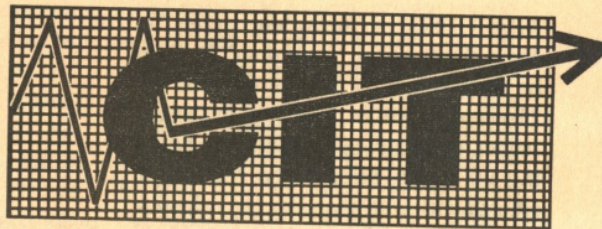


ECONOMIC INTELLIGENCE

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CENTRE FOR INCENTIVE TAXATION

LABOUR: SAFE AS HOUSES?

TONY Blair as leader of the Labour Party has thrown Britain into an exciting phase of economic policy-making. New uncertainties offer opportunities to investors if they correctly plan for the outcome of the general election in two years' time.

At their recent seaside conference, Tory ministers satirised Mr. Blair and shadow chancellor Gordon Brown. The public was not amused. Opinion polls make it clear that people want new leadership to replace tired ideas, and there is no evidence that Premier John Major has the capacity to recover the policy initiative.

The Labour leaders exude a confidence that is infectious. Even so, they will have to convince people that they have new answers to recurring problems. Their proposal to write out the redundant nationalisation clause from the party constitution won't be enough. For a cynical public knows that policy is still being fashioned by the old economic paradigms - the ones that crashed the economy in 1992.

THE TRAGEDY of wrong-headed policies is played out before the public's eyes day in, day out. The latest drama to illustrate the shallowness of policy is the Bank of England's concern about inflation, which influences interest rates and therefore the fate of business prospects and the real value of household budgets.

Eddie George, the governor of the Bank of England, is making the running over interest rates. We are told that there has to be a trade-off: slower economic growth is the price we must pay for a low rate of inflation. The reasoning behind this thinking is primitive, but is typical of how economists think the economy works. For an illustration of the ambivalent consequences, look at the confusion in the housing market.

- The government wants (but at the same time, it doesn't want) a rise in the price of houses, to rebuild confidence in consumers so that they will spend more and encourage industry to expand investment. And yet, the government thwarts its aspirations (and yet, it doesn't) by increasing taxes and interest rates, which obstruct recovery in the housing market.

- What is really driving trends in the housing market? Prices are now supposed to be affordable. So why are builders not expanding output? Trevor Spencer, chairman of Leeds-based Tay Homes, offers an explanation: "We have been forced to become more selective in our land purchases". Why? Because, he says, land prices have re-

turned to the levels achieved in the late 1980s - and, as readers of EI know, this was the primary cause of disruption in the economy.

The increase in land prices has pushed up the price of new homes and eaten into Tay Homes's cash, resulting in an increase in gearing. "Things have definitely slowed down," reports Mr. Spencer.

TRENDS in the land market drive the business cycle, though you would not know it if you relied on the standard economic textbooks. Yet land speculation is the direct cause of the wipe-out of billions of pounds of investors' assets at the end of each business cycle.

This - the best kept economic secret of the 20th century - ought not to be a surprise to the bosses of finance houses. Take the Nationwide, a building society with a long history. Its accumulation of data ought to have enabled its statisticians to warn that a new land boom was looming in the late 1980s. No such warning was given to the directors when they considered buying estate agencies in 1987, at what was near the top end of the property market. One year later the slide began which led to the wipe-out, in which the asset value of people's houses has been slashed by 30-50%. Nationwide has just sold its 304-branch chain of estate agencies for £1! Total loss: £250m.

Abbey National, another building society, pulled out of the house-selling business last year after losing a similar sum. Ditto the Prudential. The losses fall on the pensioners and investors who have been deceived by the notion that building societies are "as safe as houses"!

Which brings us back to Tony Blair, the debonair barrister who claims to be a socialist but speaks like a conservative. Do investors - and job-seekers - begin to plan for an era of innovative policy-making under a Labour government? Few people doubt that bold action is needed: the creeping crisis in the UK economy is illustrated by the job market. Unemployment is falling, but so is the number of people in work. This contraction is the labour market represents a national emergency that can only be stemmed by imaginative initiatives (for one of these, see page 4).

Much will now depend on whether Mr. Blair is a hostage to the political philosophy that led to a series of policy blunders by successive Labour government's in the postwar years, which attempted to formulate land policy outside the framework of market principles.