

## FOREWORD

As the author of *Taken for a Ride* (Riley, 2001), and someone who personally benefited from the huge increases in land values that resulted from the publicly funded construction of the Jubilee Line extension through South London in the late 1990s, I am delighted to have been asked to write this foreword to Fred Harrison's important new monograph, which considers how increases in the value of land resulting from large infrastructure projects may be captured in order to fund such projects.

I landed at Dover after a choppy crossing of the Channel in 1962, and for the next 40 years I paid my taxes to Her Majesty's Treasury. Working in the computer industry, I spent some years in the Soviet Union – but still, when resident in the UK, I did not dodge my obligations to the public purse. After all, I was married, raising two children and using the public services; so I was happy to pay my share of the costs of the schools and hospitals that my family needed.

Then, as the millennium was dawning, a miracle happened. The government returned every penny that I had paid in taxes over the previous 40 years. So for four decades I had lived tax-free – and I had not dodged the taxman! How was this possible? I 'confessed' in *Taken for a Ride*. Taxpayers generously funded the extension to the Jubilee Line, one of London's Underground lines. Two of the stations were located close to office properties that I

own. Those two stations raised the value of my properties by more than all the taxes that I had paid into the public's coffers over the previous 40 years.

A nice windfall for this colonial boy.

Did it make sense for Britain's taxpayers?

It did not. And that set me wondering. It was symptomatic of the perverse taxes that governments use to fund the capital infrastructure of systems such as the transport network. What was Rome's secret? How could it build highways on a global scale?

Two thousand years ago, the Romans created a self-funded global network of 10,000 kilometres of roads stretching north-south from Hibernia through Rome to Damascus.

The Romans utilised investment talents stretching back to the first civilisations in the Near East. From then to the 21st century, except for rare periods of enlightenment, an economic darkness descended on Europe.

Now, in 2005, the City of London, with all the prestige, wealth, brainpower and engineering strengths at its disposal, seems unable to rediscover (reinvent) the 4,000-year-old economic investment model, to dig out and equip a modest 15-kilometre east-west tunnel.

In the 1950s, I could have known how it might be done, because I spent many an hour sitting on the evidence while going to university in New Zealand. The locomotives of the Wellington and Manawatu Railway Co. traverse some of the loveliest countryside in the world. It was constructed with private money at a cost of £767,665. The last section – extending the line to Paekakariki – was opened in 1886. It paid annual dividends to its shareholders until the government purchased it in 1908.

That great railway success is an economic lesson for govern-

ments today. The railway did more than deliver goods and passengers across the gorges that slice through North Island. In the seventeen years after the first trains steamed out of Wellington, the value of land along its route increased by £4 million, according to the *New Zealand Times*.

One of the men responsible for the railroad, Sir Julius Vogel, proposed that the community should retain alternate sections along the route. This sensible proposal was rejected for reasons that were documented by Michael Flürsheim, a German industrialist of the nineteenth century. He (like the chocolate kings George Cadbury and Joseph Rowntree in Britain) turned philanthropist, and he helped his employees to enjoy a good standard of living before packing his bags and migrating to New Zealand. There, he campaigned for reform of the way in which infrastructure was funded. He had learnt that the enterprise economy would be best served if locational values were tapped to fund the investments.

In the case of the Wellington and Manawatu Railway, if the Vogel plan had been adopted, the land would have been rented out to the settlers from Europe who landed on the quaysides of Wellington. Two consequences would have followed, both of potentially historic significance.

First, there would have been no need for the colonial government to tax private enterprise. Second, the railway could have been funded out of four years' rental income from the land whose value it raised. This would have been a painless way to fund the infrastructure that was needed to tap the resources of these virgin territories – or, as Fred Harrison puts it, the *self-funding* solution to the provision of the shared services that communities need. Flürsheim illustrated the mechanism of this self-funding strategy: it was based on the principle on which elevators are operated by the

owners of skyscrapers – ‘whose free use is given to the public, the increased rent of the offices more than paying for the expense’.<sup>1</sup>

Flürscheim (n.d.: 94) explained why this did not happen:

Private speculators were too powerful to allow such a scheme to pass, and private speculators have pocketed the millions of increment created through the new roads. It is not too much to say that if the community had kept the land alongside the roads, only leasing it at periodical revaluations, instead of selling the fee simple, by this time the entire debt contracted for the roads would be paid off.

History offers important lessons for governments that need more efficient strategies than the failed formulas of the twentieth century. It appears that any solution must embrace this principle: the ‘free riders’ need to be turned into paying passengers. How this might be achieved is the subject of this book.

Fred Harrison has not invented a new approach to funding infrastructure. But modern governments have forgotten the formula that was worked out by the peoples of antiquity.

- The peasant cultivators of the first civilisations, those in the Near East, pooled resources through their temples to create canals. These irrigated their fields and were the highways down which their produce was transported to markets.
- The Romans used a similar principle, but they worked through the secular city institutions to build their roads. These arteries, on dry land, were the lifeblood of the greatest empire on earth.

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<sup>1</sup> The economics of the elevator are discussed in Foldvary (2005: 25).

Modern Europeans – notably the Portuguese, Spanish, British and Dutch – built their civilisation through communication networks on the high seas. The riches of other continents were extracted and loaded on to the sailing ships that braved the storms to land their cargoes on the quaysides of Portsmouth and Antwerp. The main cost was the harbours and the naval vessels to protect the shipping lanes.

As routes of communication, the oceans cost little or nothing to provide access to the spices and precious metals – and, yes, the slaves – of other lands. The energy required by the sailing ships – the winds and currents – were nature's free gift. Some of the leading aristocratic families of Europe were fabulously enriched.

Then something astonishing happened. The British aristocracy discovered that it could get rich without incurring the risks of ocean storms and plundering pirates. Relocating the wealth-creating activity on their home territories could deliver huge windfall gains – without having to work for them. The treasures were beneath their feet, and the riches expanded as capital was invested in transport within the United Kingdom. But someone had to pay for the infrastructure that made possible the new systems of transportation. That is the story which unfolds in this monograph.

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