
Practical Politics No.82

We reproduce here a past issue of our journal.

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The county is not about to enter a slump. 1998 is not a re-run of 1992. It is more 1987 revisited, but with new undercurrents. The economic collapse that was signalled unmistakably in June 1992 followed a boom of several years in the late 1980s, characterised by feverish speculative activity in the land market. The course this took was analysed in "*Landing In Trouble*" in our Issue No.29. By contrast, 1987 was a stock market correction, a sharp and severe fall in the price of overvalued shares, but no more than a blip in the fool progress of the real economy, which continued for a while to spiral upwards, eventually to peak and, in 1992, to crash out of control.

1998 is similarly seeing a correction of an over-valued stock market (the bears coming on at the end of the bull run), but there are important differences from 1987. 1987 occurred as the economic cycle was moving towards its peak, and Japan and the developed western world were travelling in heedless concert. By mid 1998, the U.S.A. and U.K. had already pulled away from the bottom of the depression, but Europe was only beginning to do so, with Japan still trapped deep in its slump. There is no crazed, land-driven speculative boom.

To-day's complications come from the East. Japan had had a long running speculative build-up to truly absurd land price levels by 1992, and thus suffered the severest of crashes when the bubble did finally burst. Worse, Japanese landowners prolong the slump, declining to lower rents and prices to realistic levels. In this they are abetted by desperate banks, who extended credit on the false security of swollen land values and now tremble as revaluation of their collateral reveals how much bad debt they are carrying, and exposes their technical insolvency. Now other Far Eastern economies have collapsed: South Korea, Thailand, and Malaysia have all had the classic symptoms of boom, land speculation, over-building to justify the rising cost of over-priced land, over-lending by banks against the illusory security of spiralling land values, and finally the burst. Weakened western economies must withstand the wash. Provided their governments do nothing unusually foolish, though, the bear markets will bring grief but not a slump.

LAND REFORM IN SCOTLAND

The Scottish Office set up a Land Reform Policy Group to consider options for land reform in rural Scotland. The Policy Group's first document, "*Identifying the Problems*" (February 1998), invited public comment. Among many who replied was the ***Land Value Taxation Campaign***. The document had not mentioned LVT. Now "*Identifying the Solutions*" (September 1998)

has appeared. Thanks to the efforts of the Campaign and others, and thanks also to the thorough job done by the Scottish Office team, LVT has a page to itself as well as several incidental mentions. The Campaign will be making a further submission to the Policy Group before the latter begins preparing its recommendations for early legislation by the incoming devolved Scottish Parliament.

The Policy Group's terms of reference limit it to land reform in rural Scotland, which is unfortunate, for in many ways the land question is of even greater significance in the conurbations, where the population is concentrated and land is scarce and dear. As to its conclusions, the Group seems to be thinking that LVT could be considered later, after further study. Referring to this in the course of delivering the fifth *John McEwen Memorial Lecture on Land Tenure in Scotland* on 4th. September, Donald Dewar, M.P., Secretary of State for Scotland, said, "In due course there may be a case for some changes in local land taxation, but further study is needed." This is a carefully qualified version of what the Policy Group has said. LVT supporters across the parties who will eventually forgather in Edinburgh, will clearly have some strenuous work to do. Meanwhile, progress it certainly is.

GETTING RICH QUICKLY

(i) Liffe (the *London International Financial Futures and Options Exchange*) is not after all to build in **Spitalfields, London**. Instead it will sell its 2-acre site, worth more than £50m. This compares with the £40m Liffe paid . . . in June. The price [had been] agreed in December 1996" (Marc Lopatin, "*Estates Gazette*", 1st. August).

(ii) A fortune is being made at Archway, north London, A company acquired a property "worth less than £1 million before planning permission was given in July . . . The goldmine site is now on offer at more than £2 million" ("*Islington Gazette*", 1st October).

(iii) "We all know that the major component of profit lies in the planning consent" (*Henry Stewart Conference Studies* publicity hand-out for a conference in London on 25th. September, on brown land residential development).

(iv) "Property prices can soar with even the whiff of new or improved transport links" (editorial, "*Estates Gazefte*", 25th. July).

(v) "Reading's move to the Madejski Stadium . . . has led to major celebrations among residents in Norfolk Road which runs past the old Elm Park ground. Since Reading stopped playing there, parking problems in the narrow street have eased considerably and, more significantly, house prices have shot up by 20 per cent. (Martin Smith, "*Daily Telegraph*", 24th. August)

RUSSIA ON THE SLIDE

Russia has not been short of "establishment" advice from the West, which goes much of the way to explaining its present parlous position. For the production of Wealth, one needs Land, of which Russia has plenty. One also needs Labour, which is plentiful too. Capital comes in handy, and there was potentially no shortage of that from the outside world. So where did it go wrong?

Part of the problem was the old Marxist theory of value, which held that value depended on the labour content put in to the making of anything. Since land was clearly not the work of man's hands, it had to be value-less. Marx, incidentally, did not himself share this ridiculous view, as is clear from volume 3 of "*Capital*". Be that as it may, the privatisation programme inaugurated in 1992 substantially undervalued state assets, which were virtually given away. Incompetence, fraud, and gangsterism have done the rest.

The various sharks operating in the new Russia, have been creaming off the Rent of Land, and, far from re-investing it at home, have been exporting its value to Swiss and other bank accounts (usually by under-reporting the value of exports, especially mineral wealth, including oil and natural gas). Now, it is in fact the Government's duty to cream off the Rent of Land, and to use it for the public revenue. Were the State to do that, the sharks would be left with no option but to apply their undoubted entrepreneurial skills in more positive fashion. Unhappily, "establishment experts" in the West do not understand and appreciate the key rôle of Land in political economy either, so nobody learns from the mess.

THE INESCAPABLE WHIFF OF MONEY IN THE AIR

(i) To allow an alliance between BA and American Airlines to proceed, BA would have needed to surrender some 267 pairs of take-off and landing slots at Heathrow. When BA was privatised, amazingly they were given no value in its balance sheet. Yet the slots were said to be worth hundreds of millions of pounds. Would BA have sold them? Were they to have been given away to rivals? Should they have been returned to the government for the government to auction? The Office of Fair Trading was content to let BA sell them. The EU Competition Commissioner wanted them given away. The Deputy Premier thought better: "I have always been clear in my mind - the slots don't belong to BA. They belong, I believe, to the community" (statement to *BBC Radio 4*, reported by Polly Newton and Jason Nissé, "*The Times*", 12th. August)..

It may all be acadetic now, but Mr. Prescott was right. The value of the allocation of those slots, those air rights, could and should have been captured for the benefit of the community as a whole. They do not belong to BA or any other airline. The air above the ground is, in political economy, classed as land. Exactly the same principle applies to the Earth's surface, to the ground below and to the waters. The land belongs to the community, and we want to hear Mr. Prescott and his party say it and act upon it. The appropriate policy is LVT.

(ii) Air rights are saleable in Manhattan too. Real estate mania has begotten this phenomenon. The system "allows low-rise structures such as theatres in densely populated neighbourhoods to transfer space above their buildings, enabling developers to build skyscrapers nearby and still conform with zoning regulations . . . Several buildings exceed height limits because they have been able to "borrow" unused development potential from theatres which crowd the neighbourhood. Such open space above low-rise structures is not cheap" (Tony Walker, "*Financial Times*", 11th. July). Breathtaking! If those Red Indian chiefs had foreseen this, they would have asked for more beads!

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