

# LAND & LIBERTY

SEPTEMBER & OCTOBER, 1977



## Building — Opportunities and Incentives

**T**HE British building industry has, for the last few years, been having a hard time—hardly surprising since the first to feel the effects of an economic depression are the builders of shops, offices, factories and houses.

There are now appearing signs of revival in the industry but the fact remains that so long as we have a boom and bust economy,

property developers more than anyone else must face massive cyclical upheavals in their business. In the good times their "excessive profits" are slated as the "unacceptable face of capitalism" while in the inevitable recession many of their number drift into bankruptcy.

How can the situation of the builders be improved without

granting them special privileges at the expense of the rest of the community? Most obviously by getting rid of the periodic general recessions that afflict our economy. A mammoth task indeed, but more of that later.

Crucial to the builder is the availability of his most basic "raw material", land. If a suitable site is not available in the right place

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and at the right time then he cannot even contemplate starting work. Several legislative attempts have been made to improve this situation but each has been poorly-conceived and has ended as a bureaucratic failure, having aggravated rather than improved the position.

A new discussion paper\* published by the House-Builders Federation recognises that the lack of availability of land has been a crucial problem for the house-building industry for the last twenty-five years.

The three main elements in the problem are, it says:

- i) the identification and allocation of land for housebuilding;
- ii) the provision of infrastructure—sewers, water, roads etc.;
- iii) the operation of development control—the mechanism for “converting” allocated land into land upon which to commence building.

On the first, the paper points out that “There is an indissoluble link between housing policies and policies for land. Whilst governments of both political parties have made housing a top priority, both have consistently failed to will the means to achieve the ends of those policies by creating realistic policies for the identification and release of land for housebuilding. The last Conservative Government defined its priorities for land release but tried to achieve them, in the absence of suitable machinery, by exhorting planning authorities in successive Circulars. These policies culminated in the great land-price boom of 1972-3, in which the house-building industry and the house-purchaser suffered equally. The Labour Government’s Community Land Act is totally misconceived; it gives principal responsibility for identification, allocation, acquisition and disposal of land to the same planning authorities who have failed to identify or allocate adequate supplies of land in the past.”

To remedy the situation it is proposed that the local authorities be obliged to produce a statutory Land Policy Statement allocating a five-year supply of land clearly available and suitable for house-

\* *Land for Housing*, The House-Builders Federation.

building and serviced, or capable of being serviced within one year of a planning application. The De-



partment of the Environment Regional Offices should ensure that these Statements satisfy the criteria of availability and should have powers to step in should the authorities default in their obligations.

Securing a sufficient allocation of land, it is argued, would obviate the need for public bodies to intervene in the acquisition and disposal of land. An overall surplus of available land would arise which would stabilise land prices and eradicate boom and bust cycles. Thus, the incentive for pure speculation in land would be removed and there would be no need for special penal taxes upon development land gains.

While agreeing with the authors that the latter are "ill-conceived attempts to tackle the symptoms . . . rather than to tackle the disease itself . . ." one might question their optimism concerning the extent of the effects of improving the planning system. That there are serious faults in the planning system is beyond dispute and the disastrous delays and irritations that planning restrictions impose upon development are common knowledge. But whether a mere streamlining of planning would work the envisaged miracles on the land market is highly debateable. The long-term secular trend in building land values (in real terms) is inevitably upward. Therefore, however much planning is improved, there will still be an incentive for speculation in land. While this incentive to hold land out of use remains, planners can allocate and designate until they are blue in the face, but speculation will not disappear. This is not of course to say that the paper's proposals would not be beneficial, but merely to point out that there are other fundamental distortions in the land market

besides those introduced by poor planning practice and the rectification of the latter alone will not lead to a plentiful market free of speculation.

On the subject of infrastructure finance, the Federation is anxious that builders should not be saddled with the costs of servicing sites, as has been from time to time suggested. It argues that since development results in complex benefits to the community as a whole, the only equitable method of financing infrastructure is through general taxation.

In fact the public provision of services to land benefits the *landowner*. If builders were faced with having to bear the full costs of production of their development including the infrastructure costs, then the effect would be to reduce the price of unserviced sites by the amount of the cost of providing the services. The landowner, not the builder, would bear the costs. This is so, because the value of land is residual by nature, i.e. it absorbs whatever is left of the product after the costs of production have been met.

On development control, as on identification and allocation of land, the paper makes a very good case. Planners are undoubtedly intervening in minor matters—colour of roof tiles, type of fencing, internal layout, etc.—that should not be their concern. These, says the paper, should be removed from the sphere of planning.

It is also argued that there should be a statement in the Town and Country Planning Act to the effect that "the basic principle is that planning permission should be granted unless there is a sound and clear cut reason for refusal. The onus therefore lies on the authority to show that proposed development is not acceptable, rather than on the applicant to show that it is." Authorities who impose unnecessary delays and costs should be made to pay over the full amount of such costs.

This paper will clearly achieve its aim in part—that is provoke discussion on the question of land availability. While its proposals have merit, it is to be feared that their performance would fall far short of what the authors envisage.

Essentially, this is because they do not get to the root of the prob-

lem of land availability. Planning is, in existing circumstances, a negative or restrictive phenomenon. Positive planning, in the absence of compulsory purchase to enforce its dictates, does not exist.

The most positive and the most fundamental method of making land available is the replacement of taxation upon development and enterprise with an annual levy upon land based on its optimum realisable value, together with a streamlining of the planning processes.

The effects of such a policy would be to stimulate economic activity, to encourage development where community activity demanded it, to remove the speculative element from the land market making more land available and reducing its price, and finally to tend to iron out booms and slumps.

Clearly this would be most beneficial to the building industry. Given a constant supply of available land at lower prices and with a reduction in the burden of taxation upon its enterprise, it would



be freed and encouraged to get on with its job.

In *The Architects' Journal*, August 3, "Astragal" made the following comments concerning the local application of site-value taxation:

"Recently, I came across an article about an idea which might well have softened much of the impact of the present slump in the building industry. The suggestion was that local rates should be levied according to the market value of sites; thus, the owner of a vacant site would pay the same rates as the owner of a property consisting of a complete and occupied building standing on an identical site. This is in contrast to the present system, in which vacant sites have no rateable value and the more a property is improved, the higher the rates—hardly an

incentive to embark on a building project, is it?

"Just now, vacant sites and buildings are a prominent feature of the urban scene, and they all represent work that has not flowed into architects' offices. With rating based on site values, vacant sites would be somewhat of a liability to their owners, who would be under some pressure to make sure that they were used. All of which would surely have helped to maintain a flow of activity in the building industry and do the inner cities good as well."

The policy of site-value taxation is an area into which the building industry would do well to look.

\* \* \*

### SHALL WE LEARN FROM THE SOVIET UNION?

THE common characteristic of most political philosophies designed to end our social ills, is that which places a planned ideal above the laws of economics. Indeed some philosophies proudly assert that this is intentional because economic laws, if left "unchecked", produce the kind of society that generates poverty and its attendant ills. The laws of economics are thus identified as evil and the institutional framework in which they operate of secondary or no account.

But economic laws persist, as do the laws of physics and chemistry, in having their way. Design a bridge as you may; bestow upon it all the artistry and loving care you wish; but unless it is built on scientific principles it will not stand.

But not only does theoretical exposition of this truth fail to move the dogmatists, so also does practical experience—until the sheer force of circumstances compels it.

In the Soviet Union where practically the whole of agriculture is state-owned, experience has shown that the very limited private small-holdings, using only two per cent of the cultivated land, produce over a third of all the meat, milk and vegetables. Now, the circumstances of food shortages and high prices are forcing a change from the previous policy of disparaging private agriculture.

According to a report in *The*

*Daily Telegraph*, August 23, private enterprise farming is becoming ideologically respectable. The small-holder is no longer being accused of profiteering and of being a wicked capitalist, in fact he is being encouraged.

But this belated acknowledgement of the virtues of the free-market mechanism is by no means universal. Perhaps the brainwashing of successive generations is politically too much to compete with; or maybe too many concessions to economic laws would bring too much freedom, the counterpart of which is too little power for the State. Or could it be that a mixed economy is the ultimate compromise? A strong government depends upon a strong economy.

Maybe as the Soviets move a little closer to free enterprise, the western world will move further away—it seems so. And who knows, the future might even bring a complete reversal of attitudes, with our future generations condemning the Soviet free enterprise!

It could be that the Soviets are one step ahead of us and that to catch them up we have first to make all their stupid mistakes. We are learning fast.

\* \* \*

### UPSURGE IN FARM LAND VALUES

AGRICULTURAL land values in Britain might, in the latter part of this year, crash through the £1,000 per acre barrier, reports the August issue of *The Farmland Market*, published by the *Estates Gazette* and *Farmers Weekly*.

During the first half of 1977 farm values are reported to have risen by 22 per cent while bare land values rose by 16 per cent to £901 an acre.

In the investment market, tenanted farms and land registered increases of 42 and 54 per cent, with prices making about 60 per cent of equivalent vacant possession transactions.

The report sees no single explanation for the upsurge, though it points out that the sharp reduction in interest rates must be a contributory factor.

Although farm profits are acknowledged to be too low to justify

the prices being paid for farmland, it is indicated that the purchasing activity arises from within agriculture rather than from outside interests. The reason for this activity, says the survey, must be the prospect of real capital gain from increasing land value or the possibility of borrowing on the strength of it.

The report seeks to explode the myth concerning the foreign invasion of the countryside. The overseas purchaser, it says, forms only a small part of the market, though UK farmland does have particular attractions for the European purchaser. Among such attractions are listed: political stability; little sign of extremism taking root; taxation, though heavy, is not confiscatory.

\* \* \*

### BLUNDERERS AND BUREAUCRATS

THE prudent private land buyer will not buy a piece of land for potential development and pay the developable price unless he is assured of planning permission. Only a fool would pay a development land price for agricultural land without first checking the planning permission. Of course, elementary! But only to private citizens who can be relied upon to look after their own money and not squander it. Not so with local councillors or at least with the councillors of Thanet Council, who, less diligent with public money than they are with their own, recently bought a farm of forty-two acres for £85,000.

They wanted to build houses but the Kent County Council and the Ministry of Agriculture bureaucrats said no.

The previous owner of the farm is now back on his land which he is renting from the council for £20 a week. If he only gets five per cent on his money, he needs only £20,000 capital to pay his rent, which leaves him with a nice bonus of £65,000 of ratepayers' money.

Thanet Council, of course, didn't have the money—it had to be borrowed and the loan is costing £10,000 a year. Moral? You may draw your own—and probably more than one.