

# LAND & LIBERTY

Editor

Asst. Editor

V. H. BLUNDELL

R. C. GRINHAM

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## EDITORIAL

### Land and the Election

WHICHEVER PARTY comes to power following the General Election, there will be great pressure from the public and from local authorities to attempt to reclaim "betterment" (the increase in the price of land due to planning decisions or public works). The Labour Party has proffered a suggestion under which land to be developed will be acquired by the state and leased back to the former owner at a reviewable ground rent. The Liberals, while refraining from committing themselves in full, have suggested on more than one occasion that some form of capital gains levy could be devised (this apart from their support for site-value rating). The Conservatives have generally remained silent on the subject, but have suggested that local authorities might be empowered to acquire land in advance of requirements in the case of new and expanding towns. Nevertheless, Conservatives are acutely aware at this time that a problem exists, and one might hazard a guess or two at some of the likely suggestions they may put forward.

It has recently been publicised that the "betterment" question is being studied by what is described as "a small working party of experts in land matters" drawn from the higher echelons of public service and private practice—irrespective of party politics—under the guidance of Sir Colin Thornton-Kemsley. This group has come to the conclusion that a renewed attempt should be made to find a workable scheme of recouping "betterment." How do they propose to do this?

It is suggested that on redevelopment two valuations should be made by the District Valuer. These would be:

- (i) the market value of the property as it was immediately before the redevelopment

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or change of use, whether with buildings standing upon it or cleared of buildings, whichever is the greater, and upon the assumption that it could be used only for its then existing use including Third Schedule rights;

(ii) the value of the site for the approved development. A "betterment tax" would be imposed upon the difference between these two valuations, but not exceeding 50 per cent of the total realised amount. The charge would be adjusted in percentage as a planning "tool" to encourage development in some places but discourage it in others. The levy would be payable as an annual charge to lessen the initial capitalised burden that would otherwise be payable on receipt of planning permission and thus be a "premium" charge on development. The group admits that in certain cases it might be possible for the charge to be "passed on"! It suggests, however, that this could be prevented from harming occupiers by reducing the rates!

To justify levying such a charge, the group members pointed in the first place to the profits made from land transactions following the granting of planning consent; the rising cost of land for public services also prompted them further. The members of the group were of the opinion that it would not be unreasonable that some of the increment in land value consequent upon planning consent should go to the community, but like many others who have examined this subject they failed to look closely at the real issues involved. Furthermore, the group failed to separate clearly the land and building elements in redevelopment, being of the opinion that the tax should not be "at a level which would deprive owners of the incentive to develop or redevelop in accordance with the development plans." This safeguard, it is suggested, would be necessary because not all development is profitable!

The maximum percentage to be levied (50 per cent) is justified on the alleged grounds that it is difficult to distinguish between "betterment" that is attributable to planning decisions, to public investment or to private initiative. It is here that we find the crux of the matter: in looking at the land problem solely from the "planning end" the group has not looked far enough. All increases in land values must be attributable to external pressures of the community. No man can add to the value of his land by his individual efforts, although he can improve the competitive status of structures on his land by designed improvement. Individuals and local authorities can bring into use land that has been inaccessible due to physical or legal restrictions. In doing this they are not "producing" ground rent values; they are merely allowing values that already exist in theory to be recouped in practice.

As far as the practicalities of implementing such a system of betterment recoupment are concerned, the group agreed that ideally there should be accurate current valuations of all sites, but was of the opinion that this would be beyond the manpower resources of the Department of Inland Revenue. This is the same view as was expressed by the Simes Committee and one which is often

repeated in professional circles. It can no longer be held to be valid in the light of the Whitstable Survey and the comments on that survey made by the valuer who conducted it.

Examining the Socialist suggestion that land should be leased back to former owners on redevelopment at a reviewable ground rent, the group concludes that such a proposal should be resisted, since "rising ground rents are justified as a hedge against inflation, not as a means of imposing a retrospective charge which was not foreseen at the time when the lease was entered into." This is not just bad reasoning, it is mumbo-jumbo. The economic rental value of land in a country with an expanding population tends to rise in aggregate from year to year. Whether this value is fully taken up by a revised actual ground rent or not it is nevertheless a fact. The benefit of such rises in economic ground rent is enjoyed either by the owners of land where the lease is reviewed periodically, or by the holders of the lease in cases of long-standing agreements. Ground rents cannot be raised to hedge inflation: they can be raised only if and when economic ground rent has risen because of the pressures of the community.

This leads us again to the core of any examination of the "betterment" problem. It is not possible to separate "betterment" as an independent issue without examining the whole question of land tenure and economic rent. These are not two issues: they are one. If such an examination is made it is impossible to escape the conclusion that the most equitable, practical and efficient solution is to levy a national tax on the annual rental value of all land, assessed on its permitted use. Such a system, which would allow for both revaluations following changes in town development plans and regular periodic revaluations, would provide an answer to the "betterment" problem, obviate the necessity for compensation payments and ensure that the community receives the value that it creates by collective effort. This solution to the problem was recently endorsed by *The Economist* and should appeal to town planners, valuation officers, members of parliament and local authorities, and members of the public as a whole.

Not until we get a basic examination of the whole land question will we get a solution to the betterment problem. Until then we must direct our efforts to criticising those inadequate solutions put forward by the politicians and other interested parties. It is worth noting that a similar solution to the one criticised above has just been suggested by the Town and Country Planning Association—a body that should have enough knowledge of economics to know better. No system of "betterment" collection will encourage the maximum and most efficient use of land; nor will it in any way reduce the price of land. The land-value taxation system, however, would encourage maximum permitted development, solve the betterment problem, and, if levied at a high percentage of annual value, would reduce the capital cost of land for both private and public acquisition.