

although their other free market economy proposals would serve far better than government intervention. Their apparent lack of faith in the workings of real Liberal principles looks like lip service without conviction.

On the subject of housing they recognise that previous intervention by the state has caused imbalance and distortion, and that the Government should help to redress the imbalance. Yet, instead of proposing the removal of obstacles to increased home ownership (of which land monopoly is one) they propose a plan that will cause even greater distortion of the housing market — that of the Government providing substantial tax reliefs for

entrepreneurs who build houses below a certain rent and above a certain standard!

The reference to land reform above will probably prompt a question about the Liberal policy of land-value taxation. Unfortunately, there is no mention of it. It is even more disheartening when one remembers that one of the authors recently wrote a booklet on site-value rating and extolled its virtues.\* It appears that, in common with most modern economists, our authors believe that land has nothing to do with economics!

\* *Make Rates Fair* by Richard Lamb and Colin Clark. New Directions No. 9. (Liberal Publications Department, 5s.)

## OFF THE CUFF

By Robert Miller



**B**ANK RATE up to 7 per cent; building society interest rate up to 6½ per cent; local authorities offer 8½ per cent on loans.

What is the connection between these statements, and why is it that they claim so much attention from people with, or perhaps more frequently, without, money? Why, in fact, do so many people get so concerned whenever there is a change in the Bank Rate? (There have been eighteen changes in the last seven years, on average every four or five months or so, with fluctuations between four and seven per cent.)

When the Bank Rate is raised, one object is to discourage spending and to encourage saving. Among those immediately affected are local authorities, who borrow from the Treasury for housing schemes; faced with the need to raise money in excess of the quota allowed them by the Public Loans Works Board, they turn to the general public, competing with others in offering more tempting terms to lenders. This tends to draw funds away from building societies. The minimum sums accepted by local authorities as loans are usually large enough to exclude the majority of building society investors, but nevertheless, this "drain off" is considerable enough to cause anxiety to the building societies.

### Effect on Mortgages

The obvious thing to do when the red light shows is to charge more to borrowers, and as funds get low, to restrict mortgages to those who can afford higher deposits. At the same time, rates offered to lenders have to be raised in order to attract more cash. But these can never be raised high enough to win back the money being transferred to local authorities and elsewhere, because if this were done the rate charged to borrowers would be so high that few people could contemplate a mortgage, and business would come to a standstill.

In the last few years building societies have loaned

hundreds of millions of pounds, and the simple answer to the question of why it is now so difficult to obtain a mortgage is that funds are drying up. It goes without saying that if houses had been cheaper during this period the money would have gone further. The reason why houses have been so expensive is due in no small part to an artificially-created scarcity of land — which is not really a scarcity at all. According to the Co-operative Permanent Building Society, the average price of all new dwellings mortgaged to the Society rose by 10 per cent from the end of 1963 to the end of 1964.

### Effect on Building

Another inevitable and serious consequence of a high Bank Rate is that because fewer people are able to obtain or afford mortgages, house builders are beginning to cut back their future building projects, and the shadow of unemployment in the industry looms ahead. Of course, it can be argued that as demand for houses diminishes in this way, prices will fall and tend to balance things off, but building prices cannot fall much below that required to cover current costs plus a competitive profit. I doubt if any such fall would be anything like large enough to save a very serious situation that threatens to involve not only the building industry, but — unemployment being such a contagious disease — many others as well.

Finally, I would like to observe that in order to justify what must appear to be too high a price for a commodity a tradesman frequently quotes two prices, his own economic price and the purchase tax. It is intriguing to speculate on the impact on intending purchasers if a similar method were adopted by vendors of new houses so that they quoted the price of the house separately from the



price of the land. One certain result would be that people would have a much clearer idea of where a large slice of their money is going. It might also cause them to reflect on the relative costs of "production" of the two components.