factor

If Hedley Smyth's hypothesis is correct, then he is accusing house-builders of putting land speculation above their productive services to consumers.

THE BUILDERS who gain from speculation are the big operators who can amass large land banks.

Small builders, however, are vulnerable to cyclical trends in the housing sector.

Much more so when they realise that trends in the land market are directly responsible for reducing the general demand in the economy, which feeds back to curtail the number of customers who can buy new homes.[2]

A smooth trend in land price increases (in line with real economic growth) would be far more acceptable to the majority of builders.

A reasonable level of average profits, earned consistently over a period of years, would yield just as much income as the present pattern in which abnormally high profits are followed by lean years.

Lean years, of course, in which many builders go bust.

But the prospects for reforms that would help to smooth out the construction cycle depend on the accumulation of *information* on the land market.

That, however, would mean exposing the secrets of the land speculators . . . which explains why the public is left largely in the dark.

REFERENCES:
1. Hedley Smyth, 'Land Supply, House-builders and Government Policies', Working Paper No. 43, SAUS, Bristol, 1984.
2. Fred Harrison, *The Power in the Land*, London: Shepheard Walwyn (New York: Universe Books), 1983.

Rising rents: 'symptom of success'

QUOTE by Dr. Bill Robinson, Senior Research Fellow and Editor of the London Business School's *Economic Outlook*:

". . . I did not include rent in my analysis for the good reason that rents, for the economy as a whole, have not grown especially rapidly over the period.

"Moreover, there are good theoretical reasons for excluding rents: high rents are in general a symptom of success, not a cause of failure."

● MISSING from the files: Derek Shepherd with the State of Trade Inquiries which no longer ask questions about land as a constraint on builders.

Land prices: no questions asked!

By Peter Poole

BRITAIN'S housebuilders used to monitor land prices as a constraint on their industry.

For five years, their State of Trade Inquiry – a quarterly survey of members of the House-Builders Federation (HBF) – asked questions on land.

The data did not provide answers to questions like: *By how much have land prices increased in the past three months?*

Nonetheless, a good idea could be formed from the reaction of builders to the way in which they ordered their answers to the full range of problems that confronted them.

Time and again, the lack of building land at viable prices was the major problem facing most builders.

The survey began in 1975. The questions on land were dropped in the first survey of 1980.

Why? "I don't know", says Derek Shepherd, the 26-year-old senior economist at the Building Employers' Federation, who also services the HBF.

"I guess it was dropped because the question of mortgage availability became more important from about 1979 onwards, than the supply and price of land".

THE ONLY reliable data which builders can use as a benchmark for the price they pay for land is an index prepared by the Department of the Environment.

But this information is a full year out of date by the time that it is published. It is useless, therefore, as a guide to current trends.

And it is of little use to economists who may wish to feed building land prices into an econometric model of the economy.

Yet the construction industry is a leading sector of the modern economy, determining the prosperity of hundreds of thousands of families whose bread-winners are employed in the building and ancillary trades.

Land was generally accepted as both an economic *and* political issue in the early 1970s, when speculation was rife. That was why the house-builders could not ignore it, when they launched their State of Trade Inquiry.

"It would be neglectful of an organisation not to take account of that in the State of Trade Inquiry, which is one of the few means by which we get regular information together from members on businesses prospects", says Mr. Shepherd.

But the absence of a thorough survey of builders' opinions has left a gap in knowledge. For example, when asked if he could express an opinion on the current state of the land market, Mr. Shepherd replied: "Not 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.

CURIOUSLY, 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.

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