Practical Politics No.93

We reproduce here a past issue of our journal.

Issue No.93, January 2000

SCOTLAND

The Scottish Office Land Reform Policy Group, set up to consider land reform in rural Scotland, bequeathed its "*Recommendations For Action*" to the incoming Scottish Executive. Our comments on the report were set out in Issues Nos. 84 and 85. For us, the key recommendation was one that "A comprehensive economic evaluation of the possible impact of moving in the longer term to a land value taxation basis should be undertaken".

The Scottish Executive drew up a *Land Reform Action Plan* (August 1999), incorporating the various Recommendations under a series of headings. A Progress Report (November 1999) has since also been published. The LVT study is duly listed as issue G8. "A specification will be developed for evaluating the implications; and Ministers will consider whether this research would represent good value for money." It is intended that decisions on the proposed evaluation will be made by the end of 2001, but there has been "no action as yet".

There is nothing to indicate that Ministers or the Executive have heeded our submission that land reform is not only a mailer of concern to rural areas, but is of even greater significance in its impact on the conurbations, where sites are in high demand, where values are correspondingly much greater, where speculation, dereliction, non-use, and mis-use are rife, and where poverty and misery co-exist in the shadow of great riches. Most of the Scottish people are concentrated on only 2% of the land area. The Executive, in "*Land Reform: Proposals For Legislation*" (July 1999), stated that "The Government believes in the principle that all landowners should be treated equally under the proposed legislation", but, by excluding all built-up areas other than the tiniest hamlets, the principle is ignored in the most blatant way.

LVT proponents in all parties at Edinburgh, have strenuous work still to do.

NORTHERN IRELAND

The Democratic Unionist Party is in the spotlight, having taken the posts of Regional Development and Social Development in the new Northern Ireland executive. Social Development includes housing. We have had a great deal to say about this in "*Practical Politics*" over the years. Back in Issue No. 8 in March 1990, writing specifically on Northern Ireland, we said, "Land values will rise when peace returns . . . A lot of people are going to be very unhappy when they find decent housing priced out of their reach." Many of those who have come over to Britain from the Province will be considering going back; and doubtless incomers will want to share the beauties of the country at week-ends, on holidays, or in retirement, It does not take much to see how all this will bring unearned benefit to the owners of housing land at the expense of the wider polity.

The Land Value Taxation Campaign produced a paper less than a year ago, "*Overcoming The Odds*", concerned wholly with the economic problems associated with being on the periphery of the periphery - at the north-west of the U.K., itself off-shore at the north-west of the European mainland. To-day's taxes (v.a.t., motor fuel duty, and the like) topple potentially viable activity into unprofitability. In their stead, LVT affects marginal areas very lightly, creating tax havens where they are most needed. Regional Development must take account of this.

Regional Development also includes dealing with the railway system. The problem with railways - as indeed, mutatis mutandis, with roads and much else that is infrastructural - is that it is not possible to raise sufficient from passengers and freight to remunerate the huge capital investment needed for a safe and efficient railway system. Yet railways are profitable undertakings. The problem is that much of the value they create is beyond the reach of the track and train operators. The holders of land neighbouring the railway facilities receive a substantial unearned gift of land value. Government - in this case, the provincial administration - ought to be recovering this through a general system of LVT. It would put financial support for public transport in a whole new light.

The Department of Regional Development is now also responsible for privatising the Port of Belfast (see Issue No.91) "in cooperation with the Treasury" (as Alistair Osborne puts it, "*Daily Telegraph*", 24th. December). The responsible Assembly committee - interestingly, under DUP chairmanship - unanimously determined to retain the port estate in public hands and lease out the acreage used specifically for port operations. We watch developments with keen interest.

JAPAN

In Issue No. 3 (April 1989), we reported generally that "the bad times are coming", and in No.4 we specifically wrote of "the crash of '92", saying "it could well be the worst since the War". In a special article, "*Landing In Trouble*", in Issue No.29 (July 1992), we showed how private appropriation of the rent of land led, in a rising economy, to land speculation, to over-building to justify the rising cost of over-priced land, and to over-lending by banks on the illusory security of the rising spiral of land values - up to the point at which the bubble finally bursts.

In our Index there are already 37 entries against Depression and 26 against Japan, most of them directly related to the recession and its long, painful - and continuing - aftermath. Banks have crashed, big projects have failed, hundreds of medium and small companies have been ruined, unemployment has set in, the very social fabric of the nation has ripped apart, and only gangsters have profited. For the most part, commentators have doggedly failed to pinpoint the behaviour of land as the key issue, hiding this from themselves and their readers by use of such expressions as speculation in property, assets, and investments.

All of this we re-read in our back-numbers, preparing to watch "Bubble Trouble" on BBC2 television on 9th. January. The programme was a revelation. At last, the vital rôle of land in the boom/slump cycle was unequivocally stated and repeatedly emphasised. An article by Jon Ashworth in "*The Times*" of 7th. January turned out to be a preview of the broadcast: "The appetite for land proved insatiable. Land, for the Japanese, was the safest of all investments; better even than gold. Land prices had never gone down and could never go down. As prices rippled out from Tokyo, farmers and smallholders, too, became millionaires. About 50 per cent of Japanese owned their own land and felt richer than ever before . . . but the rise in land values masked the real picture . . . Those on the housing ladder grew rich. For families left behind, buying a house or a flat was farther and farther out of reach or might require a 100-year mortgage . . . Much of Japan's cheap loans had been advanced using land as collateral. As property prices fell, the banks swiftly realised that the loans could never be recovered . . . Businesses discovered that the land against which they had been encouraged to borrow so heavily was suddenly worth, perhaps, a third of its former value. By the late 1990s . . . in one year 17,000 small businesses went bankrupt".

Japan was, and is still, the worst case; but the analysis applies world-wide.

PROPERTY RICHES

"Property accounts for about 40% of the market value of Britain's top 100 companies" (John Waples, "*Sunday Times*", Sth. January). "Analysts say it is increasingly being viewed as a non-performing resource rather than an asset". That "it" is neither a single resource nor a single asset. Property consists of buildings and other man-made developments which are set upon a site. The buildings require constant maintenance, and in time they become obsolete and have to be pulled down and replaced. They are a wasting asset. The site is a natural resource, land, which is not a manufactured object, needs no maintenance, and normally increases in value, thanks to expanding economic activity around it. It may well be that the directors of these top 100 companies receive advice from book-keepers who prattle about releasing capital from the balance sheet. In economic analysis, however, only the buildings are capital. The site is land. Land and capital are not the same thing, and, as we have seen, behave differently. Commentators should not be obscuring the distinction, but highlighting it and drawing it to the attention of politicians. Incidentally, if property does account for 40% of the market value of the top 100 companies, the land component must be about 20%.

BOOKIES WALK AWAY

In Issue No.91, we noted that Victor Chandler and Ladbroke had taken their online and telephone betting operations offshore to avoid the Government's penal betting tax. Coral has since fled too. "Internet betting knows no international boundaries" (City Comment, "*Daily Telegraph*", 14th. December). The Government's own nag, the Tote, "has calculated that, if it is lumbered with a 9pc tax penalty, it has no chance in the Cyberspace Handicap." Will the Tote be allowed to handle its internet clients offshore too? Will Government cut the betting tax? Will Government just see its gambling revenues fall away? Will Government take our advice, and shift its revenue base to the rental value of land? LVT can not be avoided or evaded - and it has a few other important advantages too!

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.