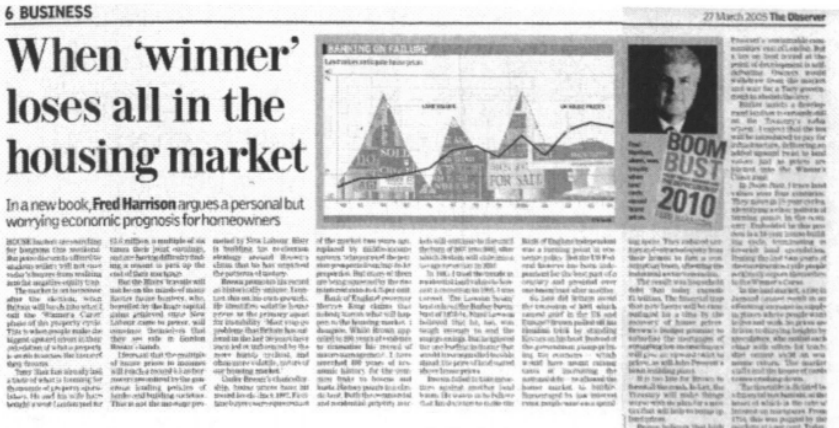
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27 March 2005 The Observer

When 'winner' loses all in the housing market

In a new book, **Fred Harrison** argues a personal but worrying economic prognosis for homeowners

Bust, leads me to believe house prices will continue to rise to a peak at the end of 2007.

The construction cycle is the outcome of the 5% compound cost of borrowing money. As usury laws were dismantled, the interest rate settled at 5% in 1714. Mr Brown said last month that under his stewardship, the rate averaged 5.2%. This emphasises the consistent features of 300 years in which the economy followed a stop-go path.

But because of that consistency, his claim of having halted stop-go cycles is untenable.

During the 1992 recession, we could have predicted a 2001 recession. And indeed, Mr Brown did preside over the manufacturing sector's recession that year. The slump that ends the present cycle will be in 2010.

In the past, it took wars to distort the cycle, but Mr Brown's reforms lacked that kind of firepower. In fact, he has stamped his mark on looming events in the property market. The affordable homes he promises to finance will exacerbate the top end of the cycle. This echoes Barber's 1972 boom and Lawson's of 1988.

But for diagnostic purposes, we have to identify land speculation as the primary agent of instability, and Mr Brown's investment plans will fuel land price rises.

When manufacturing went into recession in 2001, urban land prices fell. Greenfield land values have risen 40% since, and brownfield by 19%, a lower rate, but prices were still seven times higher than for rural sites with planning permission.

This impact is not registered on the Treasury's model of the economy, even though land values rose five times faster than the annual rate of inflation.

But boom and bust is not inevitable. The antidote is to be found in reforms to the way we pay for public services.

We should untax people's wages and savings: conventional taxes inflict deadweight losses on incomes. Instead, public services could be funded out of rents that people were willing to pay for the benefits they enjoy at a particular location.

That is efficient. Productivity would rise and speculation in gains from land would fall. It is also fair. It is the voluntary, self-assessment approach in which payments are direct and proportionate to the public services people want to use.

The Treasury is keen to fund infrastructure spending via land taxes. But its vision is limited to a development tax levied on gains in the value of agricultural land when planning permission for housing is granted. This is convenient for tax collectors but inefficient and unfair for taxpayers.

Politicians of all parties should champion a simple ad valorem charge on the location value of all land - excluding improvements such as buildings. A high enough rate would end boom and bust cycles and establish a new relationship between citizen and the state. The interface between the public and private sectors would be redefined, and many of the disputes that divide our communities would be resolved.

A tax idea that cannot be buried

by Samuel Brittan
Financial Times
15th April, 2005

Pensions are not the only issue on which the government has decided to defer action until after the election. Another is the taxation of land. This is as near anyone is likely to find a tax that raises revenue without any disincentive effect. It is, as David Ricardo, the 19th-century British classical economist, explained, a tax on the original properties of the soil.

If you think this is an eccentric notion look at the following: "The award of planning permission increases the value of a plot of land from £5,000 to £1m. Then even if the resulting gain were taxed at 90 per cent, the developer would still be better off by almost £100,000, using the land for housing than retaining it for agricultural purposes. Suubstantial incentives to bring projects forward would remain."

This analysis comes from a well-known text book, *The British Tax System* (Oxford), by J.A. Kay and M.A. King, one of whom is now governor of the Bank of England.

These far from original thoughts have long circulated among non-Marxist radicals. Henry George, a 19th Century American reformer, published a best-seller in the 1880s, *Progress and Poverty*, which went so far as to advocate a "single tax" on land values to replace all other taxes. The excuse normally given by British officials for taxing work and enterprise but not land values is that it is impossible to separate out the elements in the cost of the property that represent pure space from the return of bricks and mortar. Yet this distinction is made very day by developers.

The puzzle is why past attempts at extracting economic rent for the public benefit have been unsuccessful. Lloyd George originally intended to introduce a flawed version of such a tax once a comprehensive land valuation register had been established. But the first world war intervened; and then the disintegration of the Liberal party took the plan off the map.

The post-1945 Labour government also tried to tax land values. But it made the mistake of trying to nationalise the development value that land acquired as a result of planning permission, whereas a true land tax would be a tax on its value, however derived. There are parts of the world, including Australia, where there is some land taxation, but not on the scale desired by reformers.

There is another problem. The land tax movement tends to attract zealots who see it as a cure for every problem, from inflation and the business cycle to the common cold. In the course of their enthusiasm they do uncover interesting information. A new example is *Boom Bust* (Shepheard-Walwyn) by Fred Harrison. He does make a case for the existence of an 18-year business cycle, which he links to speculation in the property market. But there could still be speculative cycles based on bricks and mortar. Moreover, official valuations could not be revised so frequently as to eliminate all the land-based element.

The chequered history of the subject suggests that it would take a long time to introduce and embed a land tax as an important part of the tax system.

Moreover, the reformers understimate the political storm they would create, which would not be assuaged by calling it a "charge" rather than a tax.

Yet, for all the difficulties, the issue is almost certain to come up in the next parliament. The incoming government will be desperate to find means of raising revenue that do not involve increasing income tax, value added tax or other indirect taxes. There are also local pressures. The council tax is becoming almost as unpopular as the rates against which Margaret Thatcher used to inveigh. But it will soon be difficult to keep it down without some new sources of revenue. The Liberal Democrats' idea of a local income tax is bad, not only because it raises marginal rates of tax but also because it ends even the very partial taxation of property values now prevailing.

More specific pressure comes from schemes such as the proposed Crossrail project from the west to the east of London. Both government and local authorities are bound to try to extract some of the cost from businesses that will benefit. Once embarked on that course it will be difficult to resist the more general idea of auctioning planning permission. This would be an improvement on the present hole-in-the-corner deals by which developers promise specific services such as access roads or playing fields in return for development permission. The question will then arise: why only tax those values that accrue from planning permission? Would it not in the end be simpler as well as fairer to tax land values in general?

No one should underestimate the hue and cry that the idea of a land tax - which would have to be brought in gradually - would provoke from thousands of vested interests. But this only makes it all the more desirable for advocates of this tax to avoid promising the moon and link up with the general economic debate rather than forming a cult.

Harrison on Good Morning Scotland

BBC Radio Scotland
6th April 2005

SANDY MURRAY: The latest survey of the housing market from Halifax Bank of Scotland suggests prices levelling off. But the annual rate of increase remains over 9%, which indicates that homeowners have little to worry about. Those in the property market - mortgage lenders, estate agents - like to talk of a soft landing in the years to come, the idea that prices will gradually ease off without causing anyone much pain. But could they be wrong? One man who thinks so is Fred Harrison, author of a book just out called Boom Bust: House Prices, Banking and the Depression of 2010. As part of the potentially gloomy picture painted in the book, £800b is wiped off the UK's housing stock. Fred Harrison joins us now - good morning to you.

FRED HARRISON: Good morning Sandy.

SM: Why is it that you think a fall in property values is likely?

FH: Well, I'm not forecasting that it will happen immediately. In fact, the theory I have been able to develop of the property cycle indicates that there will be growth for at least another couple of years - but the Scottish economy is actually headed towards a precipice because prices are actually rising very strenuously. You can talk to people who want to buy houses in Scotland - particularly in Edinburgh - and they will tell you that in order to buy a home they are having to bid 15 or 20% more than the asking price. And under your closed bidding arrangements this is a scary process. But the Scottish economy is linked to the UK economy as a whole and we can expect the current pause in prices in the south of England to recover after the election. The turning point will be towards the end of 2007, which is when the property cycle will have exhausted itself, and beyond that we will see the market go dead and the economy then start to suffer severely.

SM: So when this happens, what's it going to mean for the average Mr and Mrs Modest living in a semi?

FH: Well, if you're not going to sell your home because you don't have to, and if your job is secure, then very little will happen. But there will be many people who will be under great pressure. They will have overstretched themselves with their mortgages because they bought their house in the last year or two, or will to do so in the next year or two, and they will suffer severe negative equity. And those who lose their jobs will discover they can't finance their mortgages and they will have their homes repossessed.

SM: The soft landing option I mentioned in the introduction - essentially people talk about there being little or no rises in prices for a few years, and that sorts out any problems in the market - why does that seem to you to be unlikely?

FH: Gordon Brown has said that the recent period of stability is unique over the course of 300 years. I've looked at the history of the last 300 years, and there has never been an occasion where prices have gone as high as they have done in recent times without there then being a savage collapse. It's never happened. So those who are predicting a soft landing are doing so through wishful thinking and a failure to apply a coherent theory of the property cycle which actually tells it as it really is.

SM: It sounds pretty bad if you're right. Could anything be done to avoid this recession?

FH: If the Chancellor after May the 5th suddenly proposed a restructuring of the tax system - one which said let's stop penalising people from working, let's get rid of taxes that are punishing people for working, saving and investing and instead raise revenue for the money we pay for the price of use of land, that would have a dramatic effect on the property market, in the expectations and in the ways that people invest their incomes. It would, in fact, stabilise the economy and lead to considerable increase in productivity and growth. But is that likely to happen? I'm afraid not. And consequently I do not believe that there is much to be done to avoid the quite gloomy prediction that you quite rightly say is contained in my book.

SM: For individuals, if this recession is coming, is there anything we can do to protect ourselves?

FH: Yes. For a start, even those who don't intend to buy a house or need to sell in the next year or two, they should be very careful about sinking into debt. Under Gordon Brown, I'm afraid to say, families have been allowed to go into personal debt to the tune of over one trillion pounds in the UK. Now, interest rates are going to go up and many people are not going to be able to service those debts. So avoid running up debts and in fact try and reduce them. And for those who need to buy houses over the next couple of years, be extremely careful; do not overbid in your purchases because otherwise you will end up in negative equity and the prospect of losing your home.

SM: Thanks very much for coming in and sharing your ideas with us this morning - I do hope you're wrong. That's Fred Harrison, he's the author of the book Boom Bust. And that's today's business news.

Wetzel on the PM Programme

BBC Radio 4
4th May 2005

PRESENTER: It's the final instalment in our series on radical ideas that are unlikely to be government policy after the election. Today, Dave Wetzel who chairs the Professional Land Reform Group makes the case for land tax.

DAVE WETZEL: Every human activity requires land. A free gift of Mother Nature. Land values are created by all of our activities. Social and economic, public and private. If we all create this rising land wealth, where is it going? Who is getting it? As taxpayers we fund motorways, improve schools and other services that award adjacent landowners with huge unearned - and untaxed - bonuses. Governments tax wages, homes, shopping, transport, and almost everything we buy. If they could, no doubt they would also tax marital sex. And yet, no government has ever taxed that unearned wealth which accrues to landowners but which we all create. By not taxing land, our government gives more importance to the speculators' interests than to the wider community's needs. Here we are in Mayfair, at the heart of central London, where most of the land is owned by one man - the Duke of Westminster. He, and others like him, are able to charge businesses and individuals huge ground rents for the use of this land. Land that has no cost of production, as it's a free gift from Mother Nature. With a land value tax, applied annually, the natural wealth of land can be used to provide better schools and hospitals. And the taxes we deplore, and which damage our economy, like council tax, income tax and VAT, could all be cut. Isn't it time we all demanded our fair share of the unearned benefits that derive from land ownership? The land that our forefathers fought for.

Tax land instead

Joe Casey
Washington Post
1st January 2005

As Walter Rybeck said [letters, Dec. 21], we have a land crunch, not a housing crunch. Certainly, landowners love to see their property values skyrocket, but this is devastating to people who do not own land and who pay rent, and that includes all of the next generation who will not inherit a land fortune.

The District has the authority to tax land, but it prefers to hit income, buildings, sales, etc. A land tax could make every home and office tax-free and let landowners pay for the hyperinflation they enjoy. Virginia has $136 billion in taxable land (as of 2001), and the value is 90 percent urban. A 1 percent land tax would raise more than a billion dollars annually for transportation or other needs; a 3 percent tax could replace all real estate taxes.