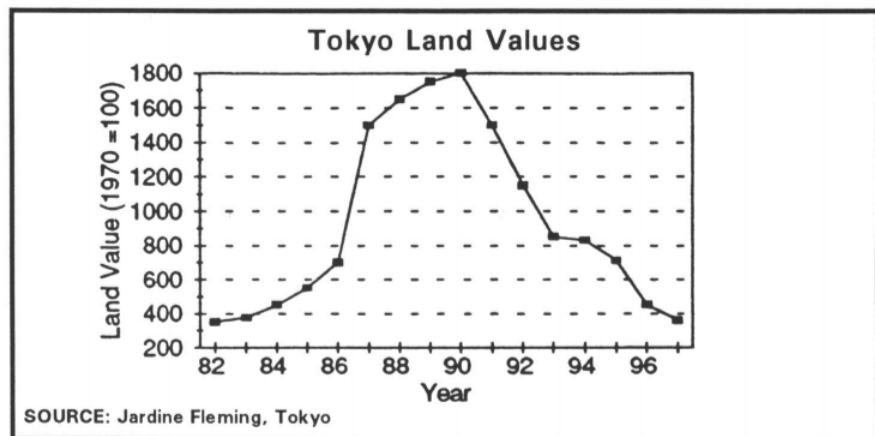


FALSE DAWNS IN THE LAND OF THE RISING SUN

Besides wanting to know when an economy is about to take a fall politicians, managers and investors also seek to recognise the harbingers of the new dawn. Not least among the people that are scanning the skies for signs of new light are the Japanese. Everybody knows that land values in Tokyo reached levels that, by world standards, seemed astronomical in 1990. They then fell back sharply in the next five years dragging the stock market with them. (See chart.) At the peak, in 1990, land prices were an incredible 18 times greater than they had been 20 years earlier. By 1996 they had fallen back to under 5 times the 1970 prices.

What is not well known is that in 1994 the land market showed signs of stabilising and, at that time, predictions were being made that the market was about to recover. What encouraged the optimists was that land prices had fallen back to near their level in 1985/6 before the speculation really got underway. However, they had no way of relating Gross National Land Values to Gross National Product over a long time period which might have told them that rents being demanded of businesses (the real capitalists) were still too high. After all land prices in Tokyo were still around 8 times what they had been 24 years earlier. In order to sustain this the typical business would have had to increase productivity by a great deal (9% year on year) in order to keep rental costs as the same proportion of their products. In fact rents, at these land prices, were swallowing up a much larger proportion of production. A second big slide in land prices began in April 1995 catching many investors by surprise and this time putting several banks, developers and construction companies into serious difficulties. The politicians having failed to take the necessary steps to eliminate land price inflation in the first place were equally unwilling to face up to the need for the necessary write



downs and bankruptcies that would force the unsuccessful speculators to realise their losses and allow the land market to fall to its real floor where businesses could again see profitable opportunities. Result: longer on the rack for Japanese businesses.

Speculative land values are painful for people too. Data from the Land Agency of Japan has revealed that residential land in Suginami Ward in Tokyo (about one hour from the city centre) still costs £25million /hectare. Around 29 times the equivalent residential land in New York, 25 times the figure in London and 14 times the price in Paris. The significance of this is not lost on the new generation of Japanese. The once revered "salaryman" who has sold virtually his whole life to the company for the last 25 years is now worse off than

he was before. The young can see that he has been duped and now he is beginning to realise it himself. The surging land prices have put paid to his dream of finally escaping from his ugly tenement tower block in the suburbs. A typical house will set him back £500,000 (two or three times what the Londoner will have to pay). Worse still Japan's unemployment rate is at a record high and the company is making ominous noises about "worker independence". It could just be that the worst is yet to come for the poor late-middle aged "salaryman". The once loyal foot soldiers of Japanese capitalism have lost their status, they are losing their enthusiasm and may lose their faith in a capitalism which is starting to discard them. Homelessness in Tokyo, the *International Herald Tribune* reports, is rising rapidly.

CAN LAND VALUES BE MEASURED ACCURATELY?

Many people (and even some surveyors) believe that land values cannot be measured accurately. If land prices are changing as fast as they did in Japan in 1987 how can a value be fixed? If most urban land is sold with buildings on it how can land values be extracted? This view is false; it can be done because it is done. The Inland Revenue Directorate in Denmark has been predicting site values for land throughout Denmark to within 1% of market values for years. The British and American Inland Revenues however haven't got a clue how much their land is worth in aggregate. The British know less about it than William the Conqueror did in 1086 with his Domesday Book! Land values in Britain today are greater than the Gross National Product, but they are ignored by economic statisticians. The government must be persuaded to fund the provision of this vital data.