

# Only the overture to a depression

**INSITE** tunes  
into the home  
market slump

HOUSING MARKETS in most industrial economies are taking a battering, but little attention is being paid to the fundamental cause. Families complain that house prices have soared beyond their means, but the politicians are not contemplating reforms to avoid a similar squeeze on household incomes in the future.

British builders have launched a desperate propaganda campaign to identify the fundamental problem: the land market. They are paying for full-page advertisements in the national newspapers demanding "More Land for Homes." They complain that the bureaucrats, through their control of the planning system, are at the source of the problem.

The Thatcher government disagrees, and claims that sufficient land has been allocated to meet housing needs.

The facts are beyond dispute (see table). While house prices have gone through the roof since 1985, the cost of construction (wages and building materials) has increased by very moderate amounts.

The price of land, however, has skyrocketed — from an increase of 28% in 1986, over the previous year, to 70% last year. The price of land now constitutes half the

UK HOUSING MARKET'S % CHANGES ON PREVIOUS YEARS.

	New House Prices	Sales Volumes	Building Costs	Land Prices	Interest Rates
1986	9.7	7.3	4.5	28.0	10.9
1987	12.1	4.6	5.8	34.4	9.7
1988	23.6	6.1	6.0	70.0	10.1
1989*	20.0	5.0	6.5	55.0	13.5

\* Barclays Bank Economics Department: forecast

price of a house, in those areas where people want to buy them.

Builders say that there is little sign of land prices moderating, despite the slump in sales this year.

Chancellor of the Exchequer Nigel Lawson started raising interest rates from the summer of 1988, in an effort to "cool" the economy. The so-called "overheating" was a rate of consumption that outpaced the supply of domestically-produced goods.

Home-owners drew on the dramatic increase in the value of their assets (specifically: the value of the land under their houses) to go on a buying spree — most of their purchases financed on credit.

Margaret Thatcher's "supply-side revolution" was found want-

ing: Britain suddenly entered a period of record deficits on its balance of trade with the rest of the world.

The residential land market, then, was almost entirely responsible for the current crisis. The government's reaction, however, was a futile one.

- By raising interest rates, the Chancellor did not cut the price of land or increase its supply to those who needed to use it. In the process, however, he did succeed in forcing manufacturers to cut back on their plans for new investment (because of the increased cost of borrowing money). With foreign trade still chalking up record deficits, this means that the supply-side of the economy is suffering more than the demand side!

- Home-owners are being priced out of the market. With construction 22% lower than a year ago, building companies have started going into liquidation: the first signs of the slide into a depression, in which many people will lose their jobs.

- Retailers are reporting a drop in sales — particularly for the goods that are needed to furnish homes. Already, Hoover — one of the world's leading brand names in "white" durable goods — has made workers redundant in their factory in Wales. This is a prelude to a weakening of the retail pro-

## ECONOMIC FLAWS

BRITAIN'S parliamentarians have exposed some of the flaws in the practice of economics, writes Peter Poole.

They say that the leading industrial nations "do not agree on how the international economic system works or on how their own economies work".

The failure to coordinate action was not

surprising, say members of the House of Commons Treasury and Civil Service Committee, "given the prevailing extreme diversity of opinion, not only as between different

countries but also within each country, on how their economies actually work."

The leading economies do not agree on basic issues, such as the effects of fiscal policy. Disarray over monetary policy stems from the failure to agree on questions such as the definition of "money".

\* International Monetary Coordination, London; HMSO, 1989, p.xii.

# TAXING POLL QUIRKS

MARGARET Thatcher did not realise that there were a few quirks to her novel alternative to a residential property tax, writes Ian Barron.

The Poll Tax — or, as the Prime Minister prefers to call it, the "community charge" — came into operation in Scotland this year. It starts in England and Wales next year.

The tax is on the head of every adult over the age of 18, with a few exceptions (such as for the insane).

**QUIRK 1:** many low-income families will receive bills that are larger than their liability for property taxes on their homes. Old age pensioners are particularly vulnerable. But one of Mrs Thatcher's ardent parliamentary supporters, Mr Toby Jessel, the MP for Twickenham, perceives a solution to that delicate problem.

He wrote to one of his constituents, 74-year-old Edward Quirk: "Where there are two adults some will pay more and some will pay less than previously."

Not to worry; as the candid Conservative noted: "As, alas, we all have to die some time, then when one partner goes only one community charge will be paid instead of two."

That was no comfort to Mr Quirk, who would rather retain his wife Pat in good health and be able to pay for their groceries without being further impoverished by the Poll Tax.

**QUIRK 2:** farmers, whose agricultural land was exempt from the property tax, will now face increased bills. According to Leeds University lecturer Dr Duncan Pickard — he also operates a farm in



• Duncan Pickard

Yorkshire — the Poll Tax will cost farmers about £276m.

That is more than double the farmers' property tax liability, which Dr Pickard estimates at about £119m.

Mrs Thatcher relied on landowning aristocrats in the House of Lords to overcome opposition to her abolition of the residential property tax. The Peers of the Realm dragged themselves in from their country estates to pass the legislation.

They evidently did not do their sums. For the Poll Tax on farmers, their families and workers will push up labour costs. And these, eventually, will have to be paid out of the rent of the land.

Says Dr Pickard, who occupies some of his acres as a tenant: "When the landlord's agent comes to see me, I'm going to tell him that the Poll Tax payments will have to come out of rents I pay him."

perty market.

• Analysts claim that the commercial property market is not showing signs of distress — yet. One construction economist, Dr Richard Roberts of Barclays Bank, claims that the commercial sector will not be over-supplied before 1991 or 1992. When that happens, there will be an

economy-wide crisis in the property market.

IN WASHINGTON, the Federal Reserve has started to loosen credit controls in the hope of preventing a slide into recession.

The Bush administration wants a controlled — "soft" — landing: a cut-back in consumption without

a drop in employment. The economic trends are confusing, which enables economists to inject a great deal of wishful thinking into their analyses. Wall Street, on the whole, claims that the US economy is heading for that "soft" landing, which has helped to push the price of stocks back to their pre-Black Monday levels.

The Thatcher government, however, is determined to keep interest rates high. The control of "inflation" is its No.1 priority — even if that means a rise in unemployment. No thought is being given to a radical reform of the land market.

*This means that a depression in Britain is unavoidable: historically, peaks in the cycles in land values have always been followed by deep recessions. There is no reason to believe that such an outcome can be avoided this time.*

## Greens 'used tricks'

BRITAIN'S Green Party made striking advances in the EEC-wide elections in June. Now Mrs Thatcher's Conservative Party has struck back, by publishing what it calls the Green's "hidden manifesto".

One of the policies which the worried Conservatives say was used to "trick" the voters: a tax on land values (the Greens call it a "Community Ground Rent").

The tax, far from being a hidden policy, was highlighted in the national newspapers on at least two occasions during the campaign.

The environmentalists say it is designed to ensure that "the community rather than the landowner benefits from any development and that individual owners could not benefit from uses which are unkind to the land".