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Under Siege: the Englishman's Castle

House building is the industry most immediately vulnerable to speculation. Through it the land monopolists transmit their cancerous influences into the rest of the system. Land is a vital input, yet the primary importance of the movements in its supply and price remains unchronicled in the learned dissertations.

The crucial role of the house building cycle in relation to general business activity is a well-attested fact. Warren and Pearson have shown that throughout the nineteenth century protracted depressions regularly arrived, in the USA, about three to four years after the downturn in the building cycle.[1]

A British study by the National Economic Development Office drew the conclusion that 'Within the broad heading of investment, investment in private dwellings can be seen to be the most unstable, more unstable even than investment in the manufacturing sector of industry'.[2] This alarming instability has followed a close and predictable relationship with the business cycle in the past and in modern times. The figures for Britain since 1959 reveal that 'private sector house-building is one of the least stable components of GDP and makes a substantial and, recently, a growing contribution to the overall cycle. In general, the private housebuilding cycle is in very close conformity with the overall cycle'.[3] We cannot, however, be satisfied with merely observing a close correlation. We want to know if house building in the UK has had a causal influence on general business prosperity, and if so, what determines the cyclical movements.

There is a firmly-held view in Britain that building cycles conform to movements in interest rates. Furthermore, house building is said to be counter-cyclical — and therefore benign — compensating for trends in the general business cycle. The theory is that interest rates fall during the downswing of business activity, thereby making money cheaper to borrow and so stimulating building: this produces 'the spark that rekindles economic activity', as Grebler put it.[4] During the upswing, however, interest rates rise and make money expensive, thereby detering construction. So decisions as to whether to build or not are allegedly made on the basis of these movements. This hypothesis succeeds in attributing the burden of responsibility for the housing cycle (and, therefore, in part at least, its effects on business generally) to monetary phenomena.

People wishing to make a profit on their investments obviously have to take account of the cost of borrowing money. But to narrow down the rhythm of the housing industry to this explanation is misleading. This becomes serious when dealing with a cycle which has important predictive value: three out of the four recent peaks in investment in private houses in the UK (1959, 1967 and 1971) were followed one year later by a downturn in GDP. (The one exception was 1964, when there was a simultaneous downturn in both trends.)

The interest rate theory is challenged by the facts. In 1957 and 1963 there was an upward movement in both the official Bank Rate (making money dearer) *and* in investment in private houses; in 1961 there was a drop in the Bank Rate *and* a drop in the rate of investment in private houses. For similar contrary evidence we can go back to the late 18th-century.[5] Beginning in the mid-1790s, interest rates were high; house-building, however, proceeded at a vigorous rate.

Prof. Matthews has observed that the interest rate theory has poor explanatory value when related to the major swings in house building,[6] and the most convincing evidence for this conclusion is provided by the US economy. Interest rates were not held to be important in the US,[7] where until 1980 the house-building industry operated on the basis of providing homes within a regime in which mortgages were liable to low and fixed rates of interest. This contrasted with the UK market, where mortgagees have traditionally agreed to variable interest rate payments.[8] Despite the elimination of interest rate uncertainties in the US market, the housing sector has been subjected to cyclical booms and slumps similar to the UK's. If we assume that the British sector is not subjected to unique causal influences, we must search for a factor common to the industries of both countries.

Other explanations have been advanced for the housing cycles. Population growth, for example, which stimulates the demand for homes. As the demand rises, so entrepreneurs offer to construct them at a price. Unfortunately, demographic influences fail to satisfactorily explain the violence of fluctuations in the building cycle.[9] Only the propensity to speculate in land offers a satisfactory general explanation for the booms and busts. Assuming a long-run rise in population and national income, we would expect a stable construction industry servicing the needs of a nation. But if we introduce into such a system the speculator, we guarantee instability. Evidence from the last two cycles in the 19th century illuminates our theory.

The late 1860s and early 1870s are interesting because historians have designated this period as the turning point in the relationship between the economies of North America and Europe: the 'Atlantic economy' was born. One feature of this new interaction was said to be the alternating swings in business activity. As the US economy boomed, so the UK economy slumped, and vice versa in the next phase of the cycle.[10] Cooney used this thesis to explain the downturn in the UK building activity between 1868-73, a period which he views as the peak of the boom.[11] Between 1869 and 1873 there was large-scale emigration to the USA, but Cooney discounts this as a cause of Britain's low house building programme. Most emigrants were young, unmarried and poor. They would therefore have had little effect on domestic construction. More important, in his view, was the export of capital, which was *attracted* to the booming economy of the post-Civil War era. The outflow of funds, then, starved British builders, and caused a reduction in construction.

Our competing hypothesis rests on the movement in land values. Cooney, in searching for an explanation, claimed that details of the movements of rents were lacking. But these were, in fact, available from Norton, Trist and Gilbert,[12] who recorded an alarming increase in rents in the early '70s.[13] In fact, the selling price of land shot up from 1868, fetching 35 to 40 years' purchase. The rise in rental incomes during these few years is attributable to pure economic rent, for building costs were constant until 1872.[14] So attractive were the prices that landowners sold in a market which may have produced the highest volume of transfers in the century.[15] While investment in domestic fixed capital formation declined between 1868 and 1873,[16] a great deal of money was pumped into the purchase of land. The speculators had moved in for the capital gains rather than because they wanted to use land economically. Not only is this the best explanation as to why builders cut back their output, but it also suggests a reason why labour and capital turned their backs on Britain. Migrants vote with their feet. They quit a country to get away from its problems rather than because they are attracted by another homeland, in the same way that people express their dissatisfaction by casting their votes against an existing government rather than for another one. What is more, migrants sailed the Atlantic despite the bad news which was coming back of the stock market panic of 24 September 1869, and the ensuing bank failures, which did little to raise hopes of employment.

Rents and emigration fell in 1874. The selling price of land dropped significantly the following year, and house building surged forward, matched by a rise in industrial output. But land values leapt again in 1877 and 1878; house building was curtailed, and the 20-year life of the current phase of economic growth was over;[17] Britain slumped into a severe recession in the late 1870s. Over 13,000 bankruptcies were declared in 1879, and unemployment among trade union members reached 11 per cent.

TABLE 7:I

Urban land prices 1892-1939 (England)

Price medians, recorded (A) and adjusted to constant 1900 prices (B)

	Residential land £s per acre		Residential building plots: £s per ft frontage	
	A	B	A	B
1892-95	130	130	2.0	2.0
1896-99	890	950	3.1	3.3
1900-04	130	130	4.0	4.0
1905-09	460	400	4.4	4.3
1910-16	250	210	5.0	4.3
1917-21	360	150	—	—
1922-26	270	140	4.4	2.3
1927-30	360	190	4.7	2.5
1931-35	910	580	5.0	3.2
1936-39	870	490	11.0	6.3

Source: E. A. Vallis, 'Urban Land and Building Prices 1892-1969', *Estates Gazette*, May 20, 1972, Table II, p. 1209.

A similar pattern is to be perceived in the events of the 1890s. Land prices leapt in 1896,[18] sales peaked in 1898, and the building programme collapsed in 1899. The economic downturn for the country came in the following year. We can trace this cycle in some detail, thanks to research by Vallis. The story is summarised in Table 7:I. The first column reveals most about the speculative behaviour of people dealing in land by the acre: prices are more unstable than in the second column. Vallis infers the following conclusion: bare land sold on an acreage basis

> may be agricultural land which by reason of its proximity to a town, or the effect of planning proposals, has become potentially suitable for residential development. One would expect to find a wider variation in the per acre price — which could be for quite large areas of land containing a high proportion of 'hope' value — than would be the case with plots sold on a foot-frontage basis, where there is a more direct relationship to the demand for houses at any given time.[19]

Land values in the late 1890s suddenly rose to nearly £900 an acre at recorded prices. This transmitted itself in the form of an immediate and continuing impact on the price of residential plots which the developers were obliged to seek from families wishing to live in their houses. The enormous speculative demands of the owners priced land out of reach of many developers, and pushed final house prices beyond the means of people who wanted to buy homes at that particular time. This, in turn, restricted, and then turned down, economic activity in the building industry. People who ended up paying the higher prices for their homes had to reduce their expenditures on consumer goods, which adversely affected output in the rest of the economy.

The story repeats itself in the early years of the new century. Between 1900-1904, speculation in residential land was low, and housebuilding recovered. Speculation returned with a vengeance in 1905, and housebuilding slumped — followed by a general downturn in the economy in 1906. Although interest rates collapsed in 1907, housebuilding did not recover (as it should have done, according to the interest rate theory) until 1910. From a peak of 140,000 completed dwellings in 1905, the building cycle crashed to under 40,000 completions in 1909. A slump of this magnitude could not be explained by a shift in interest rates from 3% (1905) to under 5% (1907) and back to 3% in 1908.[20]

Events in London illustrate what happened in these first years of the 20th century. An expanding railway network made transportation cheap and stimulated an increase of migration into the metropolis. This rise in population was exploited by landowners, who pushed up the asking prices for their land. Habakkuk has shown what happened.[21] For industrialists, the attractions of a large supply of labour was offset by the rising price of sites;[22] so entrepreneurs did not move into London. For house-builders, a large unsatisfied demand for homes was offset by the cost of land, which made it virtually impossible to build profitably; so they did not build. The capital city of the largest empire ever seen in history was held to ransom by a minority of people who could repress social welfare and economic prosperity by exercising the power of land monopoly.

The foregoing evidence goes beyond a convincing chronological sequence; it provides a causal account. But we need to trace in detail the mechanism by which land speculation transmits its shock waves through the house-building sector into the rest of the economy. Britain in the 1970s has been selected as a case study. But first, a few figures will indicate the size and influence of the economic forces that were at work in the postwar cycle in land values, and the importance of the construction industry to the economy as a whole.

From the beginning of the cycle in 1956, until its end in 1974, the average price of new dwellings on mortgage rose by close on 400%. The basic weekly wage rates of manufacturing industry, however, increased by only 215%, and gross trading profits of companies (at current prices, and before deducting stock appreciation) rose by 236%.[23] In the mid-'70s, the annual value of building and construction work was about £12.5bn., accounting for over 10% of Gross National Product.

From the outset of the cycle, rising prices of houses outpaced building costs, as a result of which building site values rose faster still.[24] Despite the increasing share of the value of housing that was appropriated by land monopolists, however, by 1976 the industry had created a crude surplus of dwellings over households of 800,000. The government, nonetheless, felt obliged to support the Housing (Homeless Persons) Bill introduced by Liberal MP Stephen Ross in 1977. The 2.7m. households which had to accept sub-standard housing[25] were suffering as a direct result of restraints on the housing industry. Builders were unable to satisfy the needs of people who in the last quarter of the 20th century did not freely choose to continue to live in Victorian houses with toilets at the bottom of their gardens.

The reason why so many people are not able to improve their living conditions is told, in part, by the evidence in Table 7:II. Although the interest rate level dropped to a low 5% in 1971, the number of mortgages

TABLE 7:II

UK Housing (Private Sector)

		Price per plot or per hectare (1975 = 100)	Weighted average price per plot: £	Increase over previous year: %	Dwellings completed (000s)
1969		45	828	25	181.7
1970		49	908	10	170.3
1971		56	1,030	13	191.6
1972		94	1,727	68	196.5
1973		146	2,676	55	186.6
1974		145	2,663	nil	140.9
1975		100	1,839	-31	150.8
1976		100	1,848	nil	152.2
1977		106	1,943	5	140.8
1978		129	2,376	22	149.0
1979	1st half	168	3,102	18	
	2nd half	202	3,734	20	140.4
1980	1st half	243	4,491	20	
	2nd half	238	4,400	-2	126.6
1981	1st half	241	4,467	2	
	2nd half	257	4,766	7	113.0
1982	1st half	268	4,970	4	55.3

Source: Department of the Environment

advanced to house buyers eased off and then dropped continuously from 1972 to 1974. We know that, because of the poor state of a large number of houses (leaving aside the natural desire to further improve on the quality of one's house, even when it is perfectly satisfactory from the point of view of basic amenities), the demand from households for new homes was not fully satisfied. Yet the low interest rates evidently had little impact on the decision to build. Indeed, in 1972 the completion rate of new dwellings peaked, as land prices had reached beyond manageable proportions, and kept on rising into 1973. The cost of a building plot nearly trebled in just three years.

The land monopolist was exonerated, however. Berry, for example, claimed that it was nonsense to accuse landowners of 'holding the nation to ransom.'[26] High land prices, he declared, were the residual sums between building costs and the prices which buyers were willing to pay for roofs over their heads. This is a correct account of what would happen under competitive conditions, but it ignores the reality — the ability of speculators to shrink the supply of the land that they monopolised, and so force up prices to artificially high levels.

By 1974 many builders had used up the land acquired before the boom, and they had to pay astronomical rates if they wished to remain in business. Many of them were unable to do so, and the rate of new house-building declined. Between 1969 and 1974 the price of existing houses was above the selling price of new houses; as a result of the land boom, however, builders were forced to charge prices for new houses which were above the levels for existing dwellings.[27]

The fate of this vital sector of the economy is illustrated by one of the country's most successful post-war house-building companies, Barratt Developments. Its profit margins increased steadily, reaching 24.2% of turnover in 1972, peaking at 25.7% in 1973, and then steadily declined from 20% (1974) to 7.45% in 1977.[28]

The boom in land values squeezed builders and set the economy on a doom course. Land was grossly over-valued, and a collapse in the market had to come. According to William Stern, an American lawyer who helped his father-in-law to build the Freshwater Group into Britain's largest residential property organisation with assets totalling £200m. at one point, 'There has never been such a sudden drop in values as that between January and May 1974'.[29]

So far the supply-side effect of land speculation in reducing the building rate and in raising the price of houses has been emphasised. What of the impact from the demand side, that is, the response of families wishing to buy homes? From Table 7:III we see that the higher cost of buying a house forced a change in the ratio of house prices to earnings; family budgets were squeezed. A larger proportion of the weekly wage had to be paid out in mortgage

TABLE 7:III

	Average new house prices	Average earnings	Retail prices	House prices/ earnings ratio
	Per cent increases			
1969	5.2	7.8	5.4	3.50
1970	6.1	12.1	6.4	3.31
1971	15.3	11.3	9.4	3.43
1972	31.5	13.0	7.1	3.99
1973	36.2	13.4	9.2	4.80
1974	6.1	17.8	16.1	4.33
1975	9.4	26.6	24.2	3.74
1976	8.4	15.6	16.5	3.51

Source: The Building Societies Association, *Facts & Figures*, July 1977, p.11, Table A.

repayments or rents. This left less for basic necessities like food, and for durable goods like cars and refrigerators.

Households increased their bank and hire purchase loans (rising from £4.9bn. in 1971 to £9.2bn. in 1973), and divested themselves of stocks and shares (the value of these, including unit trusts and government securities, dropped from £44.5bn. in 1972 to £17.3bn. in 1974). The financial liabilities on households moved up markedly in 1972, largely as a result of the property boom and the increased need to buy consumer goods on credit.[30] There was a squeeze on what the economist calls the liquidity ratio of household budgets (defined as the ratio of personal sector liquid assets such as cash, bank and building society balances — net of borrowing — to personal disposable income),[31] which reduced the demand for articles from the manufacturing sector. Many industrialists, faced with declining demand, reduced stocks and the size of their workforces, and so the process of receding activity was multiplied through the system.

The increase in the value of household physical assets which occurred in 1971-73 — the direct result of the speculative land boom[32] — was poor compensation for the average family, for the rising trend in the net wealth of households as a percentage of personal disposable income peaked in 1973, and then slumped.

It was after the land boom had begun that the unions pressed for astonishingly high wages. The higher level of mortgage and rent payments was not the only reason. Workers are not immune from the get-rich-quick syndrome generated by land speculators. But while the heightened activity of trade unions received minute attention and adverse comment, the role of land speculation on house-building and the business cycle was almost totally ignored by the politicans and bureaucrats who formulate national policies.[33]

Land speculation declined in 1975, but the pressure on developers — the men in business to enlarge the housing stock — was maintained. For the Labour Government which came to power in 1974 introduced two new laws, the Community Land Act and the Development Land Tax. These were supposed to help to smooth out the problem of the supply of land to the construction industry, and also ensure that gains from the grant of planning permission were partly appropriated for the benefit of the community. But the private land speculator might just as well have been operating, for the dynamic effect on the economy was just the same. These two laws imposed bureaucratic and fiscal *constraints* on the private land sector, and therefore succeeded in detering people from developing land; while the planning system continued to demonstrate its ineffectiveness in facilitating fresh development at a time when new economic enterprise was urgently needed to drag the economy out of the doldrums.

By 1977 the building industry was still slumbering. The economy was stagnant: unemployment rose past 1.5m. — 300,000 from the building industry — and the grim picture was only slightly brightened by a drop in price inflation. The terms of trade turned in favour of UK exporters, but manufacturers were not geared up to exploit this advantage and the domestic market was still vulnerable to imported products. The year ended with the rate of interest paid by mortgage holders coming down to a low level. What was happening in the building industry whose prosperity so heavily determined the health of the rest of the economy?

In September 1977 the House-Builders Federation published the results of its Summer State of Trade Inquiry, which recorded the outlook of 259 of its member firms. The builders reported that during the year there had been a marked upturn in the demand for housing. So, linked with the low cost of borrowing money and the ready supply of mortgage funds held by the building societies, the prospects were good: but optimistic forecasts failed to make allowances for land monopoly. We must turn to data in Table 7:IV for the reason.

Clearly the ability to raise money to finance development was a minor difficulty for the industry and there was no shortage of labour and materials; yet there was a low rate of actual construction. Planning permission and infrastructural facilities (i.e. the input of local government) was a more serious obstacle, but the real explanation is to be found in the cost of land. Quite apart from the workings of the Community Land Act, the owners who

TABLE 7:IV

Answers by 259 house builders to the question: 'Given the present outlook for demand, which, if any, of the following considerations affecting the supply of new housing do you think are most likely to impede the ability of your company to meet this demand during the next year or so?' Answers in percentages:

	MAJ	MIN	NO
Lack of building land at viable prices	73.9	19.3	6.8
Inability to obtain infrastructural facilities	21.5	56.6	21.9
Difficulties over obtaining outline permission for proposed developments	39.0	41.5	19.5
Difficulties over obtaining detailed planning permission	44.3	43.9	11.8
Inability to raise development finance	14.1	33.6	52.3
Labour shortages	12.6	37.6	49.8
Materials shortages	5.7	26.7	67.6
Inadequate margins on development projects examined by your company	76.5	17.8	5.7

Source: The House-Builders Federation, *Summer State of Trade Inquiry*, 1977, Table 6.

MAJ = Major impediment; MIN = Minor impediment; NO = No impediment

had acquired land during the earlier boom, when prices were near their peak, were in no hurry to sell at a loss. Others, who had chosen to by-pass the opportunities presented by the boom, were in no hurry to sell either. For there is no penalty for the owners who choose to keep land idle; there is, furthermore, the reasonable prospect that by waiting long enough the original price expectations *will* be met.

Note, too, that the shortage of building land at viable prices (73.9 per cent of firms declared this to be a major impediment) is only exceeded by the problem of profit margins. Over 76 per cent of the firms expressed pessimism about profits to be expected on development projects. This re-states the problem of land costs. Given the asking price of land, and the disposable incomes of prospective house buyers — which set the limit on realistic prices — investment in house building would not yield a satisfactory return. Hence the inability of firms to re-employ workers off the dole. By April 1978 house building had declined further still, and the housing market had returned to the crisis conditions of 1973. The average annual increase in house prices of 11 per cent was higher than the average rise in earnings and retail prices. Family budgets had to provide for a larger proportion of its outgoings on mortgages, which further deflated the economy at a time when Britain's consumer industries desperately needed to start filling their order books.

The influence of land speculation penetrated deep into the social fabric of the urban environment, and generated an irrational psychological response to the tensions created by fewer jobs, poorer homes, and so on. The rise of the electoral strength of the National Front, a racist organisation, occurred *after* the recession of the 1970s had established itself in Britain. The electoral breakthrough came with the council elections and the Westminster by-elections in 1977, each round interspersed with street fighting in London, Birmingham and areas of high concentration of Asians in the north-east. The human convectors for anxieties created by economic distress were black immigrants. Had they not taken our jobs? Were they not occupying our precious houses? Should they not be sent back to their own countries?

This development was a repeat performance of what happened in the 1930s, when Britain experienced the rise in popularity of Oswald Mosley and his anti-semitic Black Shirts. Unemployment rose from 1.2m. in 1929 to over 2.8m. in 1933. Between 1931 and 1935, while people walked on the hunger marches, the speculators were at work: the median price of residential land leaped to over £900 per acre. The highest recorded prices rose from £4,200 in 1927-30 to £18,000 in 1931-35.[34] This upsurge reflected itself in the price of building plots for the families who wanted to live in congenial suburban environments. The price per foot frontage for residential plots more than doubled from £5 (1931-35) to £11 (1936-39).[35] As prices of building materials in the 1930s were declining,[36] the increase in rental income was pure economic rent. The slums of Britain's inner cities, like the East End of London, were economically and psychologically depressing, but thousands of families found that they were trapped — price rises pushed new homes beyond their financial means, thereby destroying expectations of a new environment. These people were the targets for Mosley's recruiting campaign.

Private house building dragged Britain out of the recession. There was a recovery in 1934, due mainly to building.[37] But the developers who were trying to build the estates which are a noted feature of this period found it increasingly difficult to get the land, without which a single brick could not be laid. In 1937 many builders cut back their operations; this was followed by a drop in industrial production in 1938. Public authorities found that they had to provide fewer utilities. The private sector was confronted with a cut-back in demand for consumer durables such as fittings and furnishings, and the rest of the economy suffered from a reduction in income received by people employed in the construction industry. The consequent hardship was fertile ground for Mosley's Black Shirts: they produced the Jew as a scapegoat against whom hatred could be directed.[38]

But the price of renewed prosperity — war — was a heavy one to pay. We would do well to ponder a few sobering questions. What would all the unemployed have done in the mid-1930s if the private developer had not provided work for many of them who lived in the slums of Birmingham and Bolton? Can anyone defend land speculation in this period? If not, why is it defensible at any other time? What would have happened if the war had not intervened? Would the angry masses, so soon after the experience of the early years of the decade, have remained loyal and democratic citizens? Would Mosley have continued to recruit his Black Shirts until some home-grown holocaust materialised?

But it was not just the Englishman's desire for a decent home — his proverbial castle — that was under siege by the land monopolists. A similar situation existed in the US housing market in the early part of the 20th century, as we can see by examining the speculative boom of 1925.[39] Residential construction rose steadily until 1924, when activity levelled off and slumped in 1925. Why? The influence of the interest rate on the incentive to build was 'negligible'.[40] Furthermore, the index of building costs dropped consistently.[41] So what hindered the erection of new homes?

The selling price of land reached speculative peaks, and the rents paid by tenants were on an upward trend which represented an increasing percentage of the total cost of living.[42] Builders were confronted with a shrinking pool of realistically priced land, families were prevented from buying new homes, and tenants found it increasingly difficult to meet rental payments to their landlords. Pure economic rent appropriated by the land monopolist was on a rising trend, and it reached a state in the mid-'20s when the downturn in the building industry was inevitable. Construction in the 1930s was inadequate in relation to the needs of households. Yet the vacancy rate for newly built houses rose;[43] this deterred builders from investing resources in the residential sector. In sum, then, the building industry was contributing to the disaster at the end of the 18-year cycle.

We can now see that it is misleading to characterise the house-building cycle as counter-cyclical, which suggests that the cycle is benign — smoothing out the peaks and troughs of general business activity whose rhythmic movements are independent of house-building. At the beginning of an 18-year cycle the price of land is low, whereas the rate of return on capital investments (including the yields on buildings) is high: this encourages an inflow of resources into the housing sector, the growth of which stimulates activity in associated sectors of the economy. Yet no sooner does this constructive process begin, than the seeds of destruction are sown within the interstices of the economy. The returns on land monopoly increase, and the rate of return on capital diminish. House-building, like the other sectors of the economy, eventually fall prey to the speculators; house-building, then, becomes the medium through which the monopolists are able to dictate to a considerable degree the level and intensity of general business prosperity.

In housing, as in other spheres of economic activity, the Marxist analysis, which might have produced enlightened insights into the processes at work, successfully clouded the facts with ideology; this, in turn, distracted effective policy formation. Frederick Engels, for example, wrote a treatise on the housing question. He provided a clinical account of the facts in the late 19th century. There was, he noted, a 'colossal increase in rents', and in the expanding cities the price of land was often inflated to artificial levels.[44] Houses were demolished to make way for speculation.[45] Who benefited? The capitalist who constructed the buildings with his capital? Engels wrote:

> ... although in the meantime the house may have brought in a sum 'which covers five or ten times the original cost price,' we shall see that this is solely due to an increase of the ground rent. This is no secret to anyone in such cities as London where *the landlowner and the house-owner are in most cases two different persons.*[46]

The builder received on average no more than 7% per annum on his investment in the capital improvements on the land, out of which costs such as those for repairs to buildings had to be deducted. As Marx noted: 'The profit from just building is extremely small,' and the 'main profit comes from raising the ground-rent'.[47] Yet having clearly separated out the economic relationships, the distinct motives and the contrasting rates of return derived from land and capital, Engels blamed housing shortages on the capitalist mode of production. The relations between tenant and landowner he derogated to 'a quite ordinary commodity transaction between two citizens'.[48]

A solution to the instability created by speculation was presented to Engels by the Proudhonists of his time. This was the transfer of ground rent to the state,[49] which would have eliminated the benefits of speculation and thus improved the social and physical fabric of the industrial cities. Engels was not willing to entertain this as a solution worthy of socialists.

In the capitalist West, then, alternative ways have had to be devised at least to create the semblance of tackling the building cycles. In the last 50 years, genuine attempts have been made to use house-building as a counter-cyclical tool. Even socialist critics of the capitalist system who have understood the corrupting influence of land monopoly have been misled into believing that this strategy has been successful. According to Harvey, commenting on the US economy:

> Cyclical swings in the economy have been broadly contained since the 1930s and the construction industry appears to have functioned effectively as a major counter-cyclical tool.[50]

If true, Washington must have devised a fail-safe mechanism for overriding the causal influences of land monopoly in the postwar years. It is to an examination of the American evidence that we now turn.

Notes

1 *Op. cit.*, p.150. In Britain, a study of turning points in the trade cycle revealed that in 22 of the 26 peaks and troughs recorded between 1842 and 1914, house-building preceded or coincided with the turning points in business activity. See J.P. Lewis, *Building Cycles and British Growth*, London: Macmillan, 1965, pp.362-363.

2 *Cyclical Fluctuations in the UK Economy*, Discussion Paper 3, London: NEDO, 1976, p.4. This is not peculiar to the British economy. Pribram states of the US: 'The amplitude of the oscillations of building activity far exceeds any similar amplitude in changes of general business activity'. K. Pribram, 'Residual, Differential, and Absolute Urban Ground Rents and their Cyclical Fluctuations', *Econometrica*, Vol. 8, 1940, p.71.

3 *Cyclical Fluctuations in the UK Economy*, *op. cit.*, p.15.

4 L. Grebler, 'House Building, the Business Cycle and State Intervention: I', *International Labour Rev.*, Vol. 33, 1936, pp.342-3.

5 A.K. Caincross and B. Weber, 'Fluctuations in Building in Great Britain, 1785-1849', *Econ. Hist. Rev.*, 2nd series, Vol. IX, 1956-7, p.285, describe two 18-year building cycles in this period.

6 *Op. cit.*, p.111.

7 C.A. Dauten and L.M. Valentine, *Business Cycles and Forecasting*, Ohio: South-Western Publishing Co., 1974, p.280.

8 In 1981, the Reagan Administration's high interest rates policy forced American mortgage lenders — the savings and loan associations — to adopt a variable interest rate policy.

9 C.E.V. Leser, 'Building Activity and Housing Demand', *Yorkshire Bulletin of Economic and Social Research*, Vols. 3-4, 1951, pp.138-143.

10 See, e.g. W.A. Lewis and P.J. O'Leary, 'Secular Swings in Production and Trade 1870-1913', *Manchester School of Social and Economic Studies*, 1955, who show that UK building booms in the 1870s and 1890s coincided with protracted slumps in US building.

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12 'A Century of Land Values', *The Times*, April 20, 1889.

13 Confirmed subsequently by A.K. Cairncross, *Home and Foreign Investment, 1870-1913*, Cambridge University Press, 1953, pp.212-3.

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15 Thompson, 'The Land Market', *op. cit.*, p. 40.
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17 The average per capita rate of growth was 1.1 per cent between 1857 and 1866, and 1.5 per cent up to 1873. Glynn and Oxborrow, *op cit.*, p. 18.
18 Vallis, *op. cit.*, p. 1209.
19 *Ibid.*, p. 1211.
20 Grebler, *op. cit.*, p. 348.
21 H.J. Habakkuk, 'Fluctuations in House-Building in Britain and the United States in the Nineteenth Century', *J. of Econ. Hist.*, Vol. 22, 1962, republished in Aldcroft and Fearon, *op. cit.* See pp. 265-7 of the latter work.
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27 The Building Societies Association's *Facts & Figures*, July 1976, p. 8, Table 9.
28 *Estates Gazette*, 13.5.78, p. 555.
29 R. Milner, 'Bankrupt Stern gets US family backing', *Sunday Times*, 4.6.78.
30 P. Falush, 'The Changing Pattern of Savings', *National Westminster Bank Quarterly Rev.*, Aug. 1978, p. 52.
31 *Ibid.*, p. 49, Table II.
32 *Ibid.*, p. 50.
33 Academic analysts are equally aloof. In their analysis of cycles in building activity, Dauten and Valentin, *op. cit.*, pp. 275-281, succeed in avoiding the word 'land' completely. In her otherwise thorough treatment of *Economic Theory and the Construction Industry* (London: Macmillan, 1974), Patricia Hillebrandt thought that 'cost of land' was worth mentioning three times in 233 pages.
34 Vallis, *op. cit.*, p. 1016.
35 *Ibid*, p. 1209, Table II.
36 Maiwald, *op. cit.*, p. 196, Graph 3.
37 H.W. Richardson, *Economic Recovery in Britain, 1932-9*, London: Weidenfeld & Nicolson, 1967; A.J.P. Taylor, *English History, 1914-1945*, Oxford University Press, 1965, pp. 426-9.
38 Grebler, *op. cit.*, p. 354, notes that although house-building once again became 'the pillar of British business recovery', there was nonetheless what he called 'its darker side... for there has been only a very inadequate improvement in the provisions of dwellings for the poorest classes'.
39 The role of unrealistically high land prices in depressing building activity received some recognition at the time. See W.H. Newman, 'Building Industry and Building cycles', *J. of Business of the University of Chicago*, Vol. 8, 1935, Part 2, p. 18.
40 J.B.D. Derksen, 'Long Cycles in Residential Building: An Explanation', *Econometrica*, Vol. 8, 1940, p. 108.
41 *Ibid.*, p. 114.
42 *Ibid.*, p. 111.

43 US census data is cited by Leser, *op. cit.*, p. 147.
44 F. Engels, 'The Housing Question', in Marx and Engels, *Selected Works*, Vol. 2, Moscow: Progress Publishers, pp. 305-6.
45 *Ibid.*, p. 307.
46 *Ibid.*, p. 359. Our emphasis.
47 *Capital*, Vol. II, *op. cit.*, p. 238.
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49 *Ibid.*, p. 371.
50 D. Harvey, 'Class-Monopoly Rent, Finance Capital and the Urban Revolution', *Regional Studies*, Vol. 8, 1974, p. 244.