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Nationalisation & the Mixed Economy

John Maynard Keynes gave academic respectability to the idea that the state could intervene in the economy to promote the welfare of the under-privileged classes. As a development in political consciousness, this was an advance on the mercantilism that marshalled the law behind a few merchants. Keynesianism was a halfway house. Because it appeared to work, it helped significantly to promote the notion of the mixed economy. Even capitalists came to accept that the public sector was a necessary component of modern industrial society. And so the philosophical acceptance of the state's right to partial ownership of the means of production was diffused throughout the West with very little opposition. One of the pillars of that philosophy has been the concession that the state has the right to own a significant portion of the land. Could land nationalisation be a more effective solution than the one advocated here — of simply collecting the full annual rental value of land within a strictly free market framework?

Socialist land policy has been associated with two goals. One has been the recovery of 'betterment' values which arise from the increased selling price of land that follows the grant of planning permission. The other has been a regulatory function: ensuring a flow of land onto the market to meet the needs of developers. A third criterion for a successful land policy, that it should benignly support the macro-economy, has been totally ignored, for the simple reason that few people have considered this to be necessary. Our examination begins with Britain's experiences.

Repeated attempts were made by the Labour Party in the postwar years to alter the balance in the land market in favour of the public sector. These began in 1947 with the Town and Country Planning Act, which reserved all development rights for the state on payment of *ex gratia* compensation (which could be bought back by a development charge on the private developer). A fund of £300m. was set aside for the payment of compensation. The scheme failed, because it left landowners with no incentive to make land available. It was abandoned in 1952.

Next came the Land Commission, in 1967, which acquired the statutory right to buy the freehold of land which could then be leased back to a developer. Again, it foundered. One reason was that landowners declined to release their land for development; they preferred to squat (there being no cost for doing so) until sympathetic political attitudes intervened to restore their former rights. This happened in the guise of Edward Heath's Conservative Government, which assumed power in 1970.

Then, in 1975, under Harold Wilson's final premiership, the Labour Government introduced the Community Land Act. The primary objective of this was to assign public ownership of development land. This aspect of the Act was repealed by Margaret Thatcher's Government in 1979. Undaunted, however, the Labour Party immediately promised to 'tackle the land problem through public ownership'.[1]

Despite the consistent application of the socialist ideology, the 18-year land values cycle was free to operate: the socialist attempts had failed to neutralise the impact of land monopoly, and the recession of the post-1973 years was inevitable.

But objections may be levelled against this conclusion. Labour's policies were relatively short-lived. Could they have worked if they had not been sabotaged by the Conservative Party in its role of defender of the landowning interests (and in pursuit of the objective of a 'property-owning democracy')? Could the problem lie not with the intrinsic defects in the socialist programme *per se*, but with the failure to apply it in a sufficiently extensive manner? There were clear economic defects which discredited the British experiments; nonetheless, there is some force to these objections. We must therefore search further.

Israel offers us a fine opportunity for studying the influence of socialist policy on the land market, and for gauging whether extensive state intervention can thwart the speculator.

From the late nineteenth century, Jewish philanthropists poured money into funds out of which to buy land in Palestine. The strategy was to re-settle the Jews from the Diaspora in the Promised Land. By the 1970s, the land was classified in this way: 1m. hectares were unused (largely desert); 880,000 hectares were publicly owned, and a very small proportion, just 150,000 hectares, were privately owned.

The late Dr. Haim Darin-Drabkin, who at the time was Director of the Institute for Land Resources Planning in Tel Aviv, assessed the influence of this large-scale public land ownership on the Israeli economy:

> ... the extensive programme of public land development did not exert any essential influence on the private land market in the big cities. The rates of land-price increase in Jerusalem and Tel Aviv have been some of the

highest in the world. Because of its location, privately held land had the decisive impact on land prices.[2]

The degree of public ownership was unmatched in other European industrial economies. Yet the speculator had a field day. One reason was the tax system. 'The taxation system has encouraged the holding of vacant land in urban areas by not taxing land profits as other profits,' stated Darin-Drabkin. This led to a shortage of land on the market in urban areas, and consequently price increases of 20-30% p.a.

But it could not even be argued that extensive public ownership was neutral, for 'the restriction in the size of the private sector due to extensive undeveloped public land holdings has also encouraged speculation'.[3] And so the state's involvement in the land marked directly aggravated the rate of increase in prices. This was a bonus for landowners, because their advantage — the fixed aggregate supply of land — was supplemented by an additional limitation. It was, in a classic sense, a seller's market. Furthermore, the fiscal system reinforced speculation, for the longer they held their land, the lower the eventual taxes paid when selling at a speculative profit.

In Tel Aviv, between 1951 and 1971, the price of land increased by over 20% p.a., compared with the consumer price index of 6% and an increase in the GNP *per capita* of 5.9%.[4] The people who wished to settle in the Promised Land and create new forms of employment for the refugees from Europe had to pay a price to the private landowners out of all proportion to the real value of land. But, the defender of the socialist solution might persist, Israel is not a fair test of the potential effectiveness of nationalisation. For 47% of strategically-located land in or near urban settlements is privately-owned. Is it surprising that they could influence price trends? But what would happen if the community owned the key development sites? Would that not be a fairer test of the nationalisation model?

Through Sweden's social democratic party, the philosophy of socialism is the dominant political creed. The economy is a profit-oriented one, which means that land values respond to free market pressures. At the same time, Sweden has the longest tradition of extensive land banking. Stockholm is the municipality with the largest land bank in Western Europe, and most development in Greater Stockholm is on land owned by the public sector.[5] Stockholm's landholdings outside its boundaries in 1970 amounted to over three times the total surface area of the city itself; public officials administered 40% (30 sq. miles) of land publicly-owned within the city borders, plus 200 sq. miles in the suburbs. This city, then, appears to offer a fair test of the public ownership approach to land policy.

There were two objectives behind the advance purchase of extensive tracts that would one day be needed for urban development. First, the land would be bought at low agricultural prices, rather than inflated speculative prices.

Second, the municipality would release the land, either by selling it (to hold down prices), or by leasing it (so that families could secure decent homes when these were needed) to developers. Were these aims achieved? If so, at what cost?

Darin-Drabkin has suggested that Sweden's 'land policy played a dominant role in the relatively slow rate of land prices increase and the low level of land in housing costs in comparison with other European countries'.[6] This is certainly the common assumption in Stockholm, but an exhaustive study by Ann Strong led her to the conclusion that it was impossible to verify whether this was true or not.[7] The following, however, are the facts for the postwar years.

In the 1940s, laws were passed that were intended to stop speculation: they proved to be inadequate.[8] There was undoubtedly an element of speculation present in the regional economy. In the 1960s, the municipality went on a land-buying spree. Between 1964 and 1969, over 21,500 hectares were bought at rapidly-increasing prices. Indeed, from 1955 onwards, the price of land increased faster than the cost-of-living index.[9] So the start of the Stockholm land cycle was synchronised with the general cycles traced in the leading capitalist economies; it peaked 18 years later, in 1973. Thus, while it might be hypothesised that land banking did not aggravate the land market, the policy undoubtedly failed to neutralise the underlying macro-economic impact of the land values cycle.

First-time occupiers of new houses built on municipally-owned land did benefit from moderate prices. The official policy of not directly profiting from rising land values through rental revenue was determined as far back as 1908. Leasehold rents for residential properties, therefore, were not only fixed for 60-year periods, but they were initially set below the cost of the land purchased by the municipality. Land not required for development was leased for agricultural use at nominal rents. Revenues to the community were designed to cover interest costs, site planning, ground improvements, infrastructure and administrative costs, but not the original capital outlay, which was not to be amortized. The philosophy behind the policy was that, with land rising in value all the time, the municipality could not lose: it would eventually sell the land and could, if it so wished, do so at a huge profit.

There was a dual result. First, the income from the leases amounted to 'only pocket money'.[10] Revenue was lost to the community. More than that, however, the capital costs were borne by the general taxpayer, rather than the home-occupying beneficiaries. There were also inequities among lessees. Two families in homes of equal size and quality could find themselves paying considerably different rates, depending on when they signed their leases. The second point, however, was that the original leaseholders could sublet their interest to others at a premium, the latter being the untaxed rise in the value of land upon which the building was situated. Thus, the philosophy which inspired the land bank policy in the first place — decent homes at moderate prices — was undermined.

Stockholm's city fathers were, nonetheless, able to release sufficient land to meet the housing needs of the population. Even here, however, problems arose which manifested themselves in a paradoxical way. In other urban centres, land speculators stifled construction by pricing home-seekers out of the market. In Stockholm, although the outward signs were similar — a growing volume of unoccupied new homes — the reason was different. Quite simply, people did not like the high-density high-rise apartment buildings favoured by the planners. The vacancy rate in Norra Botkyrka reached 10%. Observed Ann Strong:

> Had the city not had such absolute control of the development process, starting with ownership of land, the planners and other officials might have solicited and responded to public opinion. Their early sensitivity to human needs seems to have been lost in recent years in an absorption with quantification of individual components and with technological possibilities.[11]

Thus, the citizens of Stockholm seem to have lost out on all counts. The aggressive land-buying policy failed to neutralise the effects of the land values cycle, and the economy plunged into recession in the 1970s. The 'ruinous and politically motivated'[12] lease policies forced them as taxpayers to carry financial burdens that were properly the obligation of people who directly benefitted from the use of land. For potential home occupiers, their consumer satisfaction fell short of preferences: choice was arbitrarily restricted by the unresponsive bureaucrats.

Although data on market rents for residential properties was available, Stockholm's political masters deliberately ignored it. As a result, the land bank model failed to resolve the triple goal: social equity among all citizens, including those who did not possess land; economic efficiency in the allocation of resources; and consumer satisfaction.

In 1973, the Real Estate Office decided to base lease rates on the market value of land. Once again, the remedial action came after the damage was done. The economy slumped, and Stockholm's plight during the mid-'70s was similar to that in the other Western capitals. Like London and Washington, cities built on privately-monopolized land, Stockholm — which relied on income taxes rather than property taxes for its principal revenue — was in a parlous financial plight. The story would have been different if the city had tapped the full value of its rich land holdings. That could have been accomplished without the direct intervention in the land market. Full recovery of the annual value of the land would have been sufficient: as well as raising its revenue it could have removed major obstacles (high income taxes and bureaucratic red tape) to an even faster rate of economic growth.

Try hard as we may, then, it has proved impossible to accept socialist policy as the effective alternative to private monopoly.

There are examples of how public intervention can improve the functioning of the land market. The pooling system employed by some municipalities in the Perth region of Western Australia improved site assembly and development. Archer has described the way the pooling system works:

> The council assembles the private and public lands in the pooling area without paying compensation, services and subdivides it into building sites, then sells some of them to recover its outlays and costs, and passes the other sites back to the landowners.[13]

This overrides the inertia of speculators, and helps to finance infrastructural developments out of rising land values. The main beneficiaries, however, are the landowners, for most of the net land value increases generated by the public projects are passed to them.[14]

The unambiguous conclusion is that the mere transfer of *proprietary rights* is neither sufficient nor necessary to secure an efficiently functioning land market. What counts is the distribution of the economic benefits arising from the use of land over time. If a portion of economic rent can be privately appropriated, the fact that legal title to the land is vested in the community cannot upset the process of dislocation caused by the pursuit of speculative gains from the possession of lánd. If an efficient land market is an essential component of a smoothly operating industrial economy, the socialist system is as much condemned to fall short of its goals as its capitalist opposite.

Notes

1 *Labour Manifesto 1980: Draft*, London: Labour Party 1980, p.22.
2 H. Darin-Drabkin, *Land Policy and Urban Growth*, Oxford: Pergamon Press, 1977, pp.287-288.
3 *Ibid*.
4 *Ibid*, p.77, Table 4.1.
5 A.L. Strong, *Land Banking: European Reality, American Prospect*, Baltimore: John Hopkins University Press, 1979, p.43.
6 *Op. cit.*, p.341.
7 *Op. cit.*, p.46.
8 *Ibid*, p.63.
9 *Ibid*, p.54.
10 P. Heimbürger, 'Land Banking — The Case of Stockholm', World Congress on Land Policy, Cambridge, Mass., June 23-27, 1980, p.3.
11 *Op. cit.*, p.46.
12 *Ibid.*, p.93.
13 R.W. Archer, 'Land Pooling for Planned Urban Development in Perth, Western Australia', *Regional Studies*, Vol. 12, 1978.
14 *Ibid.*, p.407.