

AN OPINION poll has revealed that 49% of the British people would like to quit the recession - and Australia is one of their favourite destinations. Down Under, however, people have the same idea. In the last 24 months, 12,000 Australians have emigrated to Britain. With 11% unemployment, a cloud has been cast over the image of Australia as a fun land of sun and economic opportunity.

Prime Minister Paul Keating knows it, which is why he played his trump card in a bid to get re-elected on March 13. He promised a referendum, in which Australians would decide whether they wanted to ditch the British monarch as head of state and turn Australia into a republic. The ploy was intended to distract voters - 1m of whom are now without jobs - from the bad news: such as a foreign debt of \$160 bn (£75 bn). And a brain-drain which, in two years, eclipsed the outflow of highly-skilled workers over the previous 20 years.

When Keating called the election, he said it would be about whether Labour should be returned, committed to equality and social justice, or a conservative opposition that planned to introduce a purchase tax and destroy the trade unions. The election, he insisted, was about who could best "manage change".

Labour came to power under Bob Hawke in 1983, when the voters tired of a conservative government that had presided over a boom-slump in 1982. Labour won three elections in a row, but then came the latest boom/bust, which cast doubts on re-election prospects.

CHANGE is what the Australian economy needs, if it is not to repeat the mistakes of the past. But analysts cannot put their fingers on why the resource-rich continent keeps collapsing under debt-and-depression. The Melbourne-based Land Values Research Group, whose research director, Bryan Kavanagh, tracks the trends in real estate, believes it can explain the underlying trends in the economy.

Kavanagh reports: "Although accurate forecasting is the test of any valid scientific explanation, it is not a characteristic one relates to the study of economics. The Treasury's latest econometric model (TRYM) conjures up endless equations to find out what is happening to the Australian economy.

"But there is no evidence that the federal Treasury, the Reserve Bank, or business analysts, bothered to quantify

DOWN UNDER IN THE DARK AGES

the funds that flowed into real estate throughout the 1980s. They majored on figures and indices on the productive side of the economy, but had no interest in the destructive figures on the speculative or rent-seeking side".

There is no excuse for the Labour government being caught by surprise by the recession. As early as May 1984 the Association for Land Value Taxation alerted the country's Economic Planning Advisory Council to the prospect of a serious downturn in the early 1990s. Nobody listened.

The Land Values Research Group has now analysed the trends since then, and the results confirm that "escalating land prices act, even more than taxes, to divert capital and thereby curb effective demand and productive investment - with corresponding implications for economic activity and employment".

◆ Real estate sales doubled between 1986 and the peak in 1989 at \$87.7 bn. Values rose by a factor of 1.84, reaching \$1,021 trillion. Average turnover exceeded 8% of the total value of real estate each year during this period.

◆ A sum equivalent to one year's worth of national income has now been written off the value of Australian property. Because of the massive accumula-

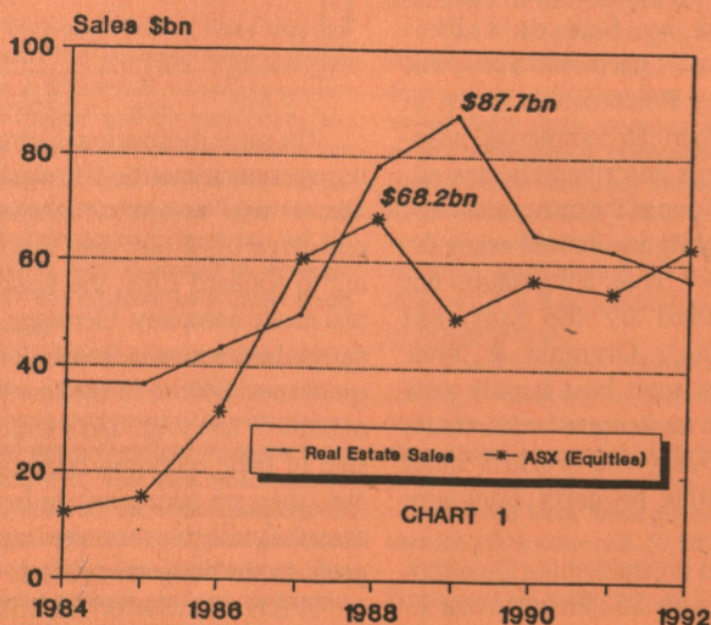
tion of debt, the market will continue to decline for several years. New South Wales accounted for 40% of real estate sales by value - a surprisingly high rate, relative to the population of Victoria, which suggests a higher private debt level in NSW.

◆ Chart 1 tracks the "asset boom" of the '80s. The Land Values Research Group argues that both the real estate and share markets were unsustainable and were partly driven "by a tax system which scarcely interferes with rampant speculation, yet levies a myriad of fines upon productive activity". Between 1986 and 1989 investors sank \$469 bn into both markets, equivalent to 51% of national income for that period.

"The speculative binge is comparable to those of the 1880s and 1920s, and the sales 'bubbles' which burst are clearly evident," notes Kavanagh. "Unlike the 1920s, however, the share market 'went' first. There was a 550% increase in the volume of sharemarket sales in the three years to the peak at \$68.2 bn in 1988, and a lesser increase of 240% in real estate for the four years to its peak at \$87 bn."

◆ There is a closer relationship between the real estate and share markets than is generally admitted - much of the value of shares being underpinned by real

The Asset Boom: Australian



estate. "One market tends to feed off the fortunes of the other until a 'correction' is made," notes Kavanagh. "For example, equities actually outdid the property market in the financial year before the '87 'bust', which then reinforced the property market. Shares have surpassed real estate sales again in 1992, capitalising to about one-third of the real estate market - when they are more traditionally no more than one-quarter. This suggests the future direction of the stock market when it factors the property collapse back into the value of shares".

♦ Victoria's real estate transactions are comprehensively recorded by the Valuer-General's offices since 1972, which has made it possible to extrapolate sales for Australia back to that year (using the fairly consistent ratio of 25% that exists between Victoria and the whole of Australia). The results are shown in Chart 2, with national income as a comparison.

"Real estate sales moving up from less than 20% as against national income to 30% at the peaks of land booms tend to confirm that speculative periods are at the expense of national productivity," explains Kavanagh. "So, contrary to popular mythology, it seems healthier for the prospects of the general economy when real estate prices are flat, or down - as they are now."

VALUABLE empirical lessons emerge from this analysis. One is that, when real estate sales go beyond 25% as against national income, the economy is on-course for difficult times. That is what happened in 1973 (29%) and in 1988/9 (32%).

But further research is needed that might help to turn economics into a predictive science - if scholars can be persuaded to indulge in relevant investigation.

One area of interest identified by the Land Values Research Group: the similarity of shape of the value of sales, as a percentage against national income, and of the graph for number of sales, which show the value of sales to be extremely numbers-sensitive. So: can a formulaic relationship be established between number and price?

"As ever, the dynamic in the property market was the land component," reports Kavanagh. Chart 3 shows that land prices grew even more quickly (compared with national income) than they did as a proportion of total real estate sales.

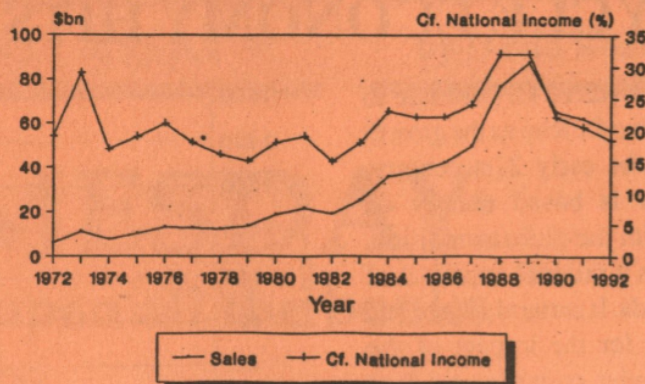
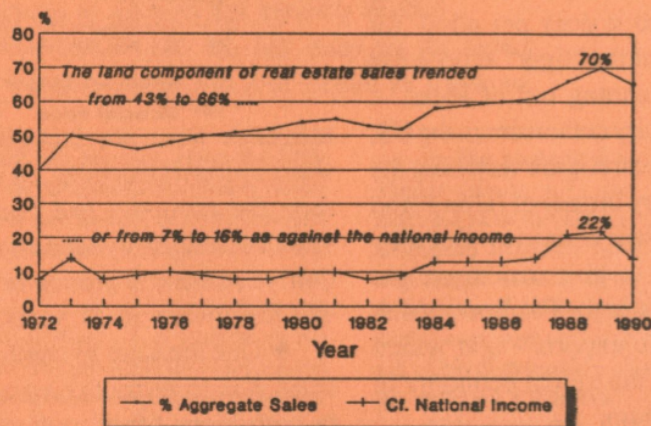


CHART 2



IMPORTANT questions for the policy-makers flow from this analysis.

Would Paul Keating have re-introduced "negative gearing" in August 1987, thereby adding fuel to the inferno, if the Treasury had provided him with this data? Would he have said (as he did in June 1989) that the flow of funds through the late '80s was largely the gearing up of capital stock?

"The figures show the process by which capital has been hijacked for the purposes of speculative rent-seeking in real estate," insists the Land Values Research Group's Kavanagh. "The sheer extent to which capital investment has suffered as a result, appears to lay bare the anatomy of a depression."

"The 200 years since the industrial revolution has shown consistently that every economic recession and depression is preceded by a land boom...but to date we have chosen to ignore this rather obvious fact. By blaming a passing parade of politicians and entrepreneurs for the cycles of recession and depression, we grab at the sensational and miss underlying causes."

"Unless valuers and economists combine to study the 'invisible' half of the economy, to establish what is happening to the rent of our natural resources,

our chance of regulating the Australian economy seems to be on a par with King Canute in controlling the tides. At the threshold of the 21st century, we remain in the dark ages in economic terms."

WHAT NEEDS to be done? In Kavanagh's view, "There is no better time to cut taxation and tax a greater part of the economic rent of our natural resources, to reduce speculative proclivities and return people to work. However, political inertia and a lack of awareness at the grass roots are major stumbling blocks."

A century ago, Australia led the world in the standard-of-living league. That was because the continent was resource-rich, and land had not been monopolised in favour of the few. Since then, the privatisation of rental income has wrought its influence, and Australia is now 13th in the league table - despite the fact that the ratio of population (17m) to natural resources still outstrips other nations.

Australia's unemployment rate is now the worst since the Great Depression of the 1930s, but there was no evidence, in the speeches from the hustings, that the politicians had yet learnt the lessons of the past.