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# Practical Politics No.85

We reproduce here a past issue of our journal.

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Issue No.85, February 1999

## THAT INVISIBLE "L \*\*\*" WORD

In a special article in Issue No.29, we traced the development of an economic boom, its arrival at bursting point, and the subsequent rapid slide to slump. The crash of '92 still attracts attention. More evidence comes to light to support our analysis. Commentators slowly edge towards acceptance of our view, but balk at the four-letter L word, managing only "property", "asset", "investment". In a period of strong growth, land, a natural monopoly, becomes the subject of speculation and prices spiral upwards. There is over-building to justify the rising cost of over-priced land, and over-lending by banks on the illusory security of seemingly ever-rising land values. It has to stop - and it does!

"Japan's Financial Supervisory Agency [has] revealed that the country's 17 major banks [have] underestimated the value of problem loans by 5.4 trillion yen" (Suzy Jagger, *Daily Telegraph*, 28th. December). Japan had the longest-running speculative build-up and reached the most absurd land price levels. It is small wonder that it has the most prolonged aftermath. In *The Hard Fall Of A Big Fish* in the *Financial Times* of 9th. January, Philip Coggan describes the plight of the Japanese economy, correctly attributing its woes to "the 'bubble' period of the late 1980s". Not once in the whole article, however, does the writer mention land, except in the special context of "land of the rising sun" and "of the falling share". Therein lies the weakness of the analysis: company earnings on equity, and earnings in relation to the cost of capital, all take the bookkeeper's view, lumping land in with capital on the balance sheet This simply will not do when it comes to political economy. The author hides from himself and from his readers the fact that it is the land element in companies' holdings which is underperforming financially, for the reason that it was never worth what was paid for it in the fever of speculation in the first place.

In the *Estates Gazette* of 16th. January, John Plender similarly avoids mention of land, writing only of property, investment, and fixed capital investment. This is the bookkeeper all over again - a pity, because, if one inserts "land" at the appropriate spots, the analysis is persuasive.

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## SCOTLAND - REACTIONS

In Issue No.84 we commented on the conclusions of the Scottish Office Land Reform Policy Group, published in *Recommendations For Action* (January

1909). These included 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". In this Issue we look at some of the comments of others.

(i) "Some owners buy estates as tax dodges, or to take advantage of generous agricultural subsidies" (Kenny Farquharson, "Sunday Times", 3rd. January).

"The amount of public money going into estates . . . is tremendous" (John Matheson, tenant farmer, Moray and Nairn area president of the National Farmers Union, quoted by John Ross, "The Scotsman", 6th. January).

Subsidies and favoured tax treatment simply invite owners of land to raise rents and prices to absorb the benefit. The Policy Group failed to address this.

(ii) "I am to be convinced that 80% of Scotland's population, predominantly in the urban central belt, actually cares one iota for instance [about] community involvement, about sporting estates, about land tax, about the whole raft of rural issues in general" (Andrew Dingwall-Fordyce, Convener, Scottish Landowners' Federation, quoted by David Ross, "The Herald", 2nd. December).

"Legislation is required because several hundred individuals and companies own most of Scotland while the bulk of the population in those areas most affected by this disreputable dispensation own absolutely nothing but the clothes on their backs" ("Landowners' defence is ludicrous", leader, "The Herald", 2nd. December).

(iii) "Having campaigned for land reform inside the Labour Party and in public for 25 years, I believe that these proposals will meet every expectation of those who have kept that flame alive" (Trade Minister Brian Wilson).

"The proposed confiscation of land is reminiscent of what occurred in the Soviet Union under Stalin" (Murdo Fraser, spokesman for the Scottish Conservatives).

The above gentlemen (both quoted by David Ross and Chris Holme, "The Herald", 6th. January) clearly live in worlds of their own. If Mr. Wilson is happy, it must be because he started with a restricted vision and low expectations. As for poor Mr. Fraser, he will scour the document in vain for anything like collective farms and liquidation of the kulaks. Party politics can be so sad.

(iv) "The return from most estates in the Highlands of Scotland is pretty slim. It is a drawback which will always restrict people from taking the speculative approach to landowning in Scotland - the commitments are very great and the returns very slight" (Earl of Cawdor, quoted by John Ross, "The Scotsman", 6th. January).

"The introduction of a land tax, the re-introduction of sporting rates, or any other punitive tax on the ownership of land would be a disastrous prospect to contend with" (Earl of Haddington, quoted by Raymond Duncan, "The Herald", 14th. December).

"The assumption by the Land Reform Policy Group that large estates are invariably a bad thing which need to be broken up has been dismissed as fallacious by the Duke of Buccleuch, Scotland's biggest landowner... One advantage of land value taxation would be to encourage the break-up of large estates and a community right to buy would bring about rapid change in the pattern of land ownership. The duke said these statements had caused Buccleuch Estates anxiety... The duke said that huge sums of money had been invested over the years by families and far-sighted landowners in cottages, steadings, roads, bridges, water supplies and drainage systems - all of which are necessary to make it possible to farm the land" (William Chisholm, "The Scotsman", 6th. January).

"The advantage of LVT for those in marginal areas is that land values are negligible; if the burden of existing taxes is removed, economic activity that is not viable at present becomes so... LVT creates tax havens in marginal areas - precisely where they are most needed" (Henry Law, letter in "Financial Times", 30th. January).

The above tell an interesting tale. LVT is concerned only with the value of the land itself, not with man-made developments on it - which exempts all those works that the Duke of Buccleuch is rightly concerned about. LVT encourages optimum economic use of land, which does not necessarily mean the break-up of estates. In remote rural areas, production at the margin only just remunerates labour and capital, and leaves nothing over for land rent. Slim returns (Lord Cawdor) imply land of low value. LVT is not a punitive tax (Lord Haddington): it is payment for benefits received from exclusive possession of the land in question, and, where these are low, so is the LVT demand. By contrast, conventional taxes falling on labour and capital destroy jobs - potential production at the margin is simply tipped into unprofitability.

(v) "For those who live, work or depend on the land, the land market remains a lottery in which they are least likely to be winners, especially as prices may be artificially inflated by the absence of taxation of land values . . . For both urban and rural Scots, land issues underlie many other matters of social injustice" (Rev. Graham K. Blount, Church of Scotland's Scottish Parliamentary Officer, the Herald Essay, "The Herald", 5th. December).

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## HOME, SWEET HOME

(i) Juan Benito Guevara is Mayor of Choluteca, Honduras, a town devastated by Hurricane Mitch (see Issue No.83). "His first priority is to house the people... who lost their homes" (Alex Bellos, "Guardian", 9th. December). "He is trying to buy some land and then give each family a tent. But he has no money". The mayor has to buy land before erecting tents. In such a society,

what use to the common people is the fashionable nostrum of writing off foreign debt? Those landowners prepared to take the mayor's money should instead be contributing to recovery. Is LVT not an altogether better idea?

(ii) Florida offers winter sun and no state income tax. "This tax break is one of several boosts to the property market... but the climate is still Florida's number one draw" (Gerald Cadogan, "Financial Times", 30th. January). "The ritzy resort of Palm Beach... had been a swampy home for alligators" before the coming of the railways in the 1920s and the influx of people from out of state. Now, a real estate agent offers a 2.25 acre plot on a prong of land "ideal for boating" at \$5.8 million. "Building the house will cost extra." Maybe the Indians sell wigwams.

(iii) After their marriage, Prince Edward and Miss Sophie Rhys-Jones will live in leafiest Surrey. "Bagshot's new-found status as a royal residence is already encouraging hopes of an increase in local property prices" (Neil Tweedie, "Daily Telegraph", 7th. January). The logic of financing HMG from LVT has rarely been more compellingly demonstrated.

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