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Land campaign – Why we should follow Pittsburgh

Christopher Huhne explains how American cities have got rid of the blight of unused urban space and

By Christopher Huhne

Britain's use of our greatest natural resource – our land – suffers enormous problems. The first is that social improvements such as the building of tram or underground lines create vast increases in private wealth and income, but these gains in value currently accrue wholly to private property owners. The result is that the public sector has little incentive – and worse, no financial means – to invest. Because of our inability to connect social costs with private benefits, we systematically underinvest in the public transport infrastructure that would benefit both landowners and citizens.

Take the building of the Jubilee Line in London, which, it is estimated, has added more than £13bn to property values. The cost of construction was just £3.5bn and the net gain nearly £10bn. An insignificant part of that gain – some £180m – was paid towards the cost of the line by the developers of one small area affected by it: Canary Wharf. The vast majority of landowners along the route enjoyed a large windfall with no contribution whatsoever. A similar windfall is operating for property owners around London King's Cross, Stratford and Ebbsfleet because of other public investments such as the Channel Tunnel Rail Link.

The second problem arises when public authorities award simple planning permission for a greenfield site. This can provide the owner with a huge windfall. The figures supplied to Kate Barker's review of housing policy for the Treasury indicate this can boost the value of a hectare of land from £7,534 to £1.23m. It is a gain created wholly by society, yet almost all goes to the owner of the land. If the local authority is savvy, it can use Section 106 of the Town and Country Planning Act 1990 to negotiate concessions from the developer, but the process is random.

Faced with these problems, the Barker review recycled one of the Treasury's old hobby-horses, and it is a fair bet that the government is about to ride off on the old nag again. The Treasury's overwhelming interest is in anything that raises money easily for the Exchequer. And there is hardly a better example of a stealth tax than some payment for a big, one-off gain from the granting of planning permission. This "planning gain supplement" – a tax on the increased value, payable in order to receive the planning permission – is similar to several previous attempts to impose development gains taxes such as the 1947 development charge, the 1967 betterment levy and the 1973 development gains tax, followed by the 1976 development land tax. All died through asphyxiation by their own complexities.

There are two problems with the Barker proposal, as with its predecessors. First, it does nothing to help fund infrastructure through existing built-up areas. Any developer who sees gains in rents and values as a result of a new Tube line can rest easy: the profits would all still be theirs. The second problem is that the "planning gain supplement" would, as the Barker review itself implicitly admits, actually reduce the amount of land coming forward for development, because the profits would be lower than they are now. Yet the priority, particularly in London and the south-east, is to increase the amount of new housing, particularly affordable homes for those on low incomes.