Land Values Research Group
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ANATOMY OF A DEPRESSION

It is absurd that Treasury, the Reserve Bank and the Bureau of Statistics do not keep tabs on the massive capital flows in real estate in Australia. Consequently, the build-up and collapse of the 1980s 'asset boom' and the onset of economic recession have remained very much a mystery. This study provides the missing figures, analyses them, and offers the direction for public policy which was so sadly absent in the recent federal budget. Continuing to ignore these data does not permit Australia to address its deepening economic and social distress.

QUANTIFYING AUSTRALIAN REAL ESTATE SALES

The following is a summary of details collated by the *LVRG* during the last 12 months. In addition to aggregate real estate sales, total real estate values and national income are given as references:-

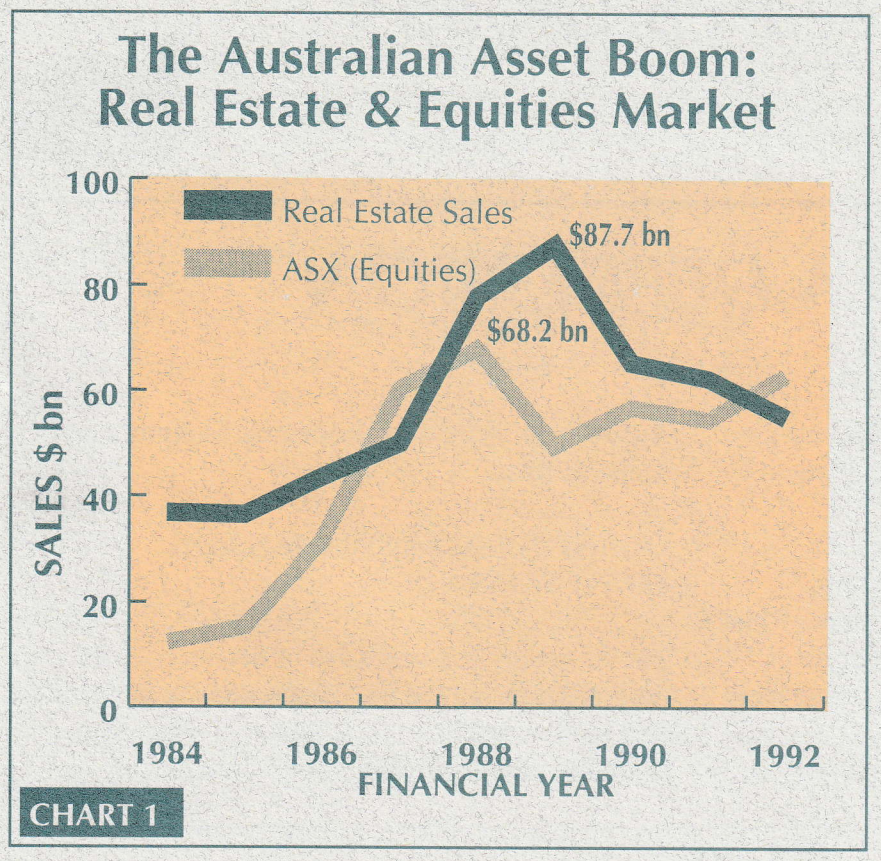
YEAR	No. OF SALES	VALUE OF REAL ESTATE SALES		TOTAL VALUE OF ALL REAL ESTATE	NATIONAL INCOME
1984	556,145	$36.339bn	-	$464.792bn	$157.882bn
1985	536,136	$38.445bn	-	$520.574bn	$175.208bn
1986	513,473	$42.308bn	-	$553.870bn	$192.772bn
1987	514,932	$50.020bn	-	$639.548bn	$210.838bn
1988	654,106	$77.003bn	-	$785.884bn	$239.961bn
1989	661,503	$87.709bn	-	#$1021.428bn	$273.854bn
1990	486,412	$65.654bn	-	$866.666bn	$299.251bn
1991	490,267	$61.993bn	-	$824.670bn	$304.297bn
1992	450,000 *	$57.000bn	-	$715.000bn	$310.831bn

* 1992 estimate # ie. one 'trillion' dollars

The value of real estate sales doubled between 1986 and its peak in 1989, rising from $42.3 billion to $87.7 billion. In the same period total real estate values rose 1.84 times. Following the collapse, an amount of $306 billion has been written off the value of Australian properties to June 1992 - equivalent to one year of the national income.

Chart 1 compares Australian real estate and sharemarket (ASX) sales. Both markets were irrational and ultimately unsustainable - encouraged by a tax system which, while scarcely interfering with speculative rent-seeking in real estate, levies a multitude of fines upon productive capital investment and wealth creation.

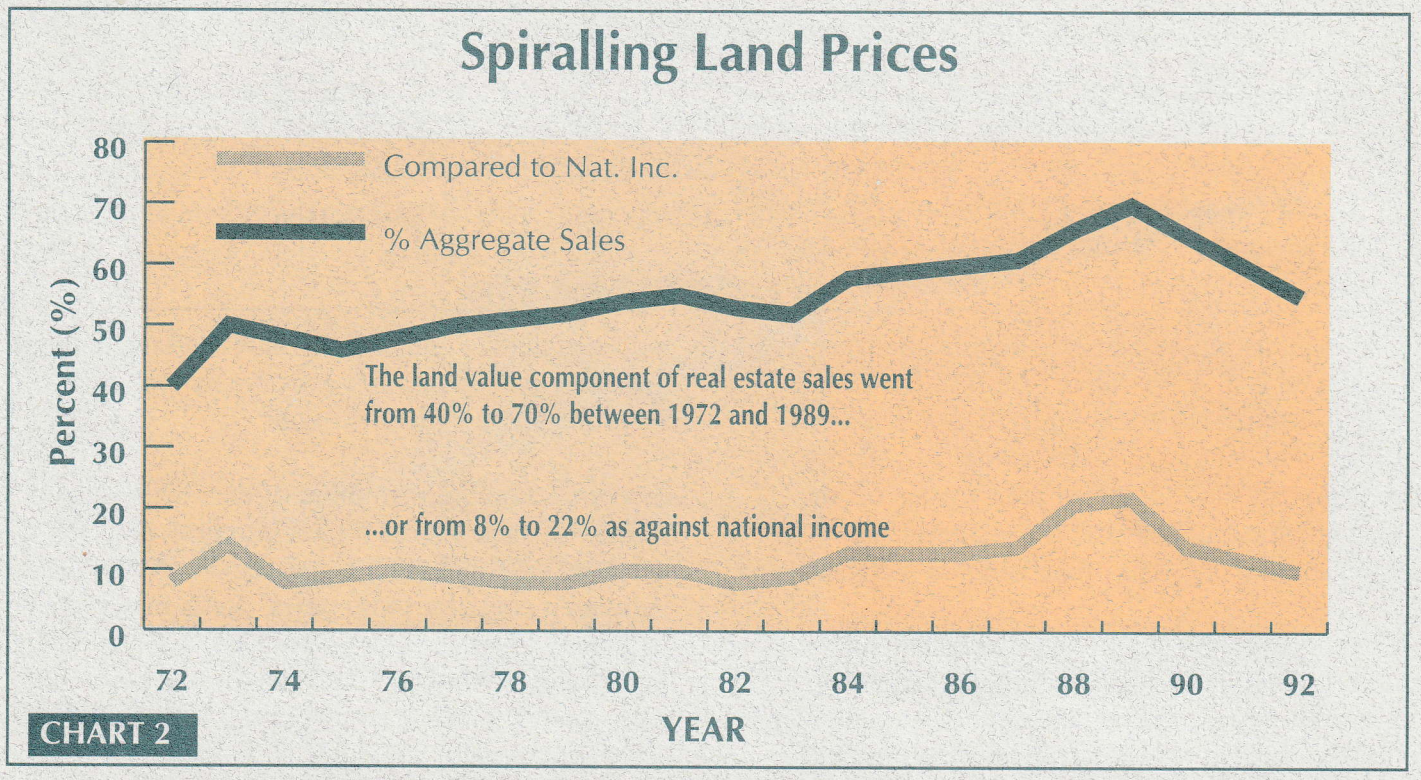
In a binge ranking with those of the 1880s and 1920s, we sank $469.2 billion into both markets between 1986 and 1989 - equivalent to 51% of the national income for those years. Sales of shares increased 550% in value in the 3 years to the peak at $68.2bn in 1988, while the value of real estate sales increased by 240% in the 4 years to its subsequent and higher peak at $87.7 billion in 1989.



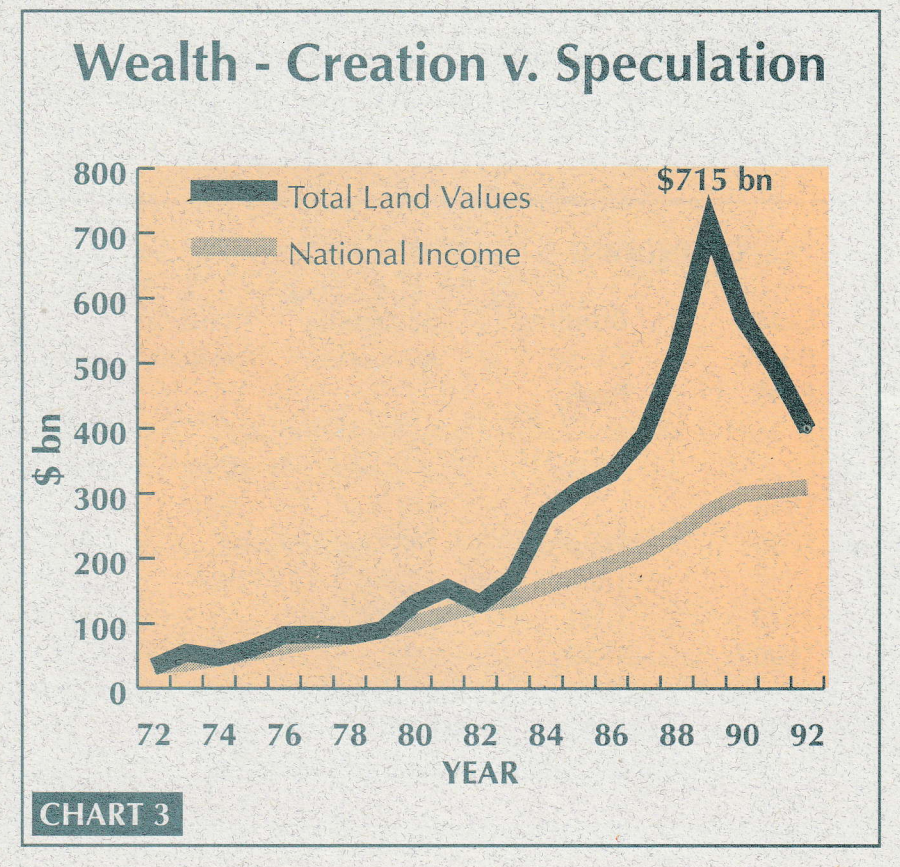
The shape of the graphs is remarkably similar, as there is a closer relationship between the two markets than is generally appreciated - much of the asset backing of shares being underpinned by interests in real estate. Each market performs a valuable role, but neither is well served by the unbridled speculation evidenced by the chart's two 'bubbles'.
The ASX actually outdid the property market in the financial year before the October 1987 'crash'. The sharemarket downturn then promoted investment in real estate.

The real estate 'bust' has seen share prices spiralling upwards again, capitalising towards 40% of total real estate values - when they are usually no more than 25%. A decline is likely to ensue when the market eventually factors the continuing property collapse back into the value of shares.

Despite the building boom, the real dynamic in real estate was the land component. Of the total value of real estate sales in 1989, land represented 70% in value, or $61.4 billion - shown at Chart 2 to be equivalent to more than 22% of national income. Of the total value of all Australian real estate in 1989 ($1021bn), the land value was similarly some 70% ($715 bn). Perhaps the more telling statistic is that while the land component increased by a factor of 1.75 between 1972 and 1989, it almost trebled in relation to national income over the same period.



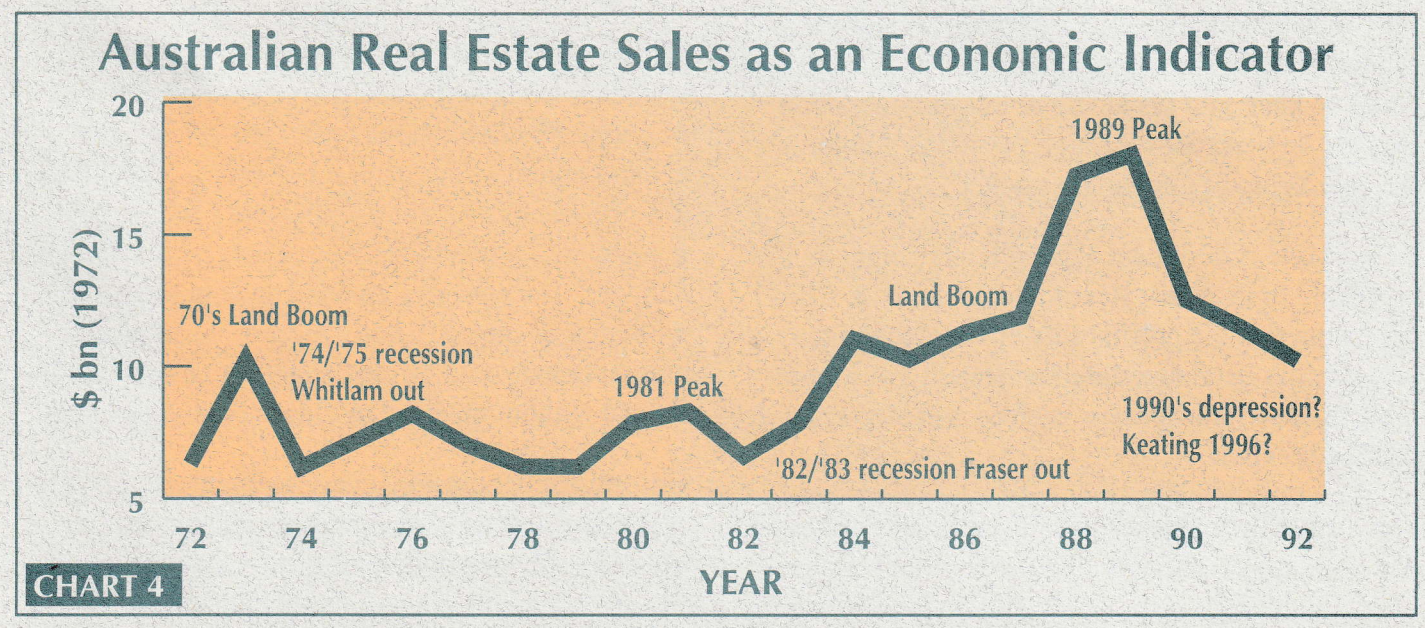
Taxes acted as fines and channelled the energies of many Australians into increasing land prices, instead of producing goods and services. Chart 3 is the first depiction of the peaking and collapse of this phenomenon in Australia.
Amazingly, the budget strategy is now to increase regressive taxes for government programs attempting to deal with the very unemployment, poverty and debt for which the tax system itself has been the catalyst.



A VALID SCIENTIFIC EXPLANATION HAS THE ABILITY TO PREDICT

In a submission to the Economic Planning Advisory Council (EPAC) dated 1 May 1984, The Association For Land Value Taxation forcast worldwide recession in the 1990s, following a study of property markets on four continents. (Harrison, F. *The Power In The Land*, London 1983) On the same basis, Chart 4 is arguably the definitive Australian economic indicator. Sales are shown at constant 1972 prices, so that the size of the 1989 peak may be related directly to previous years. The sheer quantum of the peak and collapse of the latest boom establishes us to be in a period of economic depression. The chart offers little support for quarterly reports of tentative growth which have recently been taken by some analysts to herald imminent economic recovery.

Impossible debt levels created by the flood of capital into property during the 1980s are millstones around the necks of all Australians, and portend a test of our social fabric. Mass retrenchments, re-regulating, and increasing indirect taxation are not the way to confront these debt levels, nor the consequent lack of effective demand.



We are slow to learn indeed. The following table confirms the same connection between land booms and recessions in the US over a period of 200 years. The dates are very similar to Australia's - although we could add to the table the 1961 'credit squeeze' recession which followed the 1950s boom and the significant level of political upheaval which followed the events of 11 November 1975 :-

U.S. ECONOMIC & POLITICAL CYCLES

Land Boom Peak	Building Cycle Peak	Economic Recession	Political Upheaval
-		-	1788
1818	-	1819	1824
1836	1836	1837	-
1854	1856	1857	1860
1872	1871	1873	-
1890	1892	1893	1896
-	1916	1918	-
1925	1927	1929	1932
	WW II interupts cycles		
1956	-	-	-
1972	1973	1974	-
1989	1990	1992	* 1996 (forecast)

(* *Economic Intelligence* Newsletter #31, Centre for Incentive Taxation, London March 1992.)

POLICY IMPLICATIONS

If the data of this study had been available to him, Mr Keating would have been unlikely to re-introduce tax advantages for the 'negative gearing' of residential investments in August 1987. Nor could he have said (as he did as late as June 1989) that the flow of funds through the 1980s was largely the gearing up of our capital stock.

At least one government agency now recognises the problem. In its recent Research Paper No. 3, EPAC points out that the profitability of investment in property has been diverting investment away from more productive activities, such as manufacturing goods for export.

The difficulty of changing institutionalised attitudes and practices is acknowledged - yet we can no longer afford to disregard the link between real estate speculation and economic recession.

Clearly, the figures highlight the necessity to cut conventional taxation and derive a far greater part of public revenue instead from land values - the economic rent of our natural resources. This would kill off speculative rent-seeking and foster capital investment. It would force land into productive use, and stimulate effective demand and employment without inducing inflation. Moreover, our goods and services would be much cheaper at home and abroad without the need to reduce real wage levels.

Unfortunately, virtually every segment of Australian society now witnesses the fact that we need to apply this remedy urgently.