

# AS THE MODEL SAID TO THE.....

WHO would you believe? When it comes to evaluating the relative importance of the economic factors of production, would you believe a lady who makes a living as a model? Or the professor of economics, a distinguished Nobel prize-winner who made his name by studying the way people exercised their choices through the political system?

The dispute between the model and the professor - assuming that the two ever came together in the same debating chamber - would be over land.

Nothing special about land, says James M. Buchanan of Public Choice theory fame, and erstwhile professor at the University of Virginia: "...in centuries past, 'land,' as such, was far more important, relatively, than it is today".<sup>1</sup>

Now what would a pretty lady make of such a thesis? Model Marie Helvin - "who still makes her living out of still looking amazing at 41" (*The Observer*, May 22, 1994) - disclosed her secrets of eternal youth in these terms: "I buy most of it in make-up shops, or Boots or Avon. I do have this one Clinique foundation which I really love, but I'd much rather save the money and buy a book, or food, or save up and buy some land".

Spotted the difference? Miss Helvin is willing to put her money where her mouth is. No theoretical convolutions for this lady of the kind that enables neo-classical economists to wipe out the special money-spinning characteristics of land. She knows that - besides eternal youth - there is one thing only that matters: land!

THE MORAL of this story is that you need to be careful when you choose your investment guru. Back a loser, and you wipe out your wealth; back a winner, and you retire in clover.

Now, among conventional economists, the importance of land as an investment asset has been played down throughout the 20th century. And they are still at it, projecting their prejudice into the next century. In the 1980s, information technology offered a variation on the theme. Computer terminals were going to render redundant the expensive rental space in central city locations. The land-boom of the late '80s put paid to that thesis, but a good story takes a long time dying; and it is receiving a new lease

of life by digitalisation.

The world is being rewired. So a person can sit in his croft in Scotland and enjoy access to any point in the world via his television/telephone at zero marginal cost; so who needs land?<sup>2</sup> An awesome argument, you might think: consider the sheer scale of the operation! Japan, for example, plans to connect every home with optic fiber by 2010.<sup>3</sup> Surely that is going to make a difference somewhere?

But how does this make land unimportant? Dig a little deeper. The Ricardian theory of rent demonstrates that, with the reduction in costs of production, the net benefits are converted into the rent of land. The "information revolution" has two effects: an increase in the aggregate rental value of land and natural resources; and the redistribution of rents to new locations and beneficiaries, in response to the altered arrangements of society.

Now apply this insight to Japan. In 2011 - a year after the complete rewiring of the nation - Japan will be in the throes of the deepest recession since the 1993 crash; and as with the *debacle* in the early 1990s, the 2011 crash will be driven by speculation in land. Jobless workers, as they struggle to pay for their unaffordable homes, will have ample time to reflect on how the zero marginal cost of dialling the rest of the world helped to push up the value of their stamp-sized residential plots. (This assumes that Japan has not in the meantime restructured her tax system to forestall the otherwise inevitable outcome.)

So to come back to our question: would you take the advice of the Model or the Professor? It depends on whether governments are likely to wise up to the root cause of the business cycle (land speculation). If they do not, then take the model's advice: save up and buy land! Despite what the Professor of Public Choice tells us ("It is now generally accepted that 'land,' in any meaningful economic terms, can be 'produced.'") they ain't making any more of it.

1. James M. Buchanan, *The Public Finances*, Homewood, Ill: Richard D. Irwin, 1960.
2. Victor Keegan, "Britain's thin dark line in forefront of info-revolution", *The Guardian*, London, Sept.6, 1993.
3. *Business Week*, May 30, 1994.