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THE FORGOTTEN FACTOR

The IEA, in “Economic Affairs”, September 2000, published an article by Omar Al-Ubaydli and Terence Kealey, entitled “Endogenous Growth Theory: A Critique”, which discussed how knowledge of science and technology is acquired and diffused, with particular reference to the economic value of research and development.

In what, in the context, amounted to an aside, the authors referred to the creation of wealth “by the exploitation of capital, labour, and land”. The alert reader already spots trouble ahead. Capital is indeed a factor of production, but it is itself wealth, having previously been produced by the application of labour to land. One expects to see the factors ordered as land, labour, and capital, or as labour, land, and capital. The problems start in earnest when the returns to these factors are dubbed profits to capital (acceptable, but interest is the usual term), wages to labour (standard terminology), and “agricultural rents (the return on land). Because modern agriculture is now so dwarfed by the rest of the economy, much economic analysis these days incorporates the agricultural sector within capital and labour.”

We are being asked to believe that wealth is created by two factors, labour and capital. Since labour fashions raw materials which come from land and does so operating on land, one wonders what sort of universe it is that these modern economic analysts inhabit. Not since the Physiocrats in 18th. Century France have economists related land to its value purely in agricultural use. Classical economics defined the return to land as rent, and came to relate it to industrial as well as agricultural applications, and ultimately (by the time of Henry George in the later 19th. Century) to the general social value of each location in relation to all others.

Even modern economists must be aware of the huge sums tied up in ¼ acre of site value in the City of London as compared with ¼ acre on St. Kilda, or indeed in Dungannon or Pembroke. The really valuable land with its high yield of rent does not lie in the agricultural sector, and to subsume it “within capital and labour” is daft. Where is the economist who will sell the site of his city or town house at its agricultural value?

RESTITUTION

At the end of World War II, what had been eastern Poland was taken by the U.S.S.R., and, by way of compensation, Poland was given German territory in the west. To the disruption resulting from border movements, war-time destruction adds a further layer of complexity. “Poland still has no legislation on the general return of private property seized under either Nazi or communist dictatorship” (Stefan Wagstyl, “Financial Times”, 10th. February). The dispossessed include Jewish victims of the Holocaust, Poles expropriated by the post-War communist régime, great families claiming large aristocratic estates, peasants after a field or two, and religious and ethnic minorities expelled from remote mountain villages near the Ukrainian border in the late 1940s. The resultant immense difficulties facing contemporary Poland, “50-year-old problems that seem beyond solution”, can be imagined. A major consideration is whether, or in what circumstances, to admit overseas claimants. Present proposals exclude Germans who lost land in 1945.

“The Polish state…via communist nationalisation…acquired a huge property portfolio…including assets seized by the Nazis…Most of this property is still in public hands”. Therein lies a great opportunity, so far at least as the land itself is concerned. Land is not man-made, and its value is set by demand for individual locations determined by the activities of the community as a whole. Our prescription is to assess all land, including that now held privately. The assessments are subject to appeal, are published, and are maintained by frequent up-dates. Poles or others who wish to have exclusive use of a site, pay the appropriate annual national land rent charge to the state, which uses the income in place of current taxes. All who live within to-day’s borders share equally in the value of the national territory. Retrospective claims for land value can be declared inadmissible, leaving only cases in respect of buildings and other man-made improvements. This is tough enough. At least Poland could enjoy a buoyant economy as it set about its task.

TOWERING LAND VALUE

According to property consultants Donaldsons, “A snap review of shop rents would produce an average rise of 20pc” but “London’s West End could see even sharper rises” (Helen Dunne, “Daily Telegraph”, 19th. March). “The rent for Tower Records’ store in Piccadilly Circus was recently doubled to almost £2m a year.” The building has undergone no significant change, so the increase has to be due mainly to the location. Take tax off CDs! Collect land value instead!

STILL NO NEW DAWN FOR THE RISING SUN

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. 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).

"General government debt is close to 130 per cent of gross domestic product, greater than any leading economy in modern history. This is the legacy of ¥128,000bn (£727bn) of fiscal spending in the past nine years. These enormous sums, spent largely on construction projects of dubious utility, have failed to stimulate the economy" (David Ibison, "Financial Times", 10th. March). "The yen has fallen to a 20-year low" and "credit agencies, much to the government's anger, have downgraded Japan's sovereign debt rating…The Nikkei share index touched a 15-year low…Banks' bad debts are still rising by ¥1,000bn to ¥2,000bn a month. Corporate bankruptcies are at record highs. Consumers…are reluctant to spend: the savings rate remains among the world's highest, at 30 per cent of income."

Reappraisal of the collateral the banks are holding, would reveal the true extent of the bad debt mountain and precipitate further insolvencies. The result of pulling the plug on debtors "would be a further lurch in land prices… Putting a floor under land prices is the key to stabilising the economy and creating the conditions for stronger growth" (Larry Elliott, "Guardian", 5th. March). "Printing money and a devaluation…would stem the rising tide of bankruptcies, put a brake on falling land prices and restore confidence. Certainly, something drastic is needed". Debasement of the currency undeniably favours debtors over creditors, because it cheats the latter out of purchasing power (money's worth); but, inconveniently, it also destroys confidence in the monetary system.

It is not true that "putting a floor under land prices is the key to stabilising the economy", unless stability at near stagnation point is the aim. Japanese land prices had spiralled to ridiculous levels ("Land so expensive that the grounds of the imperial palace were worth more than California" – see Issue No. 15). Land is still over-valued, and land rents and prices have further to fall before gainful production can be resumed. The Japanese government needs to announce a cadastral survey of all land, to be followed by collection of land rent as near as practicable to 100% in a series of programmed steps, with remission of current taxation. There is no totally painless way out of a mess like Japan's, so it is as well to adopt the correct route and ensure future prosperity and stability.

FLOOD DEFENCES: WHO SHOULD PAY?

"England and Wales need to spend an extra £100 million a year on flood defences" (Charles Clover, "Daily Telegraph", 12th. January). The Environment Agency "wants to increase the flood defence levy paid by local councils but its proposals have caused a revolt by many local authorities". Meanwhile, at Birling Gap near Beachy Head, "A cliff-top community whose homes are about to fall into the sea" has been told that no protective rock wall is to be built (Danielle Gusmaroli, "Evening Standard", 7th. March). People whose land is at risk from the sea or from flooding on the scale experienced this past winter, are at various degrees of disadvantage, which will be reflected in lower market rents and prices than for comparable properties on safer sites. All locational advantages and disadvantages, of whatever sort, show up in land value. If council tax bills increase steeply in a particular area, land value is bound to drop. If central government pays, instead of local government, then council tax bills are unchanged, and landholders gain. That cannot be right. The benefit principle requires a shift of the revenue base away from productive labour and its goods and savings, and on to land, which passively reflects collective demand for space, with or without perceived flood risk. Of course, if no public money is involved, the landholder who protects his own plot continues, under LVT, to enjoy the previous low assessment.

HOMES: CONSTRUCTION AND SITE

Major high street banks will provide Heritage Homes of Prestwick, Ayrshire, with funding "which will see £15m to £18m being spent on construction work" and "£20m investment in land" (Harry Conroy, "The Herald", 9th. February).

LAND VALUE TO GO UP BY A PRINCELY SUM

"Property prices in St Andrews are expected to soar this summer as the 'Prince William premium' takes full effect…as the prince's arrival to study history of art draws nearer" (Alison Gray, "The Scotsman", 6th. February). A property manager is quoted: "We already have a thriving international interest because of golf, but a royal connection is incredibly influential". It also brings a tangible bounty, which should be gathered for the common good, via LVT.

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