PRACTICAL POLITICS

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What is public (collective, if you will) and what is private? That surely is a basic question of political philosophy. The only answer one can deduce from to-day's taxation debates, though, is that those in power in the state make the decision from time to time on essentially arbitrary criteria. Put simply, it is what they can get away with ("Practical Politics", Issue No. 43, March 1994).

The key to applying the science of political economy to the practical problems of the body politic is appreciation of the distinction made by the classical economists between Land and Wealth. Land is not a manufactured product but is something freely given in the scheme of things. Its value is a barometer of society's economic activity. Site value rental is the natural, logical source of public revenue.

This proposition is often called land value taxation (LVT for short), but it is not really a tax at all. Rather is it payment to be made by individual persons or corporations to secure enjoyment of the benefits attaching to exclusive occupation of specific locations. These benefits may involve exploitation of minerals or of a benevolent soil and climate; or they may be entirely a function of the concentration of population with all its attendant infrastructure and services and the demand for living, working, and recreational space. Land value is a truly collective achievement. On the other hand, the values attaching to manufactured objects (whether used as capital or in the hands of the final consumer) are, or have been, personally created.

What we do to-day is collectively to call into being a value attaching to land – which we then proceed to give away! Thus beggared, we tax our wealth producers, creating no end of social problems on the way. That way madness lies. ("Practical Politics", Issue No. 47, July 1994).

DEVELOPMENT v CONSERVATION: LVT resolves false dichotomy

The Greater London Authority has set up a Green Spaces Investigative Committee in response to concerns that "London's green spaces are in danger of being nibbled away" even though "one of London's biggest selling points for residents and tourists alike is its huge variety of open spaces" (Sara McConnell, "Evening Standard", 25th. April). "Homebuyers in London will happily pay prices of up to 25 or 30 per cent more for the privilege of owning a house overlooking greenery or water." There we have it! Green spaces create land value in the surrounding neighbourhood. Implementation of LVT would act to spur regeneration and redevelopment of derelict and presently under-used land, and thereby reduce the pressure to impinge on open space. Furthermore, LVT data would guide planning authorities as to where development would destroy more surrounding site value than it would release. With land values funding the public revenue, there would be every reason to refuse counter-productive planning consents.

LAND VALUE DISPUTES: who will speak for the public interest?

(i) There are some 5,000 landowners called lay rectors who "post-reformation, bore the burden of chancel repairs in return for receiving parish tithes" (Sarah Hall, "The Guardian", 18th. May). A Warwickshire landowner recently faced a bill for £95,260 to repair the chancel of a 12th. Century church. His case against paying lost in the High Court, but he has now won in the Court of Appeal, which ruled that the lay rectorship arrangement contravenes on two counts the European convention on human rights. This decision, granting the landowner relief from an obligation which 'ran with the land', has instantly made his land more valuable. The public interest lies in capturing pure land value for the public revenue: a reassessment for LVT purposes would do just that.

(ii) Mellis Green is part of a nature reserve owned by Suffolk Wildlife Trust. The Trust has advised villagers that, although many "had been driving cars across the common to their farms or houses unhindered for years, they would, from now on, have to pay huge sums…for the privilege" (Roger Deakin, "Independent", 26th. May). This is effectively a transfer of land value from owners of housing and farming land to the owner of the common. LVT would automatically compensate for the loss and capture the increase. Land value is no one's private plaything.

LAND, PLANNING POLICY, and a coda on TRANSPORT

"Either side [i.e. seller or buyer – Ed.] can make a financial killing from the vast increase in value sparked when planning permissions are granted" (David Lawson, "Property Week", 20th. April).

Three points should at once be noted. First, development rights have been owned by the state since their nationalisation by the Town and Country Planning Act, 1947. This part of the Act was never repealed. Landowners gaining planning consents have effectively been given something to enjoy which they did not in fact own. Secondly, approval of a planning application does not of itself create value. What happens is that a value which has hitherto been held down is allowed to show itself. That value is brought about by people collectively, who compete for use of space and attribute to each location its special worth. Thirdly, the same is true of the underlying land value in existence before its enhancement by grant of planning permission. All land value is ongoing, generated and maintained by the population as a whole. Much mischief has followed from failure to take this into proper account.

Since World War II, faulty legislation has resulted from good intent but woefully inadequate understanding. Three sets of variations on the theme of the development land tax have had to be repealed. The tax was always a single hit at just the increment in the capital value (price) of the affected land, and was "voluntary" in the sense that it was triggered only when an application for development was tabled and granted. Unsurprisingly, development was discouraged, and the tax threat resulted in higher prices for the reduced amount of land that did become available. The legislation thus had an effect opposite to that intended.

For four years the present Government has avoided the issue; nor have the opposition parties offered programmes of their own. Local authorities and property interests have been left to take matters into their own hands, but at last Government is thought to be preparing a review of planning negotiating procedures.

Planning Gain

"Few subjects make developers' blood boil as much as planning gain. The subject has become an increasingly contentious issue in recent years as

the sums of money demanded by councils has [*sic*] soared" (David Blackman, "Property Week", 16th. February). "DETR statistics show that after Council Tax and government grants, Section 106 Agreements are councils' third biggest source of revenue…The amount of money washing into council coffers from developers has sparked concerns that the industry is using Section 106 Agreements to buy planning permissions."

These Section 106 Agreements refer to Section 106 of the Town and Country Planning Act, 1990, and constitute what is commonly known as "Planning Gain". It began modestly with requirements to contribute to or put in infrastructural developments necessitated by or associated with the proposed development. More recently, negotiations have broadened to include demands for provision of amenities more and more remote from the specific application.

Development taxes of this sort must effectively come from land value. What happens is that a local authority will haggle with a developer, knowing that planning permission will add £X to the value of the land, and demanding as *quid pro quo* provision of amenities worth £Y. All that the developer will be able to afford to pay the landowner is therefore £(X-Y).

Before a cheer goes up, let us recall that, unless he is under financial strain, the landowner need not sell, and that he has no "carrying charges" on his land: he has no outgoings if he does nothing, and he may well find his land rises in value while he withholds it from the market. Much depends on how large £X and £Y are. If £X is mouth-watering and £Y can be held to a modest figure, the landowner may well accept £Y as the price to be paid for the huge windfall that is £(X-Y). On the other hand, away from the economic hot-spots and out at the economic margins, the cry is for subsidies and tax concessions rather than for huddles in closets to wrangle over division of the spoils. Section 106 works less and less well the closer one gets to where new development is needed most!

There are serious weaknesses, then, in this planning gain system. (i) It is irrelevant at the margins. (ii) It brings in big money only where it leaves really big money in private hands. (iii) Landowners who own enormously valuable land are under no obligation to submit to Section 106 demands which look like blackmail, and are able to sit back and await modification of policy. (iv) Protracted negotiations about negotiations cause delay in bringing forward development, cause problems for the public authority waiting on provision of the amenities under discussion, and can be aborted if the

landowner decides against proceeding. (v) Reduced supply of land in what is already a monopoly market, raises prices of land that does remain available, which further inhibits development. (vi) Decisions are argued by interested parties with no objective criteria. Treatment of landowners' planning applications is arbitrary, depending on the adjudicating authority.

Principled remedy or another piecemeal fiasco?

The main objection to planning gain is not to its operation as a sensible contribution or "entry fee" to the use of facilities or amenities directly and necessarily related to the purpose of the development (though it would be an odd development that did not in its turn bring advantages of its own to the surrounding area). No, our objection is to any attempt to pass the process off as a dignified policy for public collection of land value. That it never can be.

(i) Section 106 payments and their like affect only applications for new development. They leave all other land untouched. All land is affected all the time by what the community at large is doing. To this process, holders of title deeds to sites, vacant or with existing developments of whatever quality, contribute, and can contribute, nothing. Indeed, neither they nor any predecessor in title, ever made the land in the first place. (ii) Section 106 payments and their like are single payments made only on incremental value attributed to grant of planning permission, and are voluntary to the extent that there is no need for a landowner to submit an application unless he chooses to. His existing land value is not affected, nor are increases in value arising from causes other than grant of planning permission. Nothing that happens subsequently will be affected.

Taxation of the act of development discourages that development. By contrast, collection of the site rental value of land for the public revenue, makes more land available. Land is assessed at its optimum annual location value within current planning and similar constraints. Each site is treated in turn as bare land, but surrounding sites and the surrounding area are taken as being in their existing condition. The land value duty is payable regardless of what use, if any, the landholder makes of his site, and thus rewards good use of land at the same time that it penalises withholding or under-use. There is an orderly progression as the percentage levy is increased in a series of deliberate steps towards full annual value. Existing taxation on labour, capital, and the goods they produce, is replaced. Important economic, social, and political gains flow from all this. LVT is a systematic and principled policy.

Transport and land value

A conference run by The Waterfront Conference Company 2001 was held on 5th. June on the subject of The Potential of Transport Development Areas. There was much talk of “capturing development gain”, of the contribution of new and improved transport infrastructure to raising land values, and of using development values in turn to finance new transport facilities. Predictably, all the examples cited were from big cities with concentrated populations and thus with high land values to be horse-traded – Copenhagen, Portland (Oregon), Sydney, and Edinburgh (treated in our Issue No. 96, April 2000). It is admittedly *ad hoc*, “fairly case-specific”.

One contributor urged “looking at ways of development value capture… through the property tax” and another averred that “land value is captured… through the rating system: it is revenue, not capital, and it takes time to come through, but it is there”. It really ought not to be necessary to point out to a property professional that the “rating system” (u.b.r. and council tax) is based on the composite value of site plus man-made improvements, and that a great deal of pure land value is left behind “in higher density situations”; but at least he favoured payments on an ongoing rental basis, which beats the one-shot capital contribution that apparently would satisfy others.

A Greater London Authority contributor was even asked directly about LVT: the reply was neither encouraging nor dismissive, but suggested the GLA still has homework to do on the subject. Of course, without action from H.M. Government, there is nothing the GLA can do directly, except urge upon the Cabinet a really thorough approach to this betterment issue and what lies behind it. The party of Government has slipped badly backwards in this regard since 1931 – and, if it does not know what we are referring to, we shall be more than glad to furnish a reminder and some recommendations along with it.

ONE-WAY TO MAKE MONEY

The Local Government Ombudsman found a former Liverpool councillor guilty of maladministration. He had “helped to alter a one-way system so less traffic passed his house”, which he then sold. “Valuers believe the quieter location could have put £15,000 on the purchase price” (Kate Hurry, “Daily Mail”, 2nd. May).

LAND NEAR AND FAR

(i) Over the past year, the price of acquiring a home in this country has continued to rise. “The biggest boom was in East Anglia – 13.8 per cent – while the weakest annual growth was in Wales – 3.6 per cent” (Melanie Bien, “Independent”, 3rd. June). This is further demonstration of how the political decision to join the ECM/EEC/EC/EU effortlessly enriches east of England landholders.

(ii) “EU enlargement boosted by Czech ‘land buy’ move” ran the headline. Unless foreigners are allowed to buy land within seven years of accession, the EU will call off enlargement negotiations. The Czech Republic’s acceptance of this figure puts pressure on the other applicant countries in eastern Europe who have been trying to hold out for longer delays. The fear is that foreigners will “snap up land, fuel speculation and destabilise property prices, currently between five and 20 times lower than EU states” (Judy Dempsey, “Financial Times”, 2nd. June).

(iii) “A bill allowing the free sale of non-agricultural land passed its first reading…amid furious scenes in the Duma, the lower house of the Russian parliament” (Robert Cottrell, “Financial Times”, 16th. June). Why should anyone, Russian or foreign, need to buy land in Russia, or anywhere else? It is sufficient to offer unchallenged right of occupancy on a perpetually renewable lease, subject only to annual payment to the exchequer of a sum equal to the site rental value.

(iv) Salem, Massachusetts, “has decent road links to Boston, and a good commuter rail service” (Kate Bevan, “Financial Times”, 19th. May). Thanks to these, to “regeneration of the area’s schools”, and to “talk of extending Boston’s subway line”, Salem now has a boom of Islington proportions. “Is it magic? No, just a combination of timing and location.” It certainly is not hard work by the town’s landholders, though it is they who stand (or, rather, repose) to draw the benefit.

(v) “Scan the adverts for property near Aix-en-Provence and…one key statistic stands out: distance in kilometres from the TGV. France’s high-speed train service now links Paris to Marseilles in three hours, stopping off in Avignon and Aix on the way” (Anne Spackman, “Financial Times”, 30th. June). “Aix and its surrounding villages are already feeling the impact. Prices for building plots have risen 35 per cent in the past 10 months.”

THE COMMUTER'S DREAM OF HOME

Brentwood, Essex, "enjoys a location that is blessed in a variety of ways…within commuting distance of London but…heavily protected by the green belt, so it feels semi-rural [with] several country parks". It is served by the East Anglia and Southend Victoria lines from Liverpool Street and by the Shoeburyness line from Fenchurch Street. "Train stations at Ingatestone, Shenfield, West Horndon and Brentwood entice commuters" (Robert Liebman, "Independent", 30th. June). "House prices in Shenfield and Hutton are at a premium for that reason…The highly regarded schools do their part…The Dartford Tunnel, Queen Elizabeth II Bridge and Tilbury Docks are nearby, and Harwich and Felixstowe are 90 minutes via the A12. Stansted Airport is 28 miles" and (the reporter forgot to mention) junction 28 of the M25 is but two miles from Brentwood town centre. The key factor in determining house prices is indeed location, as was explicitly confirmed elsewhere (Kerry Stephenson, "Brentwood Gazette", 3rd. May): "With the value of land so high in Brentwood a growing number of householders are deciding to add or extend a second storey, rather than move to a larger property". An agent's brochure had a ¼-acre building plot on Hutton Mount on offer for £430,000, with planning permission for a house covering a quarter of that. The house later went on offer at £875,000. Half the price of a home goes on the land.

JOINT REACTION

In a six-month experiment, police in the London Borough of Lambeth are to "go soft on cannabis users" (Tom Utley, "Daily Telegraph", 4th. July). The columnist wonders, in passing, whether house prices [i.e. land values – Ed.] will be raised by the influx of rich cannabis users or depressed by the undesirables who hang around the drugs trade!

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