

Now that the immediate problems with the banks look as if they have been solved, is everything going to be all right? None of the commentators seem to agree, so we shall not venture to make predictions. The continuing wild fluctuations on the stock market suggest that nobody has a clear idea about how things will go. What is being done does not sound right but we could be wrong. We can only wait and see. We are adamant, however, in our assertion that the banking problems are an *effect*. There is a vague perception that this is so when "house price inflation" or "housing bubble" are referred to but that is not right either. Houses have not gone up in price. Builders' wages and the cost of building materials has been stable for years. Houses cost about £700 per square metre to build, that makes £70,000 for a family house. What bubbled up in price was the land that houses stand on. Until that fact is clearly in people's minds, all comment is of limited worth.

Why land prices bubbled up was due to the wave of purchase and lending, on the speculative assumption that the land prices would keep on rising. And foolishly the banks were using the land values that they themselves had puffed up, as collateral for increasingly high risk loans.

Regulating the banks does not address the underlying cause which is land speculation, which gives rise to these boom-busts at intervals of about 18 years, and has been doing so since about 1800, with the cycles being disrupted only by world wars.

The only way to prevent this cyclic boombust behaviour is by getting rid of existing taxes on labour and capital, and replacing them by an ad valorem tax on the annual rental value of land, the policy known as Land Value Taxation, LVT. Note, here, that there is a distinction, not made either by Marx or modern economists, between land and capital; failure to distinguish between the two is the reason why the problem is apparently intractable.

This reform does not need to be done overnight, and can be implemented over a period of about 10 years to prevent undue disruption (as if we haven't got disruption at the moment) but it needs to be done with determination. Two side effects of this would be that housing would become affordable and that the recession would soon be over.

As things are, we are about to enter the butterfly economy - as buddleias grow into sturdy shrubs on all the derelict industrial sites, while people who are willing to work end up on the dole for several years. As is the way with these things, some will never work again and will spend the rest of their working lives on benefit.