Practical Politics No.99

We reproduce here a past issue of our journal.

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A TRUTH REVEALED

Inflation, it used generally to be agreed. was a purely monetary phenomenon. It occurred when the amount of notes and coins in circulation was increased disproportionately to the growth of the economy, leading to currency debasement and a general rise in the cost of living. Other factors affect individual price movements - good and bad harvests, producer-determined variations in crude oil deliveries, imposition or removal of taxes. These days, the language of economics has itself undergone debasement, and all factors contributing to price rises are being lumped together as inflation. In this country it is measured by the RPI (retail prices index) or by the RPIX (which ignores mortgage interest payments). In Europe, there is a harmonised index, the HICP.

In an informative article in "*The Times*" on 12th. June, Roger Bootle looked at how the RPI was composed, and was not happy. Housing, even without mortgages, still accounts for 15% of the index, "reflecting such items as rent, council tax and rates, water and other charges, repairs and maintenance, DIY materials, insurance - and an interesting little number called 'depreciation'." Depreciation does not cover routine maintenance and repairs, but "is meant to cover the loss of value through the deterioration and obsol escence of the asset . . . The statisticians work out a value for the average property minus the land content, make an assumption about the rate of depreciation and . . . that gives the amount of housing 'consumed' just by living in the average property."

Thereafter the procedure is to assume that this depreciation of the house alone, rises with house price in the wider meaning of house + land! In this second sense, house prices make "no distinction between the value of land, which reflects location and scarcity, and the value of bricks and mortar. When house prices rise sharply, it is surely the value of the land . . . that is appreciating fast. 8ut land does not deteriorate or become obsolescent . . . When . . . the housing component of the RPI is driven up, this reflects the supposedly increased cost of depreciation on something that does not depreciate anyway." Exactly!

Land behaves altogether differently from man-made capital and consumer goods. More than just the RPI needs to be examined afresh.

SWEDEN AND A BRIDGE

The Danish capital, Copenhagen, is now linked to the southern Swedish city of Malmo by the Oresund bridge and tunnel system, 10 miles long, incorporating a four-lane motorway and double-track railway. "Excitement about the bridge has pushed up property prices, particularly in southern Sweden. . . This magnetic effect clearly suggests Sweden's whole centre of gravity could be dragged southwards. Stockholm may be strong enough to resist the pull, but prospects for jobs in northern parts of the country, which have already seen a steady population depletion in the last 10 years, look grim" (Christopher Brown-Humes, "*Financial Times*" 24th. June). If that rings no bells, it should: it sounds like the U.K. all over again. with high and rising land values in one part and the rest marginalised and hit by the present tax system which destroys jobs at the periphery. The bridge "has cost more than $2.5bn". How much of that do the landowning Swedish beneficiaries pay?

SPAIN AND A FLIGHT OF FANCY

Sotogrande is a 4,000-acre leisure estate between Marbella in southern Spain and Gibraltar. The sales director, already pleased that the route from Gibraltar "once notorious for its accidents, is now mostly motorway" (Gerald Cadogan, "*Financial Times*", 20th. May) muses that "If there were ever direct flights between Madrid and Gibraltar [rather than the present six hours' car journey] it would seriously open the place up, with a dramatic impact on property prices". No surprtse there, then!

SOUTH PACIFIC

The Solomon Islands, independent since 1978, have plunged into disturbances which are "an echo of the dispute in Fiji between native Fijians and Indian immigrants" (Barbie Dutter, "*Daily Telegraph*", 6th. June). "Guadalcanal militants resent the migration to their island by Malaitans. . . The animosity includes grievances over land rights". A week later, the same newspaper reported that 20,000 long-term Malaitan settlers had been forced to leave, which triggered a coup by the Malaita rebel Eagle Force. A Commonwealth delegation then offered the insurgents "a multi-million-pound land deal if they move quickly towards a constitutional settlement." Taxpayers in the Commonwealth at large are disbursing funds to make a wrongful present of land and cash to the wrong people for the wrong reasons. The constitutional settlement should guarantee secure occupancy of land in return for annual payment of the site rent based on land value alone, leaving the occupier and his employees to benefit untaxed from their labour and from the capital invested. The government would in turn have an assured revenue source~ It need not then mafter who notionally owned land, since its worth would be collected by, and working for. the community as a whole.

"The poor, fledgling nation of East Timor could get a multi-billion pound windfall from oil and gas exploitation rights held by Australia" (Barbie Dutter, "*Daily Telegraph*", 14th. April). The new government could renegotiate the Timor Gap Treaty of 1989 "in which Australia and Indonesia carved up the lucrative oil and gas reserves in . . . the Timor Sea". Please see Issue No.43, where we referred to these off-shore agreements as "a classic land grab". Now we learn that under the UN Convention on the Law of the Sea, it is thought the new boundary would put most of Australia's share of the Timor Gap in East Timorese territory.

BIG SPENDERS REACHING FOR BIG STICK

Tax havens "are being threatened with economic sanctions unless they move into line with higher tax regimes in the rest of the world" (Simon English, "*Daily Telegraph*", 27th. June) but "It is not yet clear what sanctions the OECD could impose". The European Financial Forum, "a respected think tank", attacked the report "for failing to understand the needs of small developing economies" who have little or nothing else than the financial services industry. Liechtenstein, singled out in a separate report, hit back through its banking association head. "The state doesn't need any more tax. I always learned in school that competition was good."

THE PERPLEXED PLANNER

One reads first of "spiralling property prices caused by land shortage"; then of "the premium that decontaminating brownfield sites adds to land prices"; and thirdly of "a large amount of land [that] still lies fallow in London". These remarks, attributed to "planning guru Sir Peter Halt", are recorded in an article by Jane Barry in the "*Evening Standard*" of 5th. July. The Professor Emeritus of Planning at University College, London, did add that he thought we need an inquiry into the factors that cause development to be so slow". Clearly we do!

OL' FATHER THAMES - MONEY ON THE BANKS

The Blue Circle property portfolio is not a thing of beauty but it happens to be in the right place, the South East, and at the right time; when the need for new housing is pressing and the Government has decided that the Thames Gateway is ripe for development" (Patience Wheatcroft, "*Times*", 24th. March).

The SEl postcode, taking in Bankside, Borough and Bermondsey "is now booming on the back of frantic development" (David Spiffles, "*Evening*

Standard", 12th. May). "It is close to the river. The City is within walking distance and the extended Jubilee Line means the West End and Canary Wharf are a 10-minute Tube ride away. London Bridge station is poised for a massive redevelopment and the new Mayor's office is earmarked for an adjacent site." An estate agent says, "With all this activity in Southwark, owners realise they are sitting on an appreciating asset." In all this, the big gainers are the beneficial holders of land, the very people who perform no useful service and do nothing whatsoever but wait, pour another drink, and plan that luxury holiday.

Two penthouses are to be built at 138, Grosvenor Road, Victoria. "At more than £4 million, the best flats in the block will probably be sold before the footings are dug" (David Hoppit, "*Times*", 28th. June). No doubt they will be beautifully appointed, but a huge amount of that is a reflection of land value. "Such is the price of a home in Central London beside the river, which not that many years ago was so smelly that no one . . . would wish to live beside it. Now salmon swim by". An estate agent "reckons that a view of the river with a glimpse of some worthy building such as the Houses of Parliament can double the value of a property - consequently it can be halved when such a view is obliterated." Another agent lists the attractions for wealthy foreign buyers, which include "security, shopping, theatre and arts, education and London's green spaces and culture".

We cannot but note that a clean river and all those other attractions are once again not the work of the holders of land. All they do is encash the benefits. As even the Houses of Parliament are said to enhance location value, may we hope our legislators will move to recover the benefits thus conferred and deflect them to the public exchequer in relief of burdens now imposed on useful work?

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