

Boom Bust reviewed

Geoffrey Lee says Fred Harrison's new book is an essential warning for politicians and economists, and for the layman who wishes their destiny in their own hands

This book is subtitled "House Prices, Banking and the Depression of 2010" and is a timely warning of the serious economic crisis ahead of us. Harrison points out that historically we have moved on a business cycle with an average duration of 18 years, and from our bust of 1992 we will move to another bust in 2010. This is tied up with a housing cycle of 14 years.

Gordon Brown understands some of this. As he said in his budget speech in 2003: "Most stop-go problems that Britain has suffered in the last fifty years have been led or influenced by the more highly cyclical and often more volatile nature of our housing market."

What he failed to see and the Treasury economists fail to understand is that land is the missing factor in the equation that could solve our economic problems. Economic models treat the world as if it were composed of only two factors - labour and capital. But as Harrison says "land is the key piece of the jigsaw that is the complex economy."

It is as if land was invisible. Everyone talks about house prices, but a house's price is its building cost - the rest is land value. This is not some insignificant part of the equation. Even in 1987 the Inland Revenue data shows that residential land in Inner London was averaging £4,100,000 per hectare. More recently Kate Barker, a member of the Bank of England's monetary policy committee, was reporting that residential land in North East England (not exactly a property hot spot) was valued at £1,150,000 to £1,260,000 per hectare.

Harrison points out that public expenditure on, for example, roads, railways, schools and hospitals, makes the locations so favoured become attractive, and produces the land price rises we have seen over recent years. The government excludes these rises from its inflation index so giving us a false figure for the cost of living. As part of the deception that all is well, Gordon Brown boasts of our low unemployment. But by sleight of hand 2.7 million people out of work are on the sick or disability benefit list, so don't figure in the employment statistics - although many, very many, could work. Again the property boom is often thought of as a sign of a vibrant economy, but it is fuelled by the flow of credit from banks and mortgage companies. According to the author, by 2007 we shall see families defaulting on their mortgages. Banks are also funding the consumer spending spree that, again, will come home to roost. One day the trillion pounds of private debt will have to be repaid.

Harrison's argument is that by financing public expenditure from income tax, VAT, national insurance and most of the other taxes favoured by government, we raise the general level of prices and distort the way people work, save and invest. Gordon Brown has a hole in his budget, and conventional policies are unlikely to fill it up without great pain to the British public.

The author's solution is to take the land rent for public expenditure. As he points out: "People need to pay for the benefits that they receive when they occupy the locations of their choice." Clearly, when you buy a house you are also paying for the capital cost of the locational amenities you enjoy. The problem is that the money you pay is not handed over to the agencies that provide these amenities. We need, says Harrison, "to re-balance the public's finances by raising revenue from the rent of land. At the same time, people would be compensated with the equivalent reduction in income, capital and consumption taxes."

The author analyses the land value taxation schemes in the budgets of 1909 and 1930 - "they failed, but not for want of trying." Unless we try again for these fundamental changes we are doomed to the boom bust treadmill.

Towards the end of the book Harrison lists some of the unpleasant things in store for us if reforms are not made. These include pension funds that will not support people in their retirement, and manufacturing industries leaving for the epicentres of production in the

east, to say nothing of tax revenues migrating, as the borderless world enables corporations to relocate in tax havens.

This book is an essential warning for politicians, economists, the media and the layman who wishes for their destiny to be in their own hands. **L&L**

Boom Bust by Fred Harrison
Shephard-Walwyn, ISBN 0 856831891

“It was no comfort to be told by Mervyn King, the governor of the Bank of England ‘I do not know where house prices are going - but I also know that no-one else does either.’ People who are handsomely paid to know the answers may be ignorant, but the reader of this book will now gain a deeper understanding of the vital trends without having to rely on the experts.”

Fred Harrison in Boom Bust

