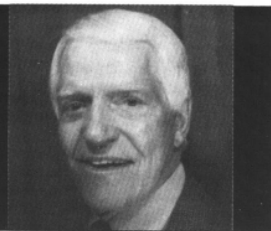


# LETTERS

YOUR VIEWS  
edited by  
JERRY STOVIN



Sir, *Land and Liberty* ("Economic Illiteracy", Spring '99) referred to the plan put into operation in Colombia to solve the housing problem.

In the '70s private houses were financed by the BCH (Banco Central Hipotecado). A down-payment of 20% was needed followed by equal monthly payments over 15 years.

Because the BCH was the only lending institution, with limited resources, the building of properties did not match the growth of the cities. It became very difficult to obtain a loan and people had to turn to bribery and corruption to get one.

The government created the UPAC system (Unit of Constant Purchasing Power) whose value was to be adjusted annually in accordance with the cost of living (IPC=Consumer Price Index). The idea was to attract the savings of the public by offering reasonable interest, say about 18% per annum.

People found it satisfactory, money kept its value, savings increased and new finance companies were put into operation to accept savings in UPACS and at the same time lend them with a surcharge of 4% to 6%. The annual interest was 22% to 23% in total.

The monthly payments increased during the first ten years, in line with the cost of living, then reduced. Payments covered interest and capital but, if a client could not afford the full amount, the difference was to be added to the capital and interest charged on the total.

The value of land in Bogota increased tremendously. Between 1970/1980 the price of houses increased 17 times, labour 5.7 times, but land increased 41 times!

The price of land as a component of the

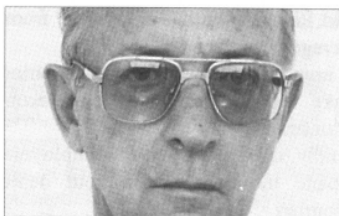
## Interest Rates a One-Lever Control

Sir, The Bank of England is presumed to be putting up interest rates to restrain consumer spending and to counteract rising house prices in the South East. In other words to stop good signs for the economy and at the same to discourage exports from our diminished manufacturing sector. How stupid to give the Bank this destructive role! It seems we distrust politicians so much that we absolve the Government from fixing interest rates.

The best way to control rising 'house' prices is to control land values with an annual land tax. I did write to the then Governor of the Bank of England 10 years ago when he expressed concern over house prices and sent him a copy of *Costing the Earth*. But obviously he didn't understand the message or pass it on!

Dr Francis Smith  
Wilmslow, Cheshire

## The Colombian Bubble



final cost of housing increased inversely to the status of the accommodation: the lower the level, the higher the proportionate cost of the land, and 72% of the shortage of housing was in the lower levels!

Although President Barco 1982-1986 had plans to reform land tenure; regularise the property market; utilise land well located for the construction of economic housing; discourage land speculation in urban areas; and secure the increment in value generated by the development of the cities etc., but as always these

### GERMAN LEMA writes from Cali FEATURE LETTER

vote catching promises remained on paper.

Demand for capital pushed the interest levels to around 35% to 38% and, due to the UPACS being tied to a lower rate, the finance companies began to be short of money to lend. Their funds decreased and monies shifted from the finance companies to the ordinary banks.

The government decided to modify the modus operandi of the system and untied the UPAC from the Consumer Price Index and tied it to a percentage of the DTF (average rate paid on short term deposits), which at that moment was around 35%. The finance companies took advantage of the change and increased their surcharge from 11% to 18% and in consequence the cost of credit jumped automatically from 21% /22% to 45%.

This tremendous increase was never published and people were sold the idea that the new conditions were the same as before. The finance companies lent themselves to practically any proposals of payment from the borrowers. The companies' profits jumped from, say US\$500,000/1 million to US\$25 million/\$50 million.

The bubble grew and grew in the dark until somebody decided to do himself a tidy bit of "business". He had bought a flat for US\$20,000 and "sold" it for US\$30,000. But, when he asked his finance company how much he still owed on his mortgage, he collapsed when told that, with the interest on the remain-

der of his unpaid debt, instead of making a \$10,000 profit, he owed US\$42,500!

The bubble burst. Thousands of foreclosures were declared. In solidarity, the populace blockaded the eviction of people who were unable to pay. Others found that the original down payment plus the monthly payments plus the property would not cover the debt, and besides the finance companies would not accept the property in part payment. Some decided to pack up, fly abroad and leave the problem to the creditors.

In this situation people got together and took legal advice. Lawyers and judges who handled evictions were "put in the list", the guerrillas backed the debtors and the Constitutional Court was pressed to clarify the situation. Their verdict was that interests must be based on the consumer price index as originally set up; and the finance companies must accept the properties as payment.

But there will be no loans for new houses until the 50,000 or more properties in the hands of the companies are sold. Construction firms are at standstill.

As in this depressed market the value of property did not cover the debt, the government decided to lend the finance companies the difference between the debt and the selling price at a very low interest so that the institutions would not collapse! (Obviously the selling price dropped still more to the benefit of the buyers and the companies but at the expense of the innocent taxpayer!)

This is not the end of the story.  
German Lema  
Cali, Colombia

## Fraudulent government

Sir, Dr. Hamlyn (Spring 2000) suggests the idea of government becoming a fraud. No government has any legitimacy unless the constitution under which it has been set up has the approval of the current adult population.

There is no means of knowing whether or not this approval exists unless an enquiry has been made into the matter. Any properly drawn up constitution must provide for its own periodical re-ratification (e.g. by referendum) at least once every generation (say about every 25 years) to prevent the possible continuance of government without legitimate authority.

There is probably no government in the world that has any legitimacy at the present time. Inasmuch as they claim legitimate authority without actually having it they are all frauds.

Robin Raynham  
Shanklin  
Isle of Wight