

released on Thursday that suggests the housing market is cooling slowly. Figures from Nationwide said this is consistent with its predictions of a soft landing for the UK property market.

His theory is based on an analysis of property prices since the establishment of the first building societies in the late eighteenth centuries. "When the first building society was formed in Birmingham in 1775 they charged members interest at 5% and took 14 years to build all their houses," said Harrison. "Since then, with interest rates at around 5%, 14 years has been the length of the construction cycle. The business cycle is driven by that underlying construction cycle. That cycle has lasted for 300 years.

A period of frenzied speculation drives land prices to unsustainable values, prompting a collapse and a stalling of house building activity, which itself is a major economic driver. The resulting economic slowdown exacerbates consumers' inability to buy houses and this vicious circle results in a recession, claims Harrison.

Not everyone is convinced that the housing market is on the brink of collapse, or that a

collapse would cause a recession. "We should always be wary of monocausal explanations and predictions," said Andrew McLaughlin, chief economist with the Royal Bank of Scotland. "Although we spend a lot of time talking about recessions and depressions they are actually quite rare events. There have only been three in the UK since 1945.

"Perhaps you could say that the wider economy can cause a house price crash, but you can't say a house price crash causes a depression," said McLaughlin. Even current worries about house prices outstripping wages require detailed analysis. "People worry that average house prices are a bigger multiple of average earnings," said Donald MacRae, chief economist with Lloyds TSB Scotland. "But many households have two incomes and a lot of equity in homes. It is more accurate to look at household incomes and the values of loans taken out, and if you look at that the rise is not that big at all."

In Scotland the house price to income ratio jumped from 3.3 to 4.2 between 2001 and 2004, and 4.5 to 6 in England, whereas the loan to income ratio only jumped from 2.4 to 2.7 in the same period in Scotland, and 2.8 to

3.4 in England.

Harrison's radical solution to the cyclical nature of the housing market is to abolish income tax and corporation tax and replace it with a kind of super-charged council tax, a tax on land values which he says will slow property speculation.

Want to get rid of boom and bust? Tax land, not income

by Fred Harrison
The Guardian
11th April, 2005

Boom and bust is the mother of negative equity, but in last month's budget speech, Gordon Brown made an astonishing claim: he had terminated the stop-go cycle that has afflicted Britain since 1701.

After a peak in activity in 1705, the next 300 years were sliced into a pattern of 18-year business cycles, each punctured by a mid-cycle recession. The dynamics of a 14-year construction cycle accounted for the major turning points. My investigation, Boom

Expert predicts major economic crash looming

Housing slide could trigger recession

THE economist who predicted Britain's 1992 recession has warned that the next significant economic crash is looming.

Fred Harrison claims the UK's house price bubble will burst by 2007, sparking a savage depression in 2010.

He says the slump will wipe a staggering £800 billion off the value of the nation's housing stock, with Scotland being hit particularly hard.

Executive Director of the Land Research Trust, Mr Harrison believes the knock-on effect will result in job losses.

The fiscal expert has spent 25 years studying the economic cycles of the UK economy.

In his 1983 book, *The Power in the Land*, Mr Harrison accurately predicted that Britain would be hit by recession nine years later.

Despite submitting his findings to the Thatcher

By Iain Harrison

government's treasury select committee, his concerns went unheeded.

Harrison's analysis has revealed a remarkably consistent pattern. The country enjoys an economic peak every 18 years. But after the boom years comes the bust.

And he claims the drop in house prices has started already and will have fully hit within two years. While recession won't begin immediately, it will be here by 2010.

Ransom

"For 300 years, we've paid on average five per cent for a mortgage," he explains. "That delivers a building cycle that lasts about 14 years. Towards the end of each cycle speculators try to corner the market in land.

"They then hold communities to ransom and make a killing by selling the land when people are desperate for it.

"As a result a few people get very rich but the effect pushes house prices so high they became unaffordable.

"So the housing industry shuts down,



building firms go bust, people are sacked and the public stop spending money."

Mr Harrison says the increasing trend towards re-mortgaging is one of the core problems.

"People withdraw all the equity in their houses which leads to a 'let's live

beyond our means' psychology," he says.

"This helps drive up prices and as a result people think they'll make large profits out of buying and selling so they trade up.

"I would urge people to think very carefully about investing in the

property market from now on, because they may end up losing the shirt off their backs."

Ed Stansfield, of Capital Economics, backs Mr Harrison's theories on the housing market but falls short of predicting an all-out recession. "We believe

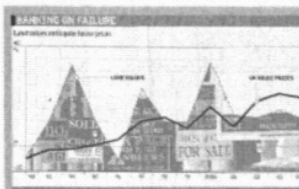
house prices peaked at the end of 2004 and by the end of 2007 we will see average prices fall by 20 per cent," he adds.

■ *Boom Bust*, published by Shephard Walwyn, ISBN 0 85683 189 1, is launched tomorrow in Edinburgh at Blackwell's Bookshop, 6.30-7.30pm.

When 'winner' loses all in the housing market

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

BOOM! Bust! The economic cycle is a familiar one, but the housing market is different. The boom and bust cycles are not just about the value of the property, but about the value of the land. The boom and bust cycles are not just about the value of the property, but about the value of the land. The boom and bust cycles are not just about the value of the property, but about the value of the land.



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

of the market has more to do with the value of the land than the value of the property. The value of the land is the value of the land. The value of the land is the value of the land. The value of the land is the value of the land.

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, 2010

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. Substantial 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 every 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* (Shepherd-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 underestimate 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