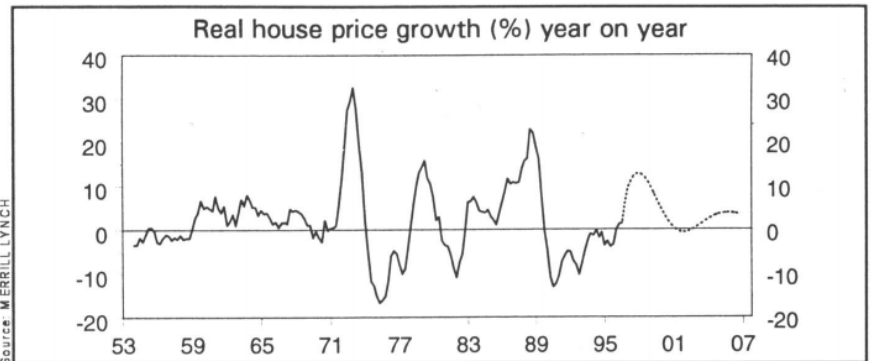


Boom-time in housing market

AFTER THE great property crash of the early 1990s, brokers in the City of London - especially those representing pension funds and insurance companies - remain cautious about the prospects of property. Money is not slushing into commercial property - and the Bank of England is keeping a wary eye on the sector that overheated in 1988, writes Fred Harrison.

"Most of them have lost so much money in real estate they'd be bust if they were independent plcs," observed John Ritblat, one of Britain's leading real estate dealers who has a low opinion of City financiers -



Source: MERRILL LYNCH
 many of whom are tenants of his company. But homeowners are abandoning their

caution. Gazumping is back in a market where the demand is now outstripping the supply of houses for sale.

Black box in the economy

WITH the general election on May 1 Britain enters a new phase of constitutional change. For most citizens this will make little or no difference because there will be no substantive changes in the substructure of the economy. Why? Because policy-makers turn a blind eye to one-third of the economy, writes Peter Poole.

Just about everything related to the land market is dumped into a black box and hidden away from the government ministers who claim to want to operate a stable economy based on fairness to the people who create the wealth. These are not wilfully ignorant people. The ignorance was fostered in the body politic long ago.

Take the case of a post-war Labour Party Chancellor of the Exchequer. Hugh Dalton had been a Reader in Economics in the University of London as well as a Member of Parliament during the inter-war years before coming to power in the socialist landslide of 1945. As Chancellor of the Exchequer he could have laid the foundations for a new fiscal policy that would have done more for people's constitutional rights than anything which Labour and Liberal leaders Tony Blair and Paddy Ashdown now plan.

Mr. Dalton knew of the claim that the rent of land was sufficient to pay for public spending, but he had already disclosed his ignorance when he wrote that "it would not, in most modern communities, bring in enough revenue to balance the public accounts". The economist had not done his homework. Which is not surprising, for he had no concept of the economic rent of land

and natural resources. Take his claim that the substitution of rent for income taxes "would lead to a very bad distribution of the burden of taxation. For a millionaire, who owned no land, would pay no taxes, while a poor man, who had invested all his savings in the purchase of his house, would pay in taxation ... a considerable proportion of his income".*

Would this millionaire live rent-free in a house? *Not many of them do!* Would he not invest his wealth in revenue-yielding activities that required the use of land and natural resources? *Most of them do!* So under a rational fiscal system he *would* be paying rent to the exchequer, directly (as land owner) or indirectly (as tenant/resource user). The only way he could escape is to sink all his money into priceless works of art, and hoard them in a boat on which he lived in mid-Atlantic.

Every person in the community adds to the rental value of land, even if he or she does not own land. Therefore, every person contributes to the national exchequer through the added rental value which his or her presence has made possible in the community.

In the past, property owners restricted the right to vote only to those who owned property on the grounds that these were responsible citizens with a stake in society. *Eyewash!* Every member of the community was a joint owner of the common property. And that, of course, was the reality which had to be hidden in the back box.

* In *Public Finance*, London: Routledge, 1932, p.42.

Because of high land prices, construction of new homes is not keeping up with demand. That is why many British bricklayers and electricians are heading for Ireland where they are promised better pay and job prospects. This reverses a migration trend that has been going on for generations, in which Irish labourers have flowed into England to seek work.

But all is not lost for the British construction sector. According to City stockbroker Merrill Lynch, house prices will double over the next 10 years - yielding higher returns than stocks and shares. The depression advice - buy a house as a home, not an investment - is again being ditched in favour of calculations of capital gains.

The Merrill Lynch research makes its prediction on the basis of variables that include disposable incomes, interest rates and inflation. Their new model concludes that house prices are trading at 20% below their true value, after peaking in the late 1980s when they were 32% overvalued.

The mathematical model fails to take into account future trends in land prices. That is why it forecasts the next peak in annual price increases as 16% in 1998, levelling off to an annual rate of 7% until 2007. On the basis of such insights, one media pundit, David Smith of *The Sunday Times*, stated (March 16): "I do not think we will again see the annual house-price rises of 20% to 30% that we saw in the late 1980s". He will have forgotten those words when, 10 years from now, the graph line - instead of flattening out as Merrill Lynch predict - explodes exponentially. And it will do so because of the influence of the land market, to which the economists have turned a blind eye.