

Despite all the Blarney ...

DESPITE Ireland's extraordinary economic performance in recent years the so-called "Celtic Tiger" economy has yet to overcome some significant problems. These include the poverty and inequalities that affect around 15% of the population, the relatively high dependency on exports, and also on inward investment by multinational firms. The experts insist "the fundamentals are sound", but as job losses in the US mount there is now some acknowledgement that in the event of a global downturn Ireland's economy is more exposed and more vulnerable than most.

Homelessness has increased, and although many previously derelict sites in Dublin have been developed in the past few years the problem of urban dereliction remains quite widespread. The rapid expansion of the economy has exacerbated some inherent problems and served to highlight a longstanding failure to apply land policies and land taxes to ensure economic efficiency, sustainability, and social justice. The clearest evidence of that failure includes the crisis in housing affordability; the recent downturn in construction activity; the regional imbalance of development in recent years; escalating homelessness/ housing need problems, and the inordinate profits and capital gains which have accrued to a well-placed minority who shoulder less than their fair share of taxation.

DURING the Irish property boom of the late 1990's house prices doubled and the problem of homelessness worsened considerably. Charities in the front

line estimated that at least 5,000 homeless persons and about 7,000 Travellers were in need of accommodation. With more than 10,000 refugees and asylum seekers entering the country each year, and house-builders straining to meet demand many people were poorly housed and some government agencies found it necessary to use holiday camps, former institutional buildings and bed-and-breakfasts to provide additional emergency accommodation. As private rented accommodation costs escalated by as much as 25% per annum in Dublin and other urban centres, local health boards were forced to increase their rent allowance expenditure to around IR£136m in the year 2000.

Joseph Glynn of Earthwatch, Friends of the Earth Ireland, spotlights homelessness and dereliction in Ireland

The number of applicants for local authority housing also increased through the 1990s. In 1998, there were 43,000 families on the waiting list: the equivalent of at least 100,000 persons. Despite this, the local authorities built just 2,800 houses in 1998 and the privatisation of local authority houses continued as tenants bought them, often at less than market prices.

Rich and Poor, by the Combat Poverty Agency (Oak Tree Press), is one of the few published reports to highlight the failure of the government's housing policy. Authors P.J. Drudy and Michael Punch estimate that in 1998 at least 150,000 persons were in serious need of housing. While their estimate includes the above mentioned categories, and people living in unsatisfactory institutional settings, it may not include some of those who live in unsatisfactory domestic settings, such as battered housewives, or of those who live in damp houses which investors can rent with little fear of inspection. But the problem of housing need is even more extensive. Students at Dublin's third level colleges and universities can expect problems in finding affordable accommodation in Dublin this autumn. Last year, Trinity

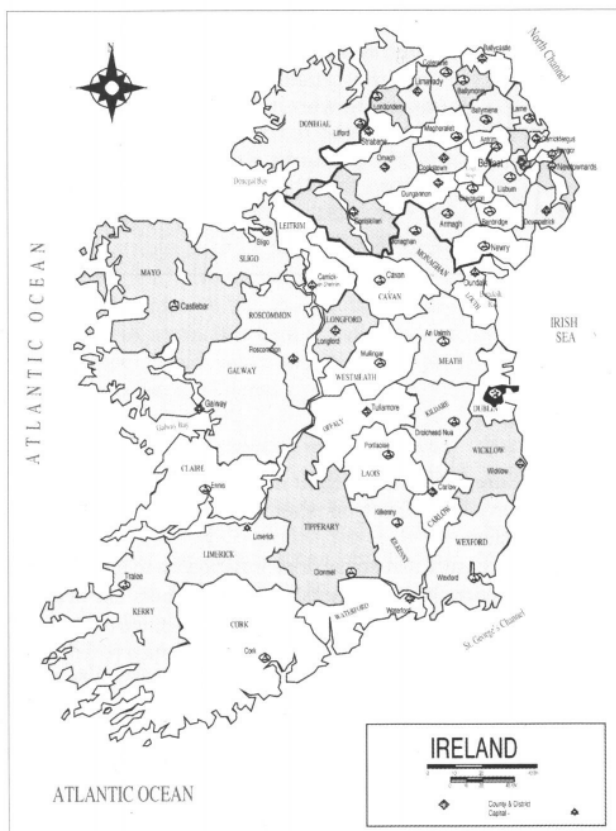
college increased the weekly rent to IR£75 for rooms on the campus "to more closely reflect market rates" despite a protest "sleep-out" on its velvet green lawns. Having risen rapidly over recent years, rents may well continue to rise this autumn. Less well-off students and families may have to make sacrifices as a consequence. Other students may have to share in cramped conditions, or commute long distances, as do some low-paid workers. Some students may join low-paid workers, who, according to a recent news report have begun to seek shelter in the hostels. The reporter also noted that first-time applicant numbers doubled at Dublin homeless shelters in the second quarter of 2001.

ABUNDANT UNUSED PROPERTY
THE IRISH construction industry has significantly increased its output since the mid-nineties and turnover for the sector has risen rapidly. Construction is now the largest indigenous industry sector although rampant land price inflation since 1997 would account for much of the growth in turnover. Despite this increase in output, and the strong demand for land there remains in Dublin several areas where derelict buildings and unused sites are common. The failure to tax such land and buildings, and the expectation of future grants and incentives for development, means that the owners can hold such property idle and benefit from doing so.

Outside Dublin it is also quite common to see large derelict commercial properties in towns, and the number of derelict rural cottages and houses in many counties is astonishing. Because planning permission is more readily available on the site of a previous dwelling these windowless and roofless "remains" are a valuable asset. Rural auctioneers will usually have a few such assets on their books, and a heap of stones on an acre with a view might well fetch IR£50,000.

The current Fianna Fail/PD Government has taken steps to address one area of property disuse; that is, the huge volume of idle space on several floors over premium retail space. Insurance and access problems were perhaps a factor, and hopefully the incentives provided, albeit for specific streets only, will prove effective. The Government has also introduced tax reliefs for householders who rent a room, but this "carrot" does not appear as effective as a residential property tax or land tax would be.

THE LANDED INTEREST
IN 1986, *Ireland in Crisis: A Study in Capitalist Colonial Underdevelopment* was published. Its author, Raymond Crotty, an Irish economist of international renown, had grasped the nettle, as it were, and proceeded to show how the slow long term growth of GNP since the State's foundation was largely attributable to the pursuit of the landed interest at the expense of the national. The



PERSONALLY SPEAKING

Holiday Shocks KENNETH JUPP



IN AUGUST, when political activity usually stagnates because so many people are on holiday, the Monetary Policy Committee of the Bank of England surprised everybody by announcing a quarter per cent reduction in the interest rate. Manufacturing industry was officially in recession, service industries were hesitant, the technical industries based on computers were desperately lowering prices, the stock market was falling, and rural industry and farming were in dire straits. By contrast, the shops were busy, consumer spending was booming, while house prices were rising strongly. Boom in some sectors, slump in others. How can the regulation of interest rates by the Central Bank cope with such divergence? Logically, each sector needs to be treated differently. Individual firms need restraint or relaxation of restraint, in different measure. "One size fits all" is a recipe for disaster.

The belief that all this diversity in the economic landscape can be controlled by a committee of experts is a "left-over" from Marxism. To examine a non-Marxist view one has to go back to the 18th century French economist and statesman A-R.J. Turgot, who considered it an error to believe that the rate of interest should be fixed by government. He explained that money has to express two distinct valuations: the cost of goods bought in the market, and the cost of money borrowed in the money market. The two evaluations are regulated by entirely different principles, and move independently of each other, often in opposite directions. "The rate of interest, like the price of other merchandise, should be fixed only by the market."

Current jargon frequently refers to the workplace as a playing field. This is a heartening but quite inappropriate metaphor. Work for most people is not at-all like play, and the work-place is not in the least like a field. Turgot described it as a landscape of hills and valleys, with rough places and plain, where –

The rate of interest can be regarded as a kind of water level, falling below which all labour, cultivation, industry, and commerce are engulfed, and come to an end. The mountain summits rise above the waters, forming fertile and cultivated islands. If the water should begin to flow out, as the water level goes down, first the land on the slopes, and then the plains and the valleys appear, and become covered by every kind of productive activity. If the water rises or falls by only a foot, it is enough either to inundate, or to restore to production, immense tracts of land. It is the abundance of capital which brings enterprises to life, and a low rate of interest is both the effect, and the indicator, of abundant capital.¹

It is madness to suppose that interest rates, or indeed any other human device, can be used to decree that every valley shall be exalted, and every mountain and hill made low, the crooked made straight, and the rough places plain. However, government does need to do what it can to even out the advantages and disadvantage of the rugged economic landscape.

For many years governments of all complexions have resorted to subsidies or nationalisation to sustain ailing industries. Both these methods, although they continue to be used, have now been largely discredited. A far more effective way to protect those who are poorly placed in the economic landscape, is by taxation:

The expense of government to the individuals of a great nation is like the expense of management to the tenants of a great estate, who are all obliged to contribute in proportion to their interest in the estate.²

A good landlord achieves Equity by ensuring that each tenant pays a reasonable rent, revised at frequent intervals so as to keep pace with changing circumstances. Individual rents then take into account every advantage or disadvantage of situation, and even out the inequity of the mountainous economic landscape. The Chancellor is very like the manager on behalf of the Crown of a great estate, and could do the same in respect of the expenses of government by taking rent from every freeholder, but only for his position.

The public is now being alerted to the importance and value of position by the difficulty of recruiting police officers, nurses, teachers and other public servants in London and the South-east, where salaries are insufficient to meet the cost of a mortgage with which to buy themselves into the housing market. Departments and companies also are searching for premises away from the gold-paved city and its inner suburbs.

The enormous value of position is one of our most valuable assets. Unlike the buildings and other developments of a site, which are man-made and are therefore private property, the value of a site is public property created by the amenities of Nature and the growth of the community surrounding it. If it were collected by the exchequer in the form of rent, mortgages would only have to cover the price of the building.

- 1 A-R.J. Turgot, *Reflections on the Formation and Distribution of Wealth* (1766), Othila Press, London 1999, paragraphs 75 to 90. Turgot's meticulous argument in these paragraphs is summarised at pp. xxiv to xxvii of my introduction to the translation.
- 2 *The Wealth of Nations* Bk. V, 2, ii. This dark saying of Adam Smith is part of his first maxim of taxation.

consequences included the persistence of poverty and emigration and the failure to adequately develop indigenous industry.

In 1987, *The Economist* confirmed Ireland was in crisis, the Government having borrowed and spent its way into excessive debt. Crotty had shown how former colonies, inheriting institutions and structures designed to exploit the land and other resources of a nation, frequently sustained the land monopoly and those institutions which effectively blocked national economic development. As an economist with a lifetime of experience in developing countries, and as a Georgist, Crotty prescribed a land value tax remedy which, if applied, might enable Ireland to break the cycle of undevelopment and thus provide a model for some of the other 138 former colonies to do likewise. But his prescription was unpalatable to powerful vested interests in Ireland and the EU stepped into the breach with funding which, together with the US inward investment by multinationals, laid the basis for an economic recovery.

CROTTY'S ANALYSIS and prescription were apt as events were to show, especially from 1997 onwards. In 1997, the Irish economy was buoyant. Our GNP was rising rapidly, the tide of emigration had been reversed, inflation was low and both employment and productivity were on the up. The Fine Gael/Labour government was performing well but the populist right-wing Fianna Fail party was convinced it could do better. With the support of Ireland's media baron, Sir Anthony O'Reilly, other corporate backers, some catchy slogans and a well-run campaign, they narrowly snatched a general election victory by persuading the moralising right-wing PD party and a handful of "independent" candidates to join them in coalition. From the outset, the new government made clear this was "pay-back time", as they put it, and launching their programme for what turned out to be a boom on top of a boom, the "gi-normous" property bubble of recent years; the rampant land price inflation and speculation; excessive borrowing and unsustainable development; all of which are characteristic of neo-liberal excess.

If land rent is, as Ronald Banks estimates, 17% of the UK's GNP, we can safely estimate that it is a larger portion in Ireland. If public expenditure for the benefit of landowners is a further 16% of UK GNP we can safely estimate it is more, and quite probably much more in Ireland. The owners of Irish land have never had it so good but it can hardly last forever. A global downturn could bring the bonanza to an abrupt end. For the time being, however, it seems that Ireland's first-ever economic boom is not yet over, and the IMF and the EU seem satisfied that our only excess has been one of neo-liberal orthodoxy. It is also possible that Ireland might soon awaken to a harsher economic reality and provide very fertile ground for the seeds planted by Raymond Crotty and Henry George, although there are few now to tend to their precious legacy.