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# Henry George and Great Britain's Postwar Land Policy\*

By GEORGE G. SAUSE, JR.

## I

### Introduction

IN AUGUST OF 1947, George VI approved an act of Parliament which was the culmination of a long development in English legislation designed to provide for the best possible use of the limited land resources available in England and Wales.<sup>1</sup> It also marked a new approach to the old problem of who should benefit from the increased value of land which is brought about by the progress of civilization and urban development.

These two closely related problems have faced mankind in one form or another for many years. Our attempted solutions through government action have varied greatly over time and the proposals brought forward have shown even greater variety. One of the proposals that has attracted many zealous disciples and aroused the sympathy of countless more has been that of Henry George.

The fact that George is the first name that comes to mind in considering these problems is possibly the reason many have jumped to the conclusion that the British Town and Country Planning Act of 1947 is based on George's principles. This belief, though inaccurate, was given support by speeches and comments made by its supporters during the Act's progress through Parliament. A number of remarks sounded quite Georgist in their attitude toward landlords and the right of the community to socially created values.

An examination of the Act and its operation, however, shows that while there is evidence of George's influence there are also some fundamental differences.<sup>2</sup>

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<sup>1</sup> Scotland was dealt with under a separate act.

<sup>2</sup> It is interesting to note that the first English Housing and Town Planning Act (1909) was passed at about the same time as the unearned increment tax of 1910 [Finance (1909-'10) Act, 1910]. The Finance Act was designed to tax all increases in the value of land that were community created, while the Housing Act authorized a levy on increments to land value that were government-created. Specifically, increments in value that resulted from zoning operations which restricted development in one area and thus shifted demand for land elsewhere. The approach of the Finance Act was dropped after the First

## II

## General Philosophy

IN THE FIRST PLACE, there is a basic difference in the economic philosophy behind the two plans for insuring the best use of a nation's land. George's philosophy was that of free enterprise and his system was based on the belief that the land would be used in the manner best suited to promote the common good if each individual owner used his land as he pleased. This assumed, of course, that he would follow the rule of self-interest. To prevent land being held from its highest use, a tax equal to its economic rent was to be imposed. This, of course, removed the advantage gained from the mere ownership of land but, as long as the tax was paid, the right of the owner to use his land as he pleased was not restricted.

The present British system on the other hand is part of an overall philosophy which is based on the assumption that free enterprise alone will not bring about the maximum common good, but that government planning and regulation is necessary in many areas of economic activity. The Town and Country Planning Act of 1947 was designed to provide this central government plan for the use of the land.

We are familiar with a certain amount of planned use of the land in the United States since most of our urban areas are subject to zoning regulations, but the British have gone far beyond this by providing for positive planning rather than mere negative restrictions, and also by organizing the system on a national basis, as compared with a municipal basis in the United States.<sup>3</sup> Because of this centralized organization, plans drawn up by local authorities are modified where necessary to make them fit in with the overall economic plans of the Kingdom and to include such non-economic features as curtailment of billboard advertising and preservation of buildings, trees, streets, etc., that have historic, architectural or cultural interest.

The degree to which this legislation differs from George's free use of the land principle is illustrated by a brief description of the planning organization. Excluding the financial provisions which will be covered later, it may be summarized as follows:

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World War but the Town Planning Acts continued to authorize this levy on land value increments up to 1947—although administratively they failed to collect because the increment could not be traced to a specific cause like a zoning regulation. The Development Charge of the 1947 Act follows the approach of the Finance Act of 1910 in this respect by levying on all increment to land value.

<sup>3</sup> Our system of National Parks and some other conservation activity could be cited as exceptions to our usual policy.

First of all, the land is frozen in its present use and in its present state of improvement. This is done by denying the owner all rights to develop the land except with permission of the planning authorities. Development is officially defined as "the carrying out of building, engineering, mining, or other operations in, on, over or under land, or the making of any *material change in the use* of any buildings or other land"<sup>4</sup> (emphasis supplied).

In other words, the traditional right of the owner to do with his land as he pleased, subject only to the laws of nuisance, has been abolished. Since permission for any development must be paid for if it is granted, this means that all development rights in land have been nationalized. Certain exceptions are allowed. For example, permission is not required to bring waste land into cultivation or to make a change in the type of agriculture practiced, such as converting corn fields into pasture land for dairy farming. The urban landowner also finds a schedule of "tolerances" which permits minor alterations to his property.

Under the Act, every County Council or County Borough Council is required to appoint a planning board.<sup>5</sup> Each of these planning authorities is to make a survey of its area to determine what is available in the way of resources, buildings, population, industry, etc. It is then to prepare a detailed plan of how it intends to use and develop the whole area, including the stages by which development is to be carried out. These plans are to be quite detailed, defining the proposed sites of roads, public buildings, industrial sections, commercial centers, residential areas, land reserved for agriculture, military training, etc.

All these plans are next submitted to the Minister of Local Government and Planning (previously called the Minister of Town and County Planning). This minister, who is a Cabinet member, has the authority to amend the plans wherever he feels it is advisable and can even discard the local plan and substitute one of his own. It is his responsibility to fit these local plans into a national plan for land use and also to fit this land use plan in with the plans of the other government departments for trunk roads, new towns, national parks, relocation of industry, etc. This constitutes the centralized government planning which was referred to above. It should be noted that the original planning is on the local level but that the Minister has the final authority in preparing the master blueprint.

<sup>4</sup> Town and Country Planning Act of 1947, Part III, section 12, subsection 2.

<sup>5</sup> There are 146 of these local government units in England and Wales. But where desirable, they may combine to form a joint authority so the number of local planning authorities is slightly lower.

Permission to develop land will be granted only if the intended development is of the type designated for the particular plot of land in these detailed plans. So far, this may seem no more than zoning regulations carried to the ultimate extreme. Two differences are present, however: one, when permission to develop is granted, it must be paid for, and two, the British Act contains broad positive powers so that the planning authorities may force development if the private owner does not take the initiative.

If desired development is not undertaken, the planning authority may purchase the land by compulsion and then either resell it to someone who will develop it in accordance with their wishes or the local authority may develop it themselves. In practice, most development has been carried out with the local authorities keeping ownership of the land but granting long-term leases to the builders. So far, then, one result of Town and Country Planning has been to increase municipal ownership of land, particularly in the center of towns.

This summary of the planning provisions of the Act was given at some length to illustrate certain fundamental differences between this system and the principles of George. Thus, we have seen the contrast between private ownership and control over the land in George's system, and government control of the land combined with increasing municipal ownership under the present British Act. This contrast alone, without considering the financial provisions, would explain the extreme irritation shown by English Georgists when they are classed with the plan's creators.

Looking at this ambitious government plan, an American is apt to consider its applicability to his own country. Several comments may be made on this point.

For one thing, the British have accepted a planned economy to a much greater extent than the Americans. Criticisms of the Town and Country Planning Act have been numerous, but they have concentrated on the financial provisions rather than the principle of planning. With regard to planning, England has been likened to a ship where people live close to one another and neither space nor material can be wasted. The Country has adopted the same solution to this problem that seafarers have traditionally followed, *i.e.*, a planned existence controlled from above.

In comparing planned land use in England with American conditions, we must also remember that England is applying central planning to such fields as transportation, power and fuel, steel, housing, increments to the nation's stock of capital, overseas trade, etc. In America, we would have the problem of apportioning land among all these enterprises and deciding how much land each will need when operating and expanding freely. The

British, however, have already assumed the task of planning how their basic industries will operate and expand. Town and country planning, then, has the simpler task of overseeing the apportionment of land among the various national activities after the size of each activity has been determined.

People who oppose planning in general might, under these circumstances, agree that town and country planning, with a Cabinet Minister to represent it, was necessary to protect the amenities of the English countryside from such powerful departments as the Army, Board of Trade, etc.

Another difference stems from the fact that England's industrial revolution preceded that of the United States. The cities that it created are therefore older as to styling and have had a longer period in which to depreciate. The resultant "blighted" areas explain the strong British belief that individual freedom in the use of land is synonymous with misuse. As an American comparison, we can point to the municipal slum clearance activities of our older cities and to the greater strength of the conservation movement in the older states as contrasted with the newer states.

The difference in the size of the two nations also must be kept in mind in considering the British Act. The centralized authority noted above is exerted over an area no bigger than New England. Or, to use another comparison, in terms of square miles there is no greater centralization of authority than is found in the office of the Governor of Florida.<sup>6</sup>

One criticism, however, is particularly applicable to a planned economy such as England's. The restrictive features of the Act are well designed to prevent undesirable private development of the type that took place after the First World War. But most development in England now is carried out by government departments and authorities. Since the restrictive features of the Act do not apply to the government, the only check is the Minister's influence with the other Cabinet members. Naturally, in England's present condition, he has difficulty carrying his point based on scenic beauty or the advantages of a green belt surrounding cities against the needs of the Admiralty, the export industries, or the Army. It should appear, however, that a decentralized system of planning would have even less success in warding off the government departments.

This centralized authority, from an economist's viewpoint, has effected an improvement in the local plans. Town and country planning in the

<sup>6</sup> Scotland is administered separately. In terms of square miles, the respective areas are: England and Wales combined, 58,343; New England, 66,608; and Florida, 58,560. *The American College Dictionary* (Text Edition; New York: Harper and Brothers, 1948).

past has been the field of engineers and architects and the local authorities generally call on these groups to prepare their plans. The resultant plans are, therefore, ideal from the point of view of esthetics and pleasant living but overlook cost.

Plans for cities frequently call for new and relocated railway stations and shopping centers when the great need is for housing. Blocks of houses are frequently marked for destruction in order to provide an open space without careful consideration of the shortage of building materials.

The ministry officials have modified these proposals as much as possible but public feeling for local determination is strong enough to keep them from making all the changes that are desirable from an economic viewpoint.

### III

#### Financial Provisions

IN EXAMINING THE MANNER in which each system handles the financial problems connected with the use of the land, we again find important differences. It is here, however, that the Georgist influence is recognized in the Act.

As his planning system was simple—merely let it run itself—so George's financial system is simple, consisting of a single action by the government. This is the famous tax levied on land which is to be equal to its economic rent. It is simple to understand and does not involve any process with which we are not already familiar, merely increasing a tax which is already being levied.

No compensation is to be paid to the landowner for the loss in land value. George's moral argument against compensation was that the landowner had no right to the land's value in the first place. Economically, he claimed that to compensate the landowners would destroy his whole scheme since it merely gave them a different type of claim against the products of labor and capital.<sup>7</sup>

On the other hand, the new British system is extremely complicated and requires the understanding of a new vocabulary used in describing the concepts involved. The following descriptions will illustrate the above point:

*Compensation:* We have seen how the right to develop land was confiscated. The government took the position that the landowners were not entitled to compensation since development values are community-created and therefore can be rightfully taxed away. It retreated from this Georgist position, however, by explaining that this would cause hardship to those

<sup>7</sup> While the equity of this is questioned by many, all must admit that it is easily understood and leaves the landlord in no uncertainty as to his position.

who had bought land for building purposes just before the Act was proposed. A global sum of £300,000,000 was therefore appropriated to be divided among all who claim loss under the Act.

Each landowner may file a claim based on the amount of development value contained in his land. Development value is that portion of the total value which is not attributable to income from the land's existing use but to a more valuable use to which the land may be put in the future. It is therefore a speculative value. To arrive at this value for claim purposes, the landowner marks down the "unrestricted value" of his plot (*i.e.*, market value before the Act was passed) and subtracts the "restricted value" (*i.e.*, the value of the land when restricted to its present use). The remainder is the development value of his land. After these claims are adjusted and totalled by the Central Land Board, the £300,000,000 will be divided among the claimants. Since all agree that the global sum is too small to pay 20s. to the pound of lost land value, it is, in effect, partial compensation or a compromise between the landowners and Henry George. Like most compromises, it is satisfactory to few people, but it is difficult to imagine any plan that would dispense justice to everyone under these conditions.

*Development Charges:* The House of Commons' discussion of the development charge again found the Act's supporters speaking in Georgist fashion about the community-created value in land and the public's right to this value. It is then something of a surprise to find that this is the part most vehemently criticized by the Georgists. However, their displeasure is easily understood when we see how the charge is levied and recall the principles of George on this point.

We again note that the government has confiscated the right to develop land and if you wish to develop your land you must first make sure that the projected change fits in with the authority's plan. Then you buy back the right to develop. This buying back is called the Development Charge. It is to equal the difference between the value of the site in the newly permitted use and the value of the site in its present use. Or to use the technical language of the Ministry, "permitted use value" (*i.e.*, value of the land when used in the fashion for which permission has been granted) minus "restricted use value" equals the value of the permission to develop, and hence the amount of the "development charge." This can be defined as the capitalized value of the *increment* in economic rent which can be realized because the land may now be developed and used in a more profitable way. We have here an approach to George but only an approach, since no attempt is made to collect all the community-created value. In-



stead the development charge takes only that portion of it which results from the newly-permitted development.

There are other marked contrasts with George's principles. First, it will be noticed that the charge is payable only at the time at which the owner develops his land. It does not serve as a stimulus to develop as does George's system. On the contrary, a common criticism of the Act is that the development charge is really a penalty imposed on development, the incidence being on just the section of the population which displays initiative.

Another contrast is seen when we realize that as long as the landowner does not develop the land he may collect any increment brought about by the community's growth. An example of this is the increased value of a site with a commercial shop on it that is caused by a housing project rising on a neighboring plot. As long as the owner does not enlarge the shop or change its use, he pays no development charge and therefore pockets the windfall. The local authorities may collect some of this through excess condemnation under their powers of compulsory purchase which is described below. The problem, however, will always exist at the border of these purchases.

The Ministry defends itself against the charge of stifling development by pointing to the fact that all building labor and materials are fully employed, although admitting that the housing shortage causes this to be an inconclusive test. Since the building shortage seems destined to continue indefinitely, the development charge should not prove an embarrassment for a few years.

The Central Land Board also claims that a potential developer need pay no more than before the Act since the knowledge that a development charge must be paid before building commences should, theoretically, lower the bids of all buyers of land to the existing use value. Purchase of the land at existing use value plus payment of the development charge should result in the same total outlay as the developer would pay to the owner in the form of a market price under previous conditions. Now, however, the government gets a share of this outlay.

This bears some resemblance to George's theory where land would change hands for nominal sums but the buyer would not gain since he would have to pay a tax equal to the economic rent.

Application of the British theory to fact has not been perfect since many potential sellers hold their land rather than sell it at "existing use" prices. This brings us to the problem of forcing development.

*Compulsory Purchase:* There are additional marked differences in the

financial provisions connected with the problem of forcing the landowner to develop his land to its highest use and so maximize its benefit to all. George would simply tax him as if he were using it to the maximum, while the British plan relies on compulsory purchase.

If a landowner fails to develop his land when and in the manner the authorities desire, they forcibly purchase it from him. In buying land, the government first serves "notice to treat." This gives the owner an opportunity to argue out a price with the authorities. If he ignores the notice or fails to reach an agreement with the evaluator, the case goes to an arbitration board which determines the price.

The purchase price is to be the land's existing use value as of the date on which notice of compulsory purchase was given. As mentioned above, the land can then be resold to a "cooperative" private developer. Instead, however, the local authorities who purchase land have retained title to it and leased it to developers for periods not exceeding 99 years. They are then collecting the entire economic rent but, of course, have paid the previous owner for its "existing use value" and so really only collect the increment attributable to development.

Compulsory purchase has been widely used by the cities in redeveloping bombed out or obsolete areas. Here it has been little different from the right of eminent domain used by American cities in promoting slum clearance projects. So far, it has functioned smoothly although hampered by material shortages.

Having noted the differences and similarities between the two systems, we may sum them up as far as land value is concerned by first noting that Henry George would confiscate all site value by taxing away its economic rent. The British, on the other hand, divide the site value into a portion traceable to income which can be expected from it if its present use is continued (existing use value) and the remaining portion which is a speculative value based on anticipated income from a more intensive use in the future (development value). The existing use value is left to the owner, but the development value is confiscated with partial compensation being paid.

#### IV

##### **Social Background**

THAT GREAT DIFFERENCES should exist between the two systems is not surprising when we compare the environment in which George was living and the problems he sought to solve with those faced by the post-war British. George developed his theory in the California of the Eighteen Sixties and Seventies. He saw huge tracts of valuable land being seized by pri-

vate individuals and used to form the basis of great private fortunes. At the same time, poverty was the lot of the great majority of the people despite the richness of the land. Unemployment was a constant problem although the need for commodities was great and land for production was lying idle. Bothered by this problem of great natural wealth, an available labor force—yet poverty—he was most impressed by the role of the land speculators who withheld some of the best land from its maximum production. Since the community was growing rapidly, the speculators could rely on being able to charge high rents in the future for the use of this scarce natural resource.

It seems natural, therefore, that his solution to this problem of poverty being the companion of progress in a rich land emphasized the faults of this speculative process and that he should urge the taxation of this “un-earned” income from the landowners and its use for the common good. At the same time, he claimed the tax would force all landowners to use their land to the maximum.

The British Planning Act was written under different conditions. The men who drafted it lived in a country whose period of rapid development was past. The land speculators were not the dominant factor that they were in California of the Sixties and Seventies. Instead they saw great areas which had been densely built up with houses, factories, stores, railroad yards, narrow streets, etc. The problem that seemed most important to them was how to preserve the green spots, open air areas, and scenic beauty that still remained, and also how to restore these amenities wherever possible.

To them a tax that would force each landowner to use his land in such a way as to bring in the maximum money income appeared not as a solution but as an aggravation of the problem. Instead they resorted to direct governmental controls.

The differences in financial arrangements may also be traced to this same difference in social conditions. George regarded landlords as robber barons who seized the land and levied a tribute against all whom they allowed to use the natural resources. Hence, he would pay no compensation when land value is reclaimed by the public. Since he felt they were not entitled to rent in the first place, he opposed compensation for its loss through taxes since this would merely present the landlord with the capitalized value of all future payments. When we recall that George observed the land speculation and railroad grants of America in the three decades following the Civil War, his apparently harsh treatment of the landowning class is understandable and many who oppose its application

under present conditions feel that originally the community should have kept a greater interest in the land.

The British look at the compensation problem in a different light. Land grabbing of the type George witnessed is several centuries behind them. The land is now owned by people who have inherited it in the same manner capital is inherited and, in fact, consider it capital, or by those who have purchased it with money earned in a manner no different from money used for capital investment. All these people acquired land in good faith when there was not a widespread social stigma attached to its ownership or a general feeling that this was the same as buying stolen property.

To confiscate all site value under these circumstances seemed to the British an injustice. At the same time, they recognized the logical arguments against paying for all the speculative value contained in Britain's land. Partial compensation was the compromise that resulted.

In the preceding pages, George's system has been discussed very briefly since his principles are well known. The British Act has been described at greater length since it is new and its complicated provisions are not widely understood.

Many people still believe that the 1947 Act represents a triumph for Henry George. The foregoing description illustrates the way in which George's influence has left its mark, but also shows that the contrasts between George's theory and the Act of 1947 are quite important. In many ways, the Act is a combination of the policies of socialist nationalization, Georgist collection of economic rent, and British conservatism and gradualism which insisted on a compromise at many points to soften the blow on the individual.

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### *Some Lessons in Rural Property Tax Exemption*

IT IS REMARKABLE that the rural property tax exemption movement has not attracted more attention among students of public finance, for it has many salutary lessons to teach about the public welfare aspects of state and local taxation. Now, thanks to a recent study of Daniel W. Burch for the Bureau of Agricultural Economics, much information about it has become available. Mr. Burch studied two phases of the movement, veterans' exemptions and rural homestead exemptions.

Twenty-six states exempt veterans' property from taxation up to a stated amount, depending upon disability, residence, or other considerations. The statutes granting such exemption had their origin shortly after