

BORROW & BE RICH

IN SHAKESPEARE'S day the path to financial probity was doubtless to follow the advice of Polonius in "Hamlet" and "never a borrower nor a lender be." But Shakespeare did not live in age of inflation. In the 20th Century the non-stop slide in the value of money has wreaked havoc with the time-honoured rules of personal finance.

Nowadays, the man who declines to be a borrower is in danger of missing out. However emaciated today's money may look in comparison with the past, it is brimming over with value compared with the money of the future. So to borrow today's money and pay back later with the diluted, depreciated, worm-eaten tokens of tomorrow, is to book a seat on inflation's own special gravy train.

But if inflation is good business for borrowers it spells something more like bankruptcy for lenders. Take lenders to building societies, for example. According to a recent booklet* by two university economists - Julian Gough and Tom Taylor - people who invest their savings in building societies are among today's most ill used fall guys. During the decade up to 1977 there was not one year in which investors in building societies received a real return on their money - that is, after tax and taking account of the fall in money values. In every one of those years the building societies paid a "minus rate" of real interest. In 1968 it was -0.25%; by 1975 the rate had "risen" to -17.68%. It is true that other forms of saving also brought in minus rates of interest during the period but the figures are such as to warm the hearts of the building societies' borrowers who paid a correspondingly negative rate of

LYON'S SHARE!

RONALD LYON, whose property group collapsed in 1974, is back in business. With money coming from Nassau, in the Bahamas, Mr Lyon is once again making an impact on the British property scene. Among his recent deals is a 5.4 acre site near London's Vauxhall Bridge, bought for more than £1m. an acre.

BY BERT BROOKES

interest on their loans and mortgages.

But this slanting of the scales towards the borrower could be the natural law of finance. Is it not the normal working of the money market in times of inflation? Not quite, say Gough and Taylor. The building societies operate a cartel. It is called the Building Societies Association. Within its magic circle the leading member societies decide on the rates and recommend them to the others. Generally, the effect has been to accentuate the negative; to keep the rates to borrowers lower than the market rates and thus to clobber the lender even more than inflation is already doing.

More than that, the fixing of arbitrary rates has led to undesirable stop-go fluctuations in the housing finance market, with mortgage funds going through alternate periods of surfeit and famine.

Why do the building societies rig the rates in this way? They claim that fixed rates provide stability and avoid the costs of frequent adjustments as the market fluctuates. But undoubtedly the practice is considered good for the whiter-than-white

image of being "non-profit making" which the building societies actively cultivate. The only trouble is that keeping the rates down for the 5 million borrowers is in no way in the interests of the 20 million investors. In this game the losers outnumber the gainers by 4 to 1.

What would be the result of abolishing the cartel? According to Gough and Taylor, the effects could only be beneficial. Both interest and borrowing rates would tend to rise. Never mind that they stand today at record levels; the true market level is even higher. Released from their straitjacket, the rates would begin to play their proper part as the price mechanism in the mortgage market, bringing supply and demand into balance. And who can doubt that real competition between the societies would increase efficiency to the benefit of both types of customer?

The authors make a convincing case for the abolition of a price ring which few of its victims realise exists. Those who believe in the merits of the free market and deplore all attempts to subvert its effects, will wish a wide circulation for this revealing booklet.

**The Building Society Cartel, T. J. Gough and T. W. Taylor, Institute of Economic Affairs, London.*

ENLIGHTENMENT FOR

THIS journal has consistently argued the case for more research into the mechanisms of the land market, in the hope that better knowledge of the facts will eventually lead to the adoption of enlightened and effective policies.

Not so long ago the subject was almost totally ignored. Towards the end of the life of the last government no fewer than 133 research projects dealing with the land market and the development process were identified and summarised by the School for Advanced Urban Studies, Bristol.¹ At least twenty are concerned with the issues of vacant land, planning and land availability, private house building, green belt policy, landowners, land policy and the economy, land prices and other related subjects.

Hopefully, the findings of this work being undertaken by the Department of the Environment, the universities and other organisations will point to the need for measures of reform which are required to improve upon the deficiencies of the Community Land Act. So far, the Secretary of State for the

Environment, Michael Heseltine, has shown that he intends to shake up the land use planning system and identify vacant land held by public authorities. However, there is nothing to indicate that he understands the consequences of the private appropriation of land rent. Some of the forthcoming research ought to enlighten him.

It is also pleasing that, in advance of the statutory requirement to publish data on vacant land in public ownership, some local authorities are taking an independent lead. Towards the end of last year, the Liverpool City Planning Department published the results of a detailed survey of vacant land within and adjoining the Inner City Partnership Area.²

The study has established that more than 376 hectares (ha) of land with development potential has been identified. Most of this land is in the ownership of the city or county (133 ha) or the statutory undertakers and government departments (206 ha). Some vacant land in private ownership has also been identified. Of all the vacant land it is

COLOMBIA, Brazil and Chile have all tried to mitigate the problems of inflation in housing finance by systems of monetary correction, or indexing, writes Colin Green.

A book by Roger Sandilands,* who is a *Land & Liberty* contributor, describes the differences between, and effectiveness of, these schemes. The Colombian system is given special attention because of the role of the housing programme in the country's overall development strategy.

The book analyses the way in which monetary correction schemes can increase simultaneously both the supply and demand for long-term finance and shows how the housing sector can be converted from a "lagging" to a "leading" sector as part of deliberate growth strategy.

The study concludes that this objective is feasible but that the details of the monetary correction schemes need to be carefully administered if the impetus is to be maintained.

The expansion of finance for high-density residential apartment blocks has helped accommodate, directly or indirectly, the millions of Latin Americans who are migrating from the countryside and towns to the bigger cities.

Millions more, however, are forced to live in the wretched shanty towns that disfigure even the most prosperous Latin American cities.

Housing as the leading sector in growth plans

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A great deal more needs to be done to provide decent homes for all, and to distribute more equitably the economic benefits arising from industrialisation and urbanization. Nowhere are land values rising so fast as in Latin America's burgeoning cities. This has created endemic problems of speculation, land hoarding and the creaming off of community-created land values by a relatively small number of privileged individuals.

While this fundamental injustice remains untouched, schemes to promote faster urbanization through new housing finance institutions will

remain only palliatives so far as the bulk of the population is concerned.

Yet the rising land values could be used as an instrument for overcoming some of the economic problems. As Sandilands notes:

"One possible way in which the state can increase subsidies to lower-income groups without increasing inflationary pressures could be to capture and reallocate the rise in land values associated with urbanisation projects which the state itself may have sponsored. Since the rise in land values is itself created by the community rather than the efforts of individuals, this seems a particularly appropriate candidate for taxation."

This capture of land values, however, is just one of a set of fiscal policies which a responsible government ought to adopt. For example, Sandilands notes that while monetary correction schemes can do much to counter the undesirable side effects of monetary inflation on the housing sector, there is no substitute for far more responsible monetary control by central bankers than they have generally been able or willing to exercise in the past.

*R. J. Sandilands, *Monetary Correction and Housing Finance in Colombia, Brazil and Chile*, Farnborough: Gower Publishing Co., £14.50.

THE MINISTERIAL MIND

significant that 256 ha is in parcels of 2 ha or more. While 10 of these 46 sites are programmed for development within two years, 28 or the remaining 36 sites are not in any firm programme and total 142 ha.

The report points out that not all the vacant land is immediately available, for in some cases the statutory undertakers claim that it will ultimately be required for operational purposes; in other cases extensive site preparation is required as the sites are in a state of dereliction. Some areas also require new roads and services.

One case study points out that the City Council has been negotiating with the British Transport Dock Board for seven years to purchase one site of 22 ha! This report clearly illustrates the need for Mr. Heseltine and his officials to take the initiative and sort out the squabbling between the public bodies involved.

One thing is clear: if the statutory undertakers were forced to pay a tax or rate on the sites they are withholding from use, economic considerations would soon prompt them to take speedy

action! Indeed, it is because there is no annual levy on land in this country that we have the situation that confronts us. The situation elsewhere could be more severe than in Liverpool. The Land Authority for Wales has estimated that some 6,000 ha of land is lying dormant around Cardiff, Newport and Swansea, and 70% of it is owned by public authorities.³

This promising start to compiling details of land holdings needs to be extended through the country, covering both private and public authority land. When this has been done consideration can be given to the issue of valuing it. A national land valuation is long overdue.

REFERENCES

1. *The Land Market and the Development Process*, Occasional Paper No. 2, School for Advanced Urban Studies, University of Bristol.
2. *Development Land Review 1979*, Liverpool Inner City Partnership.
3. *Planning*, 4.1.80.

Peter Hudson

Bahamas land boom over

THE BAHAMIAN land boom that begun two years ago has crashed to a halt.

The value of approved residential construction jumped from \$45m. in 1978 to \$65m. during the first nine months of 1979. Land prices rocketed, as foreign speculators moved in to exploit the economy of one of the few politically stable countries in the region.

Prime Minister Lynden Pindling introduced a land control policy designed to squeeze out foreign speculators and ensure orderly economic development. Now, about \$245m. in property purchase applications are frozen in the pipeline because of confusion over government guidelines for sellers and buyers.

And according to Ian Hargreaves in a *Financial Times* supplement on the Bahamas (22.7.80): "The land issue is potentially the most serious for the economy."