

NAIVETY characterises the economic reasoning which threads through the Government's White Paper on the inner cities.¹ Consequently, the strategy for dealing with the problem of Britain's dying cities is seriously defective and can only worsen the long-term prospects of revival.

The politicians and civil servants who drafted the White Paper relied on a simplistic definition of "demand," the sort which is found in elementary economic textbooks.

For example, we are told that Glasgow and Liverpool were "now experiencing a lack of demand which is manifest in large areas of vacant land." In other words, the vast tracts of land in the hearts of two of the country's biggest urban areas are idle because no-one wants to use them. So idle land is an effect, not the cause, of sub-optimal economic activity.

From this it follows that a Keynesian response is commended: public expenditure to stimulate the local economy to the point where new demand draws the land into use. But this would be a wrong conclusion.

The land is **not** idle for want of demand. People and firms have expressed a demand for locations in central areas of the big conurbations throughout the decades that the land has stood idle. But they could not buy or rent it either because it was too expensive, or because owners were unwilling to release it (hence the frequent resort by councils to compulsory purchase orders: CPOs).

One of the motives for holding land idle is the desire to reap a speculative profit: i.e., the asking price is out of proportion to what a firm could produce as an economic surplus out of current production.

Yet the Government feels that this argument is exaggerated. This complacency derives from simplistic economic analysis: "Land prices respond to market demand"—yet contradictorily admitting: "Owners often have high hopes of their land and are prepared to wait in order to realise their expectations."² I.e., they will not responsively lower prices to

Prices And The Land Speculator

BY FRED HARRISON

the current demands of the market!

BUT IT WOULD be wrong to assume that only individuals or statutory bodies are speculatively raising land prices.

The law forces councils to pay unrealistically high prices for land they sometimes buy—a fact which the Government vehemently denies:

"The compensation code is in general adequate to ensure that the price payable on compulsory purchase is based on current market conditions and prospects, and not on the prices that might have been obtained had boom conditions continued."

A high-powered working party led by Prof. Gerald Smart found evidence which paints an alternative picture. In their report, they state:

"... the compensation code itself was seen to cause serious financial difficulties to local authorities, since the cost at which they acquire land is largely determined by legal requirements. These ... tend to push costs above what might be expected on the basis of the level of investment demand and the presence or absence of alternative purchasers. The reliance of this code upon assumptions, including the future use for which planning permission can reasonably be given, often depends on vague or outdated plans, which can create unjustified 'hope value'."³

The presence of the council as a buyer of last—often, only—resort, has pushed up prices well above their economic value. There is ample evidence for places like Liverpool, where the council owns half of the city's 1,250 acres of vacant land, that owners have deliberately exploited this fact to

demand inflated prices. The public purse, it seems to landowners, is bottomless. . . .

Yet Liverpool's district valuer, Alan Gibbons, has denied that inner city land values have deterred development.⁴ From a study of the compulsory acquisition of 31 acres, it turned out that the city had paid an average £27,000 per acre (including compensation and costs of demolition). Developers, however, have paid £16,000 to £20,000 for "green field" sites in the outer areas of Liverpool: so why should they offer higher prices for land in a run-down environment?

OFTEN THE only way that land can be brought into use is by the council selling or leasing at a financial loss. The Government now actively promotes this approach: "Disposal of land by local authorities, with appropriate safeguards to avoid speculation, may in some instances mean having to accept a loss on disposal in relation to its historic cost." And why should land be sold at lower prices? Because, declares the White Paper: "It is . . . a way of stimulating early development and desirable developments, and of testing and influencing prices in the open market."

Therein, surely, lies the explanation for at least part of what the White Paper calls "The absence of much spontaneous growth and regeneration" in inner areas—and also a solution: a reduction in the price of land attracts firms!

The Government is wedded to the naive belief, however, that speculators do not push up land prices. Because of this blind spot in its interpretation of the workings of the economy, it has inevitably selected the wrong battery of (bureaucratically-based) solutions.⁵

A simple, market-oriented solution does exist: the taxation of land values, which deters hoarding and forces down prices to realistic levels based on the actual demands of the market. Goals, it seems, which the Government wants to attain. But before the efficacy of this policy can be appreciated, the politicians need to come to terms

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SPOTLIGHT

on the 'inner cities' White Paper

LETTERS

The Problems With Liberal Policies

SIR, P. E. Poole's article on the Liberal Party (September/October 1978 issue) has proved valuable if only in prompting the reply by Bernard Greaves in which he summarises Liberal Party policy. It is not always easy to get such a direct statement of policy from the Liberals.

I am glad to see that the Liberals are proposing the introduction of the taxation of land values up to 75 per cent of its annual value over a five-year period, although there is no mention of when it would be extended to 100 per cent — if ever. Agricultural land is exempt but no reason is given.

I note that the Liberal Party have now abandoned site-value rating in favour of national land value taxation, but none-the-less the rating system under their policy is to be replaced by local income tax. Do the Liberals not realise that the abolition of the present rating system (which falls on land and buildings, albeit in a clumsy way) is making a gift to property owners — i.e. essentially land owners?

What, however, is more subject to criticism is the Liberals "long term solution to inflation" which they think can be solved by what they call industrial democracy and profit sharing. It only goes to show that they too have fallen victim to the brain washing of successive governments who have sought to put the blame for the result of their debasement of the currency on to others by presenting inflation as a problem of employers versus wage earners. The truth is, of course, that wage earners can only react to a fall in the value of

money by asking for more of it. The Liberals compound this fallacious argument by proposing a prices and incomes policy which, it is said, will be "effective in preventing inflation."

They are to be commended for advocating land value taxation but there is much else in their economic policy that does not make sense.

Yours faithfully,

Wallace Crompton

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PRIVATE AGRICULTURE IN THE USSR

MEMBERS of collective farms and employees on state farms, as well as large numbers of workers in non-farm areas, are assigned small plots of land for their personal cultivation. The plots range in size from less than one-half an acre to somewhat more than one acre and account for approximately three per cent of the total sown area, yet they provide approximately 30 per cent of gross agricultural output. In recent years, approximately one-third of total Soviet meat and milk output has been produced in the private sector, as well as almost two-thirds of all potatoes and two-fifths of fruit and vegetables.

—From *Soviet Impact on World Grain Trade*, The British North American Committee.

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Rates Pledge: Tories Back Down

THE PROMISE by Mrs. Margaret Thatcher that the Conservative Party would scrap domestic rates is being rescinded—for the time being, at any rate! Michael Alison, the party's spokesman on local government, told the Rating and Valuation Association's conference in Bournemouth that this objective could not be achieved in the lifetime of a single Parliament. So instead, he held out the prospect of tax relief for those paying rates on their houses.

The Centenary: How are you celebrating?

1979 marks the centenary year of Progress and Poverty and although some fortunate Georgists will attend the International Conference in San Francisco, I cannot. So I have decided to do something special to promote Henry George's ideas throughout the year. I have produced a little leaflet explaining one central aspect of George's thought: land value taxation and how it might be applied in this country in the late 20th century.

My first draft was commented on by others and then I had a thousand copies of the improved version printed. I have already given some of these away and sent others to local and national newspaper correspondents, and have promised myself that I will dispose of these by 31 December 1979. Copies are available from my home address.

That is my contribution to the centenary year. I would be interested to hear what other Georgists will be doing.

Keith Thomas, 11 Myrtle Road, Bristol BS2 8BL.

WHITE PAPER

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with the role of speculators (individuals, statutory bodies and councils) in the economy. And this, incredibly enough, is something which the Labour Government is unwilling to do.

1. *Policy For The Inner Cities*, Cmnd. 6845, HMSO.
2. *Ibid.*, p. 28, para. 10.
3. *Land Values and Planning in the Inner Areas*, RTPI, 1978.
4. A. A. Gibbons, 'Valuation and the inner city areas,' *Chartered Surveyor Urban Quarterly*, Summer 1978.
5. See *Land & Liberty*, July/August 1978.

LAND & LIBERTY