



Doomsday in '92!

AFTER the Great Crash of October 19, what next?

The collapse of the stock markets hurt people who gambled their money on shares. The real economy has not been directly damaged. Not immediately, anyway. But the serious problems for employees and the captains of industry and commerce will now begin.

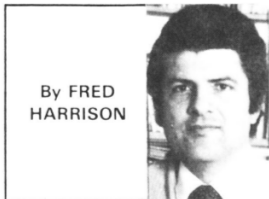
To trace the reasons why we should expect far worse, we must go back to the last major stock market shake-out, in 1974, when the market economies dived into the deepest recession of the postwar years.

The drop in the value of shares, in 1974, was a reaction to the recession. The drop did not cause the collapse of two German and US banks: these were symptoms of underlying market weaknesses.

My analysis of the 1974 recession showed that the global problem, between the years 1969 and 1973, was the intense speculation in real estate. This is what happened:

- Money was diverted away from investment in industry and commerce. Speculators could make easy fortunes by buying and selling land. New financial institutions were created – the "secondary" banks in Britain and the Real Estate Investment Trusts in the US – to funnel money away from entrepreneurs who create jobs.

- House prices and rents rose so high that families were left with less to spend on consumer goods such as television sets, cars and refrigerators. This led to a cut-back in employment, and



By FRED
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damaged international trade.

- The construction industry contracted, because entrepreneurs could not afford to pay the prices which landowners were demanding for their sites.

This story was repeated in all the major trading nations of the world.

WHO CAN blame the speculators? They were behaving rationally. Profits from industry were on a long-term downward course, while the yields on land deals were on an upward track. So it made sense to switch into land.

But by pushing land prices and rents above the levels that could be supported by the economy, everyone else suffered. The productive sectors, which manufacture goods and provide services, were forced to cut back their activities. This reduced people's spending power and guaranteed the recession.

In other words, even if OPEC had not squeezed more oil rent out of the world's motorists in 1974, the crash would have happened!

WHAT CAN we expect now? Cash-rich investors will turn away from stocks and shares, and look for crash-proof investments which will "guarantee"

them growth in capital values.

That means buying land!

The Japanese, who have had their bank balances burnt on Wall Street, will now buy real estate in the capitals of the world. They will certainly not turn to the already over-heated Tokyo property market, where the price of land already makes up 80% of the cost of a house.

This switch in investment policy will generate its own excitement, leading to yet another great period of speculation to match the boom of 1969-73. Based on my reading of historical business cycles, I confidently predict that the next major economic recession – the one that will cause widespread unemployment and business closures – will occur in 1992.

This is not an arbitrary date. The market in land values operates on the basis of an 18-year cycle. An if you add 18 to 1974, you get 1992!

The difference next time, however, is that the market economies will be much less able to cope. Thanks to the Third World debt, the financial system is vulnerable because of past mistakes, and will not have the resilience to bail-out the collapsing banks.

And the prevailing no-nonsense political philosophy of leaders like Prime Minister Margaret Thatcher will make governments less sympathetic to the wails of anguish that led Washington and London to launch the Lifeboat Operation that saved many shaky property companies last time.

Continued on Page 4 ►

IS IT possible to prevent the next great slump? Not this time. President Reagan's tax-cutting policies have left people with more money in their pockets, and the result – again, proved by history – is the tendency to push up the price of land.

In Britain, Mrs Thatcher's decision to abolish the property tax on private homes will give an extra boost to house prices. According to one analyst, the price of a modest two-bedroom terrace house in London, valued at £85,000 today, will be priced at £259,000 in 1992. *Consider the impact on High Street sales of such an attack on the family budget!*

In the long run, the only way to stop land speculation is to introduce a tax on the value of land. Denmark has the most sophisticated system of land valuation and taxation in the world. Economists ought to examine the macro-economic implications of the Danish system. Some of the issues they ought to study include this:

- By raising more revenue from the value of land, rather than from wages or profits, people would be left with more money to invest in capital equipment or to buy goods from the shops – which in turn creates jobs.



• Margaret Thatcher

'CYCLIST' WHO GETS OFF IN TIME



• Nicholas van Hoogstraten

LAND speculator Nicholas Van Hoogstraten believes the best profits have already been reaped out of the current cycle in land values in Britain. The owner of an estimated 400 properties, he says:

"I only have properties as investments, though not for long in Britain. The market is about to collapse. People buying now are mugs. Mugs. People have short memories or no knowledge of the property game." The multimillionaire, baring his soul to the *London Observer* (Nov. 8) explained: "I got into land in the Bahamas which was going for nothing. Where I was clever or lucky was when I got out. All markets go in cycles. You can't

always get in at the bottom and get out at the top. As long as you get in and get out you make money.

"I saw land I had bought for nothing or £300 an acre, go for six, eight, ten thousand an acre. It was colossal money in those days.

"I'm one of these people who's always had a natural instinct for knowing when enough's enough. I pulled the whole lot out and put the money in Switzerland."

Mr Van Hoogstraten, one of London's no-nonsense landlords, has come a long way since he was sent to prison 20 years ago. The judge said: "This young man is a sort of self-imagined devil. He thinks that he is an emissary of Beelzebub."

- A number of countries use land value taxation to a greater or lesser extent – including Jamaica, Australia, South Africa and Taiwan – but they are not gaining the full benefits because the ultimate success of the land value tax depends on the size of the tax rate. *It is most effective when the rate is high – which allows the government to reduce the other taxes which damage people's incentives to work.*

BRITAIN is an example of a country in desperate need of the Danish tax treatment. For although builders say they cannot get enough land to meet the demand for new houses, 500,000 acres lie vacant in the centres of our cities. Because these sites are free of taxation, the cost of speculating in the future value of

land is zero.

But if Denmark's land tax was adopted, Britain would immediately enjoy an urban renaissance. The speculators would release the land onto the market at a price which people could afford!

I fear that it is too late to learn the lessons before the next Big Crash of '92: but hopefully land speculation, the economic disease of the 20th century, can be banished by the time we move into the 21st century!

• FRED HARRISON's *The Power in the Land* (London: Shephard Walwyn, 1983) traces the 200-year history of land value cycles, and analyses them in terms of their impact on four economies: the USA, Australia, Britain and Japan.

DANISH MEMO TO MARGARET THATCHER

□ *In the March/April issue of Land and Liberty Fred Harrison reports from Copenhagen on how Denmark values and taxes its land.*