

SIR JOHN BANHAM has been at the cutting edge of the British economy all his life, first as a McKinsey management consultant, then for five years as director-general of the Confederation of British Industry, and now as chairman of several companies in construction and TV. He also understands the public sector, gaining an insider's view of its seamy side as the first Controller of the Audit Commission. He is currently chairman of the Local Government Commission. His views on what must be done, to wrench the country out of the relative decline of the past 100 years ought to command respect.

Sir John offers his views in a book subtitled "Blueprint for a New Era" (*The Anatomy of Change*, Weidenfeld & Nicolson, £20). Parliament, alas, is challenged with few solutions. This blueprint fails to guide the policy-makers toward reforms that would make the slightest difference to the social and economic disarray into which the United Kingdom has degenerated.

The disasters Sir John lays bare are well known to all commentators.

We need a new strategy for transport; yes. We need to end the £10 bn waste of taxpayers' money; yes. We must rescue the underclass or we will have here Chicago's South Side or New York's Bronx; yes.

But how?

Well, opines Sir John, we must create a savings and investment culture; yes. We must exorcise inflation; yes. And so on.

But how? Well, Sir John notes, referring to the '70s: "Very few people, other than those who had chosen their parents carefully, enjoyed any measure of financial independence; taxes on personal income made it effectively impossible to build any personal wealth except through speculating in housing". Yet wait a minute.... he wants us to abandon our culture of consumption and property speculation. In 1990 he told a conference, "We should stop playing Monopoly with the roofs above our heads". But under the rules of Monopoly, no one DARE listen to Sir John. For isn't that the way to maximise one's income - assuming, of course, that one avoids the downside of the speculative cycle? People will and must continue to speculate in residential property, an activity which

# BLUEPRINT

back to the past!

by Peter Poole

reduces the propensity to save out of earned income and encourages families to consume rather than invest in industry. Those of us who can get in on the act, will do so. We have to: otherwise, we will get chewed up by "the system". There are plenty of winners: a large slice of the voting public are richer beyond their wildest dreams, and all they have to do is "trade up" their homes during the 18-year cycle in land prices creating nest-eggs to comfort them in their retirement. No need to risk investing money in industry, which creates jobs and productivity for the economy, when all you have to do is relocate now and again and reap handsome rewards in capital gains.

Sure, some suckers will get burnt. Over a million families, today, are suffering from "negative equity" - they bought houses at the top end of the market, around 1988. Their mortgages are larger than the value of their houses. But if they can avoid their homes being repossessed - a thousand families a week are failing to do that - and if they patiently wait another 15 years, they will be quids-in. Nice for them - they will have made a huge capital gain - and tough on those on the outside, the homeless, looking in.

**If Monopoly is a nasty game we must change the rules.**

BUT there is nothing in Sir John's book about speculation in land, per se. He condemns speculation in houses - "as a one-way bet on which no one could lose" - but fails to isolate the dynamics of the land market. The usual scapegoat - planners who create land shortages, thereby causing its price to rise - is trotted out.

Sir John recommends a capital gains tax on houses. There are major problems with that. First, it penalises investment in the housing stock;

upgrade the quality of your home, and when you sell you pay! Secondly, it deters labour mobility - one of the problems of the 1980s, as Sir John notes. It is a retreat to the shambolic thinking of Labour governments in the 1960s, whose policies were ditched because they were impractical.\*

How do we change the rules of Monopoly and wipe out the most destructive activity of all - speculation in land? There is a solution: treat the annual rent of land as public revenue, with equivalent reductions in taxes on incomes earned by labour and capital. That is the only way that Sir John's ambitions for Britain can be achieved.

SIR JOHN claims that the economic landscape has changed. "The familiar landmarks - high inflation and nominal interest rates, regular 'booms' fuelled by speculation in property and followed by equally regular 'busts', a generous social wage and depreciating currency... - are fast disappearing into the haze."

He's wrong. Some of the surface detail has changed, temporarily; but the underlying mechanism causing Britain's decline is exactly as it has been for two centuries. Speculation in land (not in "housing" or "property"), and the privatisation of the rent of land, are primarily responsible for the symptoms of failure that Sir John highlights. After Britain comes out of recession their influences will resurface to wreak havoc again.

So our politicians will continue ill-advised. The Labour party will probably win the next election; not because it has better ideas, but because the Tories have exhausted their nice line in confidence tricks!

\* V.H. Blundell, *Labour's Flawed Land Acts 1947-1976*, London: ESSRA, 1993.