

# Counting the land

The running of a country relies on having to-hand the right sort of information.

**Duncan Elliott** argues that on that score the UK government is working in the dark.

Way back in the early summer of this year, Britain found itself with a new Prime Minister, Gordon Brown, and a new cabinet. Alistair Darling was assigned the tough job of replacing Brown as Chancellor of the Exchequer. Brown had enjoyed a fairly sustained period of relative prosperity while in charge of the purse strings. But how will Darling fare under the leadership of someone who spent such a long and arguably successful time as Chancellor? Darling, as with his predecessors in the post, will to some extent be able to perform only as well as the information with which he is provided allows him. It is this information and the advice he receives based on it that should inform his decisions.

Society and the economy are analysed in many ways and by many interests – government departments, independent policy groups, academics and so on. The decisions that are taken as a result impact upon the economy, society and the environment. Decision making in some quarters has a greater impact on more people than in others. From this perspective, and in terms of running the country, two important public sector institutions whose work has a direct impact on people in the United Kingdom are the Treasury and the Bank of England. Whilst the Bank of England is officially independent of government, ultimately it has tasks set by the Chancellor. This contributes to the importance of the Chancellor's role in terms of running the country.

Clearly we need information to make decisions. There is an untold amount of information to aid decision makers, generated across all sectors of the economy. But it's not just the quantity of information which is important: in fact, it is often said that we suffer from information overload. It is above all the *quality* of the information which is key. We must ensure that it is fit for purpose.

The focus of this article is the issue of what data and information is required to run the country. My purpose here is to highlight a

glaring omission. It is one that needs to be addressed if the country is to be run effectively for the common good. This is not to say, of course, that if this information was available, the country would automatically be run well. We would still rely on the right decisions being made. Nevertheless, without the right sorts of information it is unlikely that good decisions can be made at all.

Statistics are an important source of information. They are used and abused to support different theories, to criticise arguments and, importantly, to inform

**“a vital source of information for running the country is currently missing”**

decisions. Statistics are also integral to the different models used to understand the economy, for instance by the Treasury and the Bank of England.

For example, the retail price index, one measure of inflation, is used by government to index pensions, state benefits and index linked gilts. A slight rise in inflation may trigger a decision to increase interest rates. Deviations in the economic cycle might result in fiscal policy decisions designed to get the economy back on track. In both instances information is key to trying to deal with expectations in order to steer the economy on the apparently right course.

There's a lot of data available, and while there is often concern over its quality, on the

whole the government has a massive body of useful information to aid its decisions.

All sorts of models are constructed to understand what is happening in the economy and the implications for policy. However, let us turn to a very simple economic theory of the production function: the theory includes three factors of production: land, labour and capital. Often economists omit land (or at least fail to distinguish it separately from capital) – perhaps to simplify the issue. Yet natural resources and man-made capital function differently in economic terms. This common omission should give a clue as to part of the problem with much of what is currently done.

We can ask two key questions. First: are the models that are being used sufficient for understanding the economy as a whole – can they be used as one of the tools required to run the country? Second: are the indicators that are currently used to analyse the economy fit for purpose – do they provide the correct information for the assumptions which underlie whatever model is being used?

The Treasury and Bank of England are generally looking at the economy at the macroeconomic level. But if we consider this is simply an aggregation of the microeconomic level, how then do things measure up against our most basic of economic models? If we look at what is analysed by the Treasury and the Bank of England, there is a big focus on capital, in terms of productivity and prices, and perhaps a slightly lesser focus on an analysis of labour, in terms of wages and employment.

To understand the economy as a whole one requires information on the whole economy. In this respect data on land is the glaring omission. On one level then, the answer to the first key question is that the models used – for even basic analysis of data – are not sufficient for understanding the economy as a whole.

What about house prices, as a measure of land value? The Treasury in their summary overview of the economy publish movements in the Halifax house price index; the Bank of England uses a number of housing market related data from different sources, including the Halifax, the Home Builders Federation, the Nationwide and the Royal Institution of Chartered Surveyors. Here the two questions posed above are relevant. First, is sufficient weight given to this data in terms of understanding what is going on in the economy,

A recent overview of the economy published by the National Institute of Economic and Social Research suggests that insufficient attention has been paid to house prices over the past few decades. Since 1987 the total return on housing is estimated conservatively at 7% per annum in real terms, on which tax does not need to be paid. This is higher than the return on other assets upon which tax in general must be paid. One problem with this is that it is effectively borrowing on a large scale from future generations. So whilst the government sets targets with respect to its own borrowing (below 40% of GDP) it completely ignores the borrowing that is resulting from the returns on housing. While in the short term increasing house prices don't seem to be a problem, in the longer term they certainly are.

and second, are these indicators fit for purpose?

There have been significant rises in UK house prices in the past two decades. If saving is replaced by investment in housing this can cause a problem in terms of diverting resources from capital stock. Hence it creates a problem for the economy in the longer term. How can this problem be highlighted? Increases in house prices are generally not due to increased wages for labour or prices for materials required for housebuilding. Those have indeed increased, but by nowhere near the rate that house prices have. So an important issue is that in terms of

data currently used to analyse the economy there is no separation of capital and land value in terms of assets.

This means that in the data currently used, it is not possible for advisers and decision makers to distinguish clearly between productive returns to investment – such as making improvements to a house – and the returns from rising (or falling) land values. (In terms of economic theory, such land value returns are known as economic rent or unearned income). In other words the data are not really fit for purpose. It is important to distinguish land

value with separate information.

While there are some sources of basic land value data, such as the Valuation Office in England and Wales and the Registers of Scotland, these are not detailed enough to properly analyse what is going on in terms of the whole economy. Therefore a vital source of information for running the country is currently missing. The lack of detailed land value data also poses problems for the correct estimation of capital stock. This means that the quality of important national statistics such as GDP is likely impaired by the fact that there is not a proper understanding of what portion of income is economic rent.

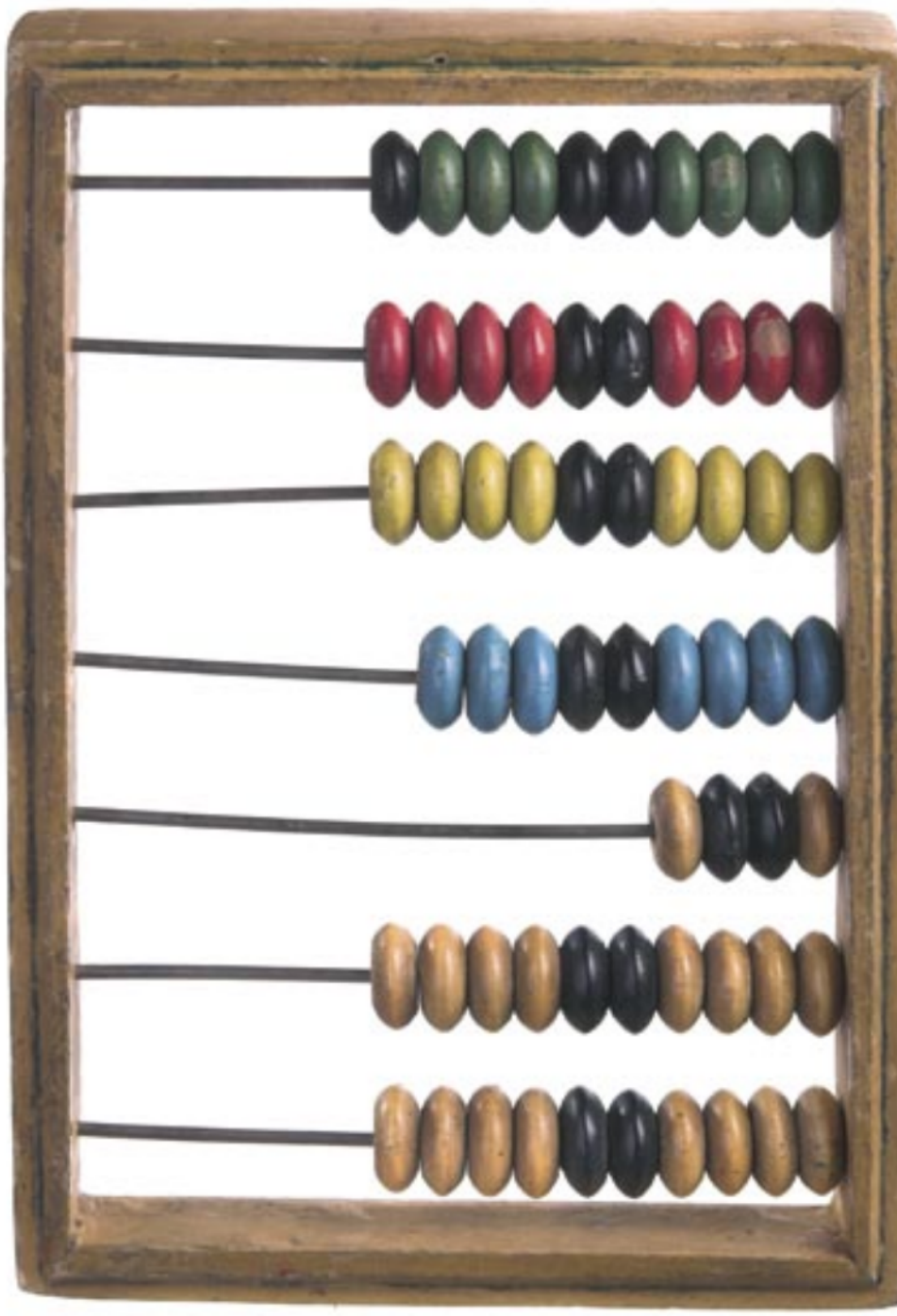
Finally, the example given (*see box*) of the study by the National Institute of Economic and Social Research, estimating the return on housing since 1987 as around 7% per annum – if given a sufficiently detailed regional breakdown of data – could have shown the big differences between (and even disparities within) regions. However, such data is not available.

More and more information is available in terms of statistics for particular regions within the UK. These include regional estimates of GDP, and a variety of Neighbourhood Statistics. But, for the same reasons as at the national level (ie understanding the regional economy as a whole, and improving the quality of other data), there is a clear need to plug the hole that exists in terms of measuring the value of the land. This information is also essential because understanding social and economic regional disparities is necessary for focussing productive investment.

While the practical aspects of getting this data is beyond the limits of this article, there is clearly a need for such data to be available.

We can draw two main conclusions. First, that there is a need for land value data. Second, that it is essential to stress the importance of land value data. The challenge is to start collecting and analysing data on land value. It is required by those who run the country. It is also required by those who want to analyse and critique the running of the country in order to more fully comprehend the impact of policies and the socio-economic situation of society. **L&L**

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