



THE SARKEE TIMES



Issue 2 (3rd ed.)
2 December 2008

Introduction

Why has there been no The Sarkee Times for more than a year and why am I writing one now? Am I Mrs Oliver and is the Sark News the new The Sarkee Times?

When I started The Sarkee Times, it was meant to be joint work with two local residents but that help never materialized and I have neither the time nor the skills to publish a newspaper all by myself. I have not written anything for a while because I had nothing to say. I write now because I do. I have no connection with Sark News; I do not receive a copy & so I'm often the last one to see it. And your guess who Mrs Oliver is is as good as mine.

Elections

Nominations for Conseillers have closed and we have had quite a good field of candidates. 57 candidates stood. I was concerned the candidates would split into those who obviously worship Karl Marx and those who obviously worship The Helicopter. To my pleasant surprise, a good number of independent, intelligent, capable candidates stood who do not obviously fit either description. Many very good people unfortunately decided not to stand, and I hope next time they do.

Hopefully, we can elect some Conseillers who understand business and economics, who possess personal integrity and are articulate, educated, intelligent and hard working; who have a proven track record of success, and who are driven not by vendettas, trench warfare or personal interests but by a desire to do what is in the best interest of Sark. How many of those boxes can you tick next to your preferred candidates?

It will be particularly important, if Sark is to resolve its present turmoil and maintain its independence that Conseillers have the independence, backbone and intellect to deal with all external counter-parties (be it Guernsey, the UK, Brecqhou, or any other party) with a cool head in a way which is diplomatic and expresses respect, thanks and appreciation as often as possible, yet commands reciprocal respect and stands up firmly and resolutely but politely and in an articulate manner when called for. Candidates driven by ideology, or who are petulant and have a track record of throwing their toys out of the pram when things don't go their way will not serve Sark's community well. Let people with personal fights to fight fight them out amongst themselves - outside of Chief Pleas.

I quote from one manifesto which I believe expresses the right attitude:

"I sit firmly and squarely in the independent camp. Guernsey's legislature and political will needs to be kept at a safe arms length. ... I would encourage selective and careful adoption or rejection of any proposed legislation based on pure objective advantage to Sark. We need to retain as much independent power as possible and keep Sark unique. ... There is no wisdom in making enemies with investors who are relatively powerful neighbours. The proposed series of meetings are in my view a very positive way forward. We are strong enough to assert our own independence without fear. Our Brecqhou neighbors can be a powerful source of assistance and security as we try to mold a truly independent island. Deep and sincere apologies need to be expressed for the personal nature of publications in `Sark News`. Unimportant distractions need to be dropped, `Sark Lark` accusations, Island Hall Bar etc."

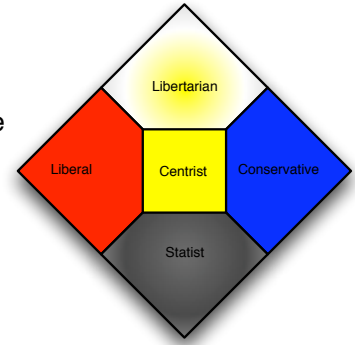
You can find where this quote is from by reading the manifestos. I hasten to add that I do not know this candidate personally, have never met him and have never spoken to him, know nothing about him, but what he says makes very good sense to me.

A number of good candidates have offered you their services for nothing - do the right thing for Sark and vote for them!

The Manifestos

“You and I are told we must choose between a left or right, but I suggest there is no such thing as a left or right. There is only an up or down. Up to man's age-old dream -- the maximum of individual freedom consistent with order -- or down to the ant heap of totalitarianism.”

--- Ronald Reagan



We have received many manifestos. To be fair, most of them have been pretty good, although with some, you have to wonder if they are genuine; and you have to know the candidate and read between the lines generously to work out what they mean. Still, I have not seen quite the manifesto I would have liked to have seen.

In the old days, a new Tenant joined Chief Pleas only infrequently. He or she would watch, listen and learn for a few years before speaking out and making changes. With the whole house being elected there is now a natural incentive for prospective new Conseillers to be busybodies, to try to stand out from the crowd and make their mark by proposing all sorts of new ideas and changes from the word go. Does anyone have to courage to resist such pressure and say:

“I will work to avoid unnecessary bureaucracy, and reduce the work of Chief Pleas. I will make sure we don't do what is unnecessary, and focus on doing only that which must be done, and doing it well. We have much to be proud of and we don't need to change a lot; if it ain't broken, don't fix it. The new Chief Pleas will have half as many members as the old one, and the amount of work is increasing. I will work to review, and if possible, reduce, the number of Chief Pleas Committees. I will work to weed out and repeal unnecessary existing legislation and just say no to any externally proposed new laws which are not in the obvious interest of Sark. Chief Pleas committee size should be reviewed, too - do we really need 5 people on every Committee?”

Not so long ago, I am told, Chief Pleas meetings started at 10am and ended by lunchtime. Let's return to that way of doing things! Achieving this is not the unrealistic pipe dream, as some have said. It is not only possible - although it may require strong leadership and courage to just say no to needless bureaucratic baloney - but is essential if Sark and its community spirit are to survive. Will you join me in supporting this objective?

It is not the job of a good Government to do a lot of things and come up with new initiatives. Nor is it to tell people how to live their lives. Nor even to help people better their lives. The job of a good Government is to do the minimum that is required, and allow (not hinder) people to come up with new initiatives and better themselves themselves. This has been the Sark way for centuries, and long may it continue.

Several manifestos talking about introducing “fairer” systems of taxation. That sounds nice but unfortunately I fear it's merely a euphemism for spending more and taxing more, but taxing the rich most of all (to start with - until they are all driven out and then *you* can pay more; or, as they say, it's no good asking the crocodile to eat you *last*). What do you think? Some manifestos talk about keeping the existing system, and merely adjusting the top and bottom ends. This sounds much better to me.

Most importantly, why not just spend less, and tax everybody less? 12 years ago, Chief Pleas budget was £1/4 million per year; now it is £1 million per year. Taxes on Sark are lower and lighter than in most places, but they have been rising, and rising for bad reasons. I say, let's reverse this:

“Taxes have been increasing considerably, in large part due to mistakes made in relation to Sark shipping. Do taxes really have to rise - in real terms - every year? We must sort out Sark shipping and cut taxes for everybody. Sark Shipping's timetables and fares are strangling our tourist industry; we must take bold action to sort it out.”

Land Reform

If you are a leaseholder, you do not enjoy security of tenure when your lease runs out. At the end of your lease, your property reverts back to the landlord. You have no incentive to invest in, or improve your property.

Land reform - how to give leaseholders more security of tenure - is one of the major issues of this election. What options does Sark have for achieving this end, and what are the consequences of each alternative?

The Voluntary Option

One option is to amend the Letters Patent of 1565 to allow Tenements to be subdivided and for new freeholds to be created if so wished by the respective Tenant or Freeholder. No obligation or compulsion is placed on the Tenant or Freeholder to do so.

What are the consequences of such reform?

Tenements will increase in value, since a new right has been created for Tenants, without creating any new encumbrance - they will now be able to carve out small freeholds out of their land suitable for building a house on them. Each such parcel is worth a lot more than the pre-reform fraction of the Tenement's value corresponding to the fraction of land area of the Tenement it represents - a freehold parcel with building permissions is worth a whole lot more than that same plot of land allocated any other use currently available. By subdividing a Tenement into lots of small parcels and selling them off, Tenants will be able to make a small fortune.

Leaseholds, on the other hand, will decrease in value. Once purchasers are able to buy freeholds, who's going to bother buying a lease?

With an incentive to subdivide and sell off land and make a profit, a lot more building plots will be made available by Tenants. Although in the short run, this will be slowed down by the "local market" and development regulations, with time, the Island will become more built-up.

Andorra abolished feudalism in 1993. Within a mere few decades, it transformed from a quaint mountain country with 6,000 mostly farming residents into a concrete jungle of skyscrapers and cranes with 80,000 inhabitants.

The Voluntary Option, therefore, will enrich Tenants, impoverish leaseholders, and result in an ever increasing number of ever more fragmented built-up freeholds.

The Enfranchisement Option

Another option for Sark to follow might be to follow the way of Britain in the days of Labour rule in the 1960s and 1970s: to not only *permit* new freeholds to be created, but to allow leaseholders with certain kinds of leases (in Britain's case, leases which on creation were at least 21 years long) to compulsorily acquire a freehold interest from their landlord. This could in principle be required to be at market value (although in a compulsory context, the value will, in the absence of free choice on the landlord's part never be the true free market value) or it could be at a subsidized rate well below market value (as it was in Britain).

What are the consequences of such reform?

Tenements will decrease in value: Tenants will no longer outright own the plots of land which are subject to enfranchisement; enfranchisement would lead to plots of land being removed from Tenements at below market value and in Tenements ending up shaped more like Swiss cheese than the large plots of land they now are. Clearly, such Tenements will be a lot less attractive to potential buyers.

Leases which qualify for enfranchisement (e.g. long leases) will, in the short term, increase in value, since they will now be capable of being converted to freeholds, at below pre-enfranchisement-legislation market value.

Leases which do not qualify for enfranchisement (e.g. short leases) will decrease in value, (i) for the same reason as under the Voluntary Option (why buy a non-qualifying lease when you can buy a qualifying lease or a newly created freehold?), (ii) such leases will run to their expiry, beyond which no Tenant in his right mind will want to grant any new qualifying (long) leases. The value of short leases, and the security of tenure for short leaseholders will deteriorate. Therefore, there will be pressure to allow enfranchisement of an ever wider range of leases. This will lead to Tenants not wanting to grant any new leases at all - qualifying or non-qualifying, for fear that new legislation will be enacted changing non-qualifying leases to qualifying ones (in the same way as today some Tenants are already reluctant to grant any new leases for the fear of what land reform *might* happen).

There will also be an effect on the economy as a whole. Currently, Sark has a near-450 year history of impeccable respect for private property: what is mine is mine, what is yours is yours, and Chief Pleas does not play God and turn what is mine into what is yours, or vice versa. This is probably unique in the world and inspires great confidence in purchasers of real estate here, and investors - when you buy something, you know what you are buying, and what will be yours in years to come, and what will not. The moment Chief Pleas breaks this 450 year tradition, nobody will know what other assets they will confiscate and redistribute. Investors' confidence in Sark-based assets will deteriorate: would you rather buy something if you could be sure the Government had a 450 year tradition of not taking things away from their rightful owners, or if they

had a tradition of recently taking things away from people and giving them to others? The result will be a general decrease in the value of Sark-based assets.

Under this option, therefore: (i) Tenements and short leaseholders will lose out, (ii) long leaseholders will win out in the short run, (iii) in the long run, we will all lose out.

An Alternative

Another option would be for Tenants to voluntarily agree to grant long leases (say of several hundred years in duration, or, as someone has suggested, for the duration of the life of the current leaseholder), giving leaseholders security of tenure and incentive to develop their property, in exchange for a constitutional guarantee to the landowners that no legislative land reform will be enacted by Chief Pleas without the consent of the landowners.

Previously, such a guarantee would have been meaningless since Tenants had a majority in Chief Pleas, but now it would not be.

Under this option, neither Tenants nor leaseholders would lose out, the confidence of investors in Sark would remain as solid as it always has been, leaseholders would enjoy the much needed security of tenure, and Tenants' fears of having their land confiscated would be allayed, encouraging them to grant the leases leaseholders are asking for.

Mortgages

Another proposals made in connection with land reform has been to allow residents to use their properties as security for a mortgage. What would be the consequences this reform?

It is instructive to look at what has been going on in the wider world to understand this.

The Credit Crunch

You will be aware that the world is in an acute financial crisis caused by a credit crunch. What caused it and how will it end?

Over recent decades, government programs were enacted in order to convince banks to lend to consumers who were poor credit risks (i.e. who don't pay their money back) and overextend themselves (e.g. Fannie Mae and Freddie Mac, which guarantee mortgages to poor credit borrowers, in the U.S.). Central banks have kept interest rates artificially low. Banks and mortgage brokers had no incentive to go against the government line - more mortgages mean more commissions, why complain?

The low interest rates have, on the one hand, encouraged those who want to spend today and work for it tomorrow to borrow, and spend, more than they could afford. The cheap price of credit has also caused house prices to rise well above the long-term sustainable trend of house values - the so-called "credit fuelled house price bubble". The apparent (although illusory) high price of houses has further encouraged unsustainable borrowing by people who felt rich by the rising prices of their houses.

On the other hand, the low interest rates have discouraged savers from saving.

Well, the money has now run out. The (large) demand for borrowing has outstripped the (smaller) supply of savings due to a manipulated market price of money (i.e. too low interest rates). Savers have saved all they had been willing to save in short-term bank accounts (mostly either instant access, or tied up for up to five years), and banks have lent it all to borrowers in long-term (20 or 30 year) mortgages. As savers ran out of further cash they wanted to save, banks who ran out of funds first started borrowing in the 90-day money market to refinance their 20 to 30-year loans. By about August 2007, money started drying up everywhere and banks suddenly started finding out that *all* banks were running out of cash. The 90-day money market, too, was drying up, which could be seen by a huge increase in cost of borrowing (i.e. interest rates) in the interbank 90-day market. By 2008, virtually all banks had run out of cash, and we started to see some failures, emergency requests for cash from central banks etc.

Banks' shortage of cash has meant that borrowers suddenly became unable to refinance their mortgages (since banks had no funds to lend), or take out new mortgages to buy new houses. Less cash all round meant less money was chasing the same number of houses and house prices collapsed as a result. People found themselves in negative equity, bankruptcies and forced property sales ensued. Property prices started reverting back to their sustainable long-term trend values - but they still very much exceed them!

Of course, the whole schemozzle was further complicated by banks packaging portfolios of loans, securitizing them and selling them off, banks and hedge funds selling sophisticated credit insurance products, and credit rating agencies incorrectly rating securities composed of a portfolio of stinking loans. However, all this did was to entangle all the world's financial institutions into a tangled web where the failure

of one meant the collapse of a whole wall of dominoes. It made the problem more complicated and less transparent, but it did not cause it. The basic cause for the crisis was simple: savers lent money to banks, banks lent money to irresponsible borrowers, and the irresponsible borrowers have spent it. And now it's gone. Irresponsible borrowers now owe more than their houses are worth and can't (or won't) pay back the banks, who can't pay back the savers.

In response, how did the world governments propose to solve this problem of too much borrowing and too much spending? The answer: by borrowing and spending more. Alisdair Darling has threatened banks by regulation unless they voluntarily agreed to lend to small businesses more at subsidised rates of interest. The hung over drunkard is proposing to cure his alcohol addiction by drinking more booze.

The savers now think they own their savings, the borrowers don't want to leave their houses - but there is only one dollar for the both of them - either the savers' dollar in the bank, or the borrowers' dollar in his house. One of them has to give - either the borrower has to be kicked out of his house, or the savers' dollar has to be taken away from him. The solution adopted by world governments is to inject more money into the financial markets, thus increasing the money supply (so the banks can pay back the savers without the borrowers paying back the banks). Increasing money supply means more dollars in an economy which is shrinking, which means that every asset will now cost more dollars - in other words., inflation. They are planning to inflate savers' savings and borrowers' debt away. This way, borrowers can stay in their homes and savers keep the nominal (but not the real) value of their savings (i.e. the savers lose their money).

The unsustainable credit-fuelled boom has come to a credit-crunch bust.

We are told that boom and bust is an essential feature of capitalist economy. But are they? Sark has never had mortgages. And, perhaps uniquely in modern world, Sark has never had boom and bust. A coincidence? Or just the fact that booms tend to be caused by unsustainable underpriced credit, followed by a hit of reality, leading to a bust?

While borrowing in the absence of mortgages is certainly possible, mortgages make it possible to borrow on a completely different scale than if one is unable to provide one's house as collateral.

The fact is that building your wealth by tightening your belt, scrimping and saving leads to an organic growth of your assets, whereas borrowing leads to economic cycles of boom and bust.

But I have to correct myself. Sark has not always been mortgage-free and economic crisis-free. There is one well-documented example of a mortgage: when the then Seigneur took one out to finance the silver mines. But we all know what happened then!

Leverage

Why do businesses borrow to grow? The answer is simple: if you have a great business idea which can return you 25 pence at the end of the year on every pound invested, and you can borrow at an interest rate of 5%, you want to borrow as much as possible, for a cost of 5% per year, a gross return of 25% per year, and a net return of 20% per year - on borrowed money!

For example: if you have £1000, you will earn £250, for a net return of £250 (25%). But if you borrow another £9000, you will earn £2500, pay the bank £450, for a net return of £2050 (105%)!

This effect is called *leverage*. It's pretty neat, isn't it? Let's all borrow and make money!

Of course, there is a downside. In a business, you can't predict with certainty how much money you'll make; you can only estimate. What if at the beginning of the year you forecast/estimate that you'll make a 25% return, but your product doesn't sell and you end up making a 20% loss instead?

If you invest only your own £1000 of money, you will lose £200. Not good, but you'll still have your £800. But if you borrow another £9000, you will lose £2000. The bank will want their £9000 back, plus £450 interest, which you won't be able to pay because you won't have it- you will be *bankrupt*!

Leverage increases the potential return, *proportionally* to the amount of borrowed funds; but it does so at the cost of increased risk - *more than proportionally* to the amount of borrowed funds. Double the potential return entails more than double the risk.

Borrowing does not make money. Good ideas and hard work makes money. Borrowing only amplifies risk and return - if 10 people invest without borrowing, some get rich and some don't; but if those same people invest and borrow, those who would have got rich get richer still, and those who would have stayed poor - go bankrupt!

While this analysis was done on the basis of borrowing for business purposes, of course it equally applies to borrowing for the purpose of buying a home, as many house buyers the world over who have found themselves in negative equity can attest.

If you earn money without borrowing, you may or may not strike it rich, but you *will not* go bankrupt. If you borrow, especially if you provide your house as security, some will - inevitably, sooner or later - lose their homes and become bankrupt. What do you do with such people?

Sark has never had mortgages. Sark has never had a welfare state. This is not a coincidence. You cannot have mortgages without a welfare state. Welfare state must be paid for - by taxes.

Borrowing leads to rising social inequality, bums on welfare, envy, jealousy, class divide and inter-class hatred.

Independence

Several manifestos say that Sark's relationship with Guernsey and the UK have proven beneficial to Sark and should be maintained. Some even say that talk of further independence is "dangerous nonsense".

Sark's relationship with the UK may have been beneficial in the past. But the UK is no longer the same country it used to be; the Crown no longer means the Queen; and the EU and other European institutions are no longer the largely harmless entities they may once have been. They interfere in Sark more, in ways harmful to Sark, and their appetite for doing so is increasing.

Talk of further independence is not dangerous nonsense. Sark must distance itself from the UK and the EU and assume a firmer stance of being an independent equal partner versus Guernsey. Not doing so, or electing candidates who don't realize the urgent need of doing this *is* dangerous nonsense.

The Elections Book

Do you want to take a punt on who's going to get into the new Chief Pleas?

You can "buy" a candidate if you think he's going to win - you pay me the going rate (say £0.10 for a long shot candidate). If he or she is elected, you win a pound.

Alternatively, you can sell a candidate if you think he's going to lose - I pay you the going rate (which may be £0.09 for the same candidate) but you have to pay me a pound if he or she gets elected.

I will publish the daily closing prices of all candidates every day.

Research indicates that online gambling markets are much better at predicting the outcome of elections than any other method (including opinion polls). Apparently, people lie to pollsters, but not when they have to put their money where their mouth is!

I reserve the right to refuse any bets; or request collateral for any potential debt obligations!

All proceeds will be donated to local charities.

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