putting in jeopardy plans to help fund a new fleet of Airbus tankers for the Royal Air Force with a bond issue...These bonds were expected to be supported by guarantees provided by troubled bond insurer Ambac. However, Ambac and other bond insurers have been hit hard by losses on bonds they have [already] insured...The market worries about the ability of the insurers to stand behind their commitments” [i].

“Hopes that improvements would be made to the congested A12 have been dashed. Proposals to widen part of the Essex stretch to three lanes were postponed almost as soon as they were announced last week” [j].

The effect of early troubles in this country has already reached the Balkans. “With house prices stagnating, it is much harder for UK customers to release equity to buy a second home” according to an agency selling Bulgarian properties [k].

“Shifting taxation so that owners of land paid an annual tax on that land’s value...would also discourage speculation and a new property bubble” [l]. It just might mitigate this slump if HMG were to declare it was preparing to bring in LVT.

[e] Ambrose Evans-Pritchard, “Daily Telegraph”, 29th. January, 19th. December, 21st. January, 29th. January, 8th. February [f] Anatole Kaletsky, “The Times”, 31st. January [g] Lex column, “Financial Times”, 5th. January [h] Norma Cohen, “Financial Times”, 26th. January [i] Sarah O’Connor, “Financial Times”, 26th. January [j] Brentwood and Shenfield Yellow Advertiser, 7th. February [k] Kerin Hope and Theodor Troev, “Financial Times”, 9th. February [l] Fred Harrison, “Evening Standard”, 31st. December

LITTLE BITS

(i) The coal miners of Tower Colliery, Hirwaun, Glamorganshire, bought their 200-year-old mine in 1994 but have now finally closed it, finding it no longer economic. This leaves them with the land, “480 acres of countryside right next to the glorious Brecon Beacons. If ever a place was ripe for development, this is it” (Richard Holledge, “Financial Times”, 26th. January). “The Heads of the Valleys Programme will spend £140m over 15 years [on improvements] in five local authority areas...In addition, there is a share of £1.4bn from European funding”. From labourers to landowners overnight will no doubt prove to be a rewarding experience, ironically not entirely undeserved in this case, but exploitative nevertheless. A century ago, their forefathers were campaigning for LVT.

(ii) “High energy prices and concern for energy security will maintain the momentum in biofuel production – nonsense though much of it is – adding further support to agricultural land prices” (John Gummer, M.P., “Estates Gazette”, 26th. January).

(iii) “Land use for biofuels has shot up from 12m to more than 80m hectares worldwide over six years. Biofuel [currently] provides 3pc of global energy needs” (Ambrose Evans-Pritchard, “Daily Telegraph”, 7th. February). “In a pure market, sugar cane would be the only viable biofuel with a cost of \$35 a barrel (oil equivalent). The others are sugar beet (\$103), corn (\$81), wheat (\$145), rapeseed (\$209), soybean (\$232), cellulose (\$305). Subsidies drive the business”. Indeed they do – all the way into the bank accounts of the landowners.

(iv) “The Housing Lawyers Group, made up of lawyers advising the country’s biggest Housing Associations, says that [the government’s proposed new housing bill] would reclassify HAs as public bodies” (“Estates Gazette”, 19th. January), thereby rendering them “unable to borrow money privately”. Control freakery?

(v) “Britain’s most expensive home property deal was struck today when Chelsea Barracks was bought by the Qatari government and the Candy brothers for £959 million” (Benedict Moore-Bridger and Jonathan Prynne, “Evening Standard”, 31st. January). Located between Sloane Square and the Thames, the 12.8-acre site is the most valuable residential plot to be redeveloped, at £75 million an acre.” Perhaps the world’s wealthiest people looking for a London pied-à-terre will be put off by the government’s tax threats to non-domiciled foreign residents?

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>