

in any objective way, because it's something we don't really have much data on".

So questions are asked about the availability of mortgages, and of labour – but builders are not invited to comment on the supply of land.

Questionnaires, suggests Mr. Shepherd, sometime "reflect the character of the person running them". Their contents are also shaped by comments at committee meetings, and feedback from members.

CURIOSLY, the demand for a thorough survey of the land market is not high among builders.

Yet they are apparently dissatisfied with the official figures supplied by the DoE.

"They are critical because they tend to compare the prices they pay for particular plots of land – which may have a high value, on the outskirts of a town on the south coast, say – with the DoE average land prices.

"The DoE uses a sound statistical methodology to come up with the nearest estimate of the actual average land prices. And builders tend to get confused between simple averages and weighted averages".

Nonetheless, says Mr. Shepherd, it would be worthwhile if an up-to-date series on building land prices were available to the construction industry, published on a quarterly basis.

"It would give builders a better feel of the land market", he notes. But he doubts whether the government could be persuaded to invest money to set up an information-gathering network to chronicle the land market in the way that agricultural land prices are monitored.

Which is handy for land owners, because imperfect information is one of the principle weapons used by monopolists to squeeze abnormal profits out of land users.

ANNUAL GEORGIST CONFERENCE OF NORTH AMERICA

July 17-21

Washington University
St. Louis, Missouri

To register, and for further
information, contact:

Council of Georgist Organisations
5 East 44th Street
New York, N.Y. 10017
Tel: 212 697-9880

LEADING INDICATORS: Forecasting the future on the basis of an uncertain past!

Karl Oppenländer and Günter Poser (Editors), *Leading Indicators and Business Cycle Surveys, Aldershot (Hants): Gower, 1984, £27.50.*

IT IS by now axiomatic that what comes out of a computer depends on what you feed into it in the first place.

Economists are desperately reviewing the nature of the data fed into their econometric models, and this book is a useful summary of the current situation.

It is based on a wide variety of papers presented to a conference in Washington, D.C. in 1983, focusing mainly on surveys into the intentions of investors and consumers.

But while the methodological problems are examined in detail,

By Ian Barron

insufficient consideration is given to the accuracy and the economic relevance of much of the information that is accumulated.

No-one doubts that professional forecasters would like to improve their performance. But there is obviously a psychological problem here. What if it transpired that, because of insurmountable difficulties, economists could *not* in reality produce useful short-term forecasts?

LAND PRICE INDEX

Land and Liberty

focuses on
attitudes in the
United States and Europe

Part 1:
INTRODUCTION

THE BRITISH government, for example, places great store on the value of its index of leading indicators (see graph).

These are supposed to give up to a year's warning of trends in the economy, thereby enabling interventionist measures (if these are deemed to be desirable) to be taken in good time.

The leading indicator, however – an experience common to all Western countries – has failed adequately to foreshadow major shifts in the trends. Why?

Because the data which are used may be extremely inaccurate.

Profits, for example, are one of the five statistics that make up the UK's longer leading indicator. Profits, however, are so uncertain that they have to be repeatedly revised for years afterwards – by enormous margins.

Revisions are still being made for figures originally published in the 1970s (see Table 1).

Original estimates, then, are nearly always gross underestimates. The first

Table 1: U.K. COMPANY PROFITS (£ billion)

	Original estimate	1 year later	5 years later	Latest
1974	21.7	18.8	17.5	19.3
1975	18.6	17.8	19.8	19.6
1976	22.5	22.7	25.6	24.8
1977	25.5	26.3	30.9	30.9

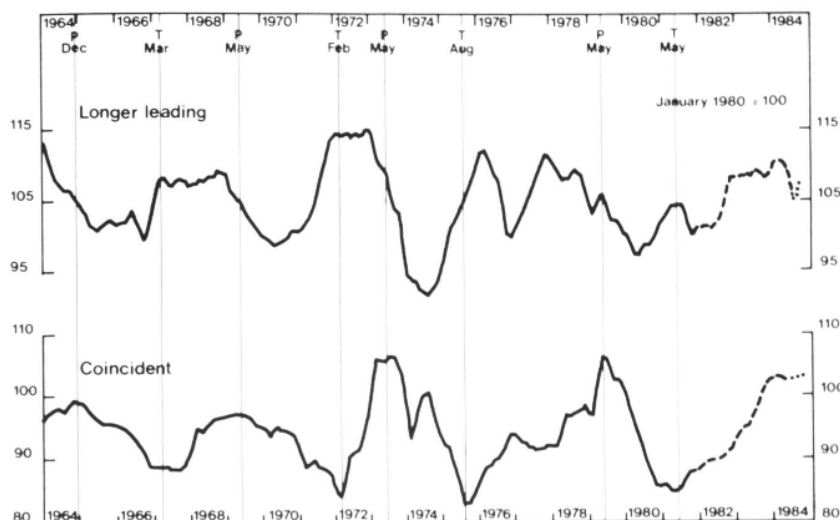


figure for 1978, for example, was £29.13bn; last year it was revised up to £35.13bn, a whopping 21% increase. So as *The Economist* observed on January 5:

"When it is first published, the indicator sometimes contains only two components. It is then frequently revised: an uncertain future is being 'forecast' on the basis of an uncertain past".

THERE is another reason why the early warning signal may be unreliable.

The selected variables may not be the best ones available, in the sense of their not being causally important.

This emerges in the paper by Baba, Nomura and Tahara, who review the way in which the indicators in use in Japan have been revised.

The timing of the new and old leading indexes, they say, had been almost the same "until the first oil crisis".

The authors, unfortunately, have been misled by the conventional wisdom that the major bodyblow to the Western economies during the 1970s was the hike in oil prices. But as we can see from Table 2, the old leading index began to go awry in 1971.

Until 1970, the old and the recently-revised leading indicators would have performed equally well, warning of peaks and troughs in the business cycle by the same number of months ahead of time.

By December 1971, however, the new index would have given a six-month warning – but the old index was no further ahead than the coincident index of trends in the economy.

Things started going wrong for the old index a full two years before the

oil price rises engineered by OPEC. It is incongruous, therefore, to attribute changes in the underlying performance of the Japanese economy to the oil sheikhs.

● Why did the old index completely fail to monitor the business cycle trough in December 1971?

We think that the answer lies in the fact that the component that was the proxy for the land market – new orders for private-sector construction work – was too insensitive to monitor the sharp upward drive of rents and land values that began in the late 1960s.

● Why would the new leading index, if it had been in operation, have given a six-month warning of the trough?

Probably because the new orders for construction work was dropped in favour of a more sensitive component – that of the number of starts in new dwelling construction.

THE PLAIN fact is that Japan's leading index would have been even more powerful as a tool for



prediction if it embodied a land price index.

The Japanese Government's Economic Planning Agency is well aware (and perhaps uniquely so among all the industrial countries) of the way in which land prices distort investment and consumption decisions.

There are repeated references to the destructive impact of land speculation in the annual economic surveys.*

Yet the government's economists have made no *direct* allowance for this variable in its economic indicators, an absurd and unnecessary omission.

Economists, instead of questioning their original parameters, are seeking improvement through increasingly complex models of the economy. Yet as J. S. Armstrong notes in a paper entitled 'Recent Trends in Forecasting Methods', "it is difficult to find any evidence that sophistication or complexity has improved forecasting accuracy."

In fact, all the evidence points to the virtues of simplicity. That, in turn, places a greater burden on the analyst to choose the correct causal mechanisms with which to lay bare the workings of the industrial economy.

But economists have not yet deemed it prudent to go back to first principles, even though – in terms of classwork performance – most of them would not receive Pass grades in the school of life.

*Fred Harrison, *The Power in the Land*, New York: Universe Books, 1983, Ch. 12.

Table 2: JAPANESE ECONOMIC INDICATORS

Reference dates	New Indexes		Old Indexes	
	Leading	Coincident	Leading	Coincident
June 1957 P	-2	+1	-2	+1
June 1958 T	0	+1	0	+1
Dec. 1961 P	-4	+1	-4	+1
Oct. 1962 T	+1	+2	+1	+2
Oct. 1964 P	-7	+2	-7	+2
Oct. 1965 T	-2	0	-2	0
July 1970 P	-3	+1	-3	+3
Dec. 1971 T	-6	0	0	0
Nov. 1973 P	-7	+1	-4	+1
Mar. 1975 T	-1	+1	+1	+1
Jan. 1977 P	-5	0	-4	0
Oct. 1977 T	-3	-3	-1	0
Feb. 1980 P	-7	+2	+2	+1
Feb. 1983 T	-2	-2	0	0