

Land, Rent and Politics

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IN 1817 there was published a book on economics which was destined to become one of the great classics of its kind. The work was entitled *The Principles of Political Economy & Taxation* and its author was David Ricardo. By the time he had written the *Principles*, he was already an acknowledged authority on economics as well as having acquired a fortune on the Stock Exchange. His interest in the subject stemmed from his reading Adam Smith's *Wealth of Nations* in 1799. Ricardo's greatest contribution to our understanding of economics was to recognise the nature of rent and to enunciate its importance in a form which is universally known as Ricardo's Law of Rent.

Without going into details of Ricardo's analysis of the subject, the Law as formulated by him stated that the price of land is high because the price of corn is high; conversely the price of land will be low when the price of corn is low. Rent is a surplus over and above what it will be necessary to pay labour and capital to keep it in existing use. The supply of land being virtually fixed, any increase in the demand for its use will be reflected in a higher price being paid for access to it, whether in the form of rent or the price that will have to be paid for the freehold. It has long been recognised that this Law applies no matter what use land is put to, so that it is just as true to say that the price of houses determines the price of land, i.e. house prices determine land prices, not the other way round.

This point is well made in a recent I.E.A. publication *Government and the Land* which includes a series of contributions which were originally part "of a Seminar attended by economists, lawyers, town planners, builders and others." All the contributors have something useful or informative to say. The publication contains papers or essays beginning with a first rate contribution from Professor A. A. Walters in the form of an elementary lesson in the economics of speculation as it applies to land.

Who, having followed the events of the past twelve months in respect of the Poulson bankruptcy hearings and the associated criminal proceedings against Messrs. T. Dan Smith, James Pottinger, Andrew

Cunningham *et al*, would seriously quarrel with Prof. Walters' assertion that "Planning gives to politicians the power to confer immense wealth on people they choose and deny it to others they reject. . . . The planning authorities have created an artificial scarcity of building land and so driven up the price to astronomical levels. These prizes of planning permissions are so valuable that a substantial business has been created to enable owners to secure them. . . . More worrying, though entirely understandable, are the dark practices to which planning gives rise but which are revealed only when an unforeseen bankruptcy hearing brings out the dirty washing . . . planning creates conditions in which each property-owner has an enormous incentive to wangle, cajole, threaten, use special influence and ultimately to bribe. . . ."

People want houses, business men need factories and offices to enable them to expand their commercial activities, entrepreneurs require hotels, shops and other business premises from which to provide for the potential demand for such services as will arise from the community's expectations of what an expanding and booming economy will bring. All these varied business requirements must of necessity have access to land, with the consequence that any increase in demand for it will tend to raise the price people are willing to pay for its exclusive use. Owners of land seeing a small fortune lying at their feet will have every incentive to pull out the stops and acquire the necessary planning permission. It is not surprising that the post war years have seen more millionaires who have made their fortunes through the medium of property transactions and development than from almost any other commercial activity. Paradoxically, among businessmen, it is builders who most frequently fall flat on their face, in that they regularly head the bankruptcy list year after year. As the great nineteenth century liberal economist and philosopher John Stuart Mill observed, landowners grow rich in their sleep.

Lord Robbins made some fairly shrewd observations regarding the property scene when commenting on government policy and political prejudices, having this to say when addressing an earlier Seminar held by the I.E.A. in 1972: *

"Where you see the effects of the extreme liquidity created by efforts to promote growth in the last few months is not in the markets for consumable goods but in the market for real property. You make the terms of borrowing easy — measured in real terms the rate of interest at the present time is almost negative. You create a situation in which all sensible people will borrow up to the hilt, expecting to repay in depreciating money. Then you attack the property "racket" and so on and so forth and forget that you

* *Inflation: Economy & Society*, I.E.A. Readings 8, 1972

yourself have played some little hand in the matter.”

In other words, a government pursuing a policy of growth expands the money supply which eventually ends up in the landowners' pockets. The shrewder members of society borrow good money, buy like mad into “property” and pay off their debts with bad money, enjoying tax relief thrown in for good measure. It's one way of redistributing wealth but is not without its snags as the Lyon Property Group, the Stern key-flats empire and holders of Nation Life Property Bonds have recently found to their embarrassment — not to mention cost.

One would have thought governments would have learnt by now that the solution to housing costs is not to be sought through the fiscal manipulation of credit, money and interest rates, but by a fundamental land reform, which recognised equal rights to land and the return of the economic rent (which has been created by the community) back to the community coffers and not into the landowners' treasure chest.

Some of these points are recognised by Prof. Walters, who, unlike some of the other contributors, pays more than just lip service to the needs of the ordinary citizen seeking a decent home he can afford to occupy. This is brought out well when he points out that, “. . . important in the long run is the vast redistribution of wealth and power produced by planning controls and inflation. Owner occupiers. . . have enjoyed a nominal appreciation over the two years 1971-1973 of the order of £50,000 million — almost the national income of the United Kingdom. This massive transfer of tax-free nominal wealth has also taken away the dream of house ownership from a substantial fraction of the remaining population. They are denied the safe haven of house ownership for their savings. Their main hope is then to secure a Council house at a subsidised rent and join that other favoured minority, the sitting tenant.”

Of course, this state of affairs suits a certain kind of politician, in that it enables patronage to be doled out in return for votes at the polling booth. It is small wonder that the small change from such a situation is seen to be in the form of corruption and bribery around the precincts of our town halls. When scandals involving public officials fortuitously surface, the only answer some politicians have to offer is more graft, but it just this that their antics are likely to bring about.

Anyone enamoured with the thought that the euthanasia of the private landlord is a necessary prerequisite for solving the problem of homelessness and the protection of tenants from harrassments, must explain how it is that governments — national and local — with their immense resources of money, staff and expertise have failed to provide sufficient homes for those in need, but instead are making it

increasingly difficult (if, not impossible) for home seekers to rent privately owned houses or flats. He must explain how governments are going to adequately house the nation's citizens when they have finally achieved the objective of being the sole providers of living accommodation. Though politically convenient, it is nonsense to pretend that but for the rapacity of landlords, housing needs for all could have been achieved a long time ago.

In every city, town, village etc. there are acres and acres of idle land. Why have the authorities not bought it and leased it for housebuilding? Expensive? Yes! Why not then levy an annual tax on land and leave the market to provide homes people can afford to buy or rent as it may suit their needs? Perhaps that would be too simple a solution. What is more

it would free us from the attention of politicians who need us more than we need them; their ego is such that it does not readily lend itself to an acceptance of something so simple and elegant as taxing land values.

Land monopoly, like inflation, causes injustice and resentment where it is seen to enrich some at the expense of others. Some of its more absurd consequences have been noted by industrialists like Lord Stokes who earlier this year expressed the view that “The rules of the game will have to be changed to alter the situation where share prices of major wealth-earning companies are low compared with some of the extravagant figures realised for less essential and less wealth producing activities.” He went on to complain that “by far the largest exporting company of any kind in this country “had a capitalisation as measured by the stock market which was matched by the value of an office block in the City of London. The company which he was referring to is, of course, the motor car manufacturing concern British Leyland

— of which, he is the well-known Chairman.

Following Lord Stokes' observations the *Sunday Telegraph*, (February 17) carried a short article under the heading “Stokes and Office Blocks” where the author of the piece, Ivan Fallon, listed several well-known City office blocks, giving their value together with a list of companies whose then current market capitalisation was listed as being less than the value of a particular piece of property. They were given as: -

1. *Plantation House* worth between £110-£115 million being worth more than Tube Investments, Trust Houses Forte, English China Clay or Wimpey.
2. *Commercial Union Building* worth around £90 million comparable to value of Unigate, Rank Hovis, S. Pearson, EMI, Metal Box, British Oxygen and Thomas Tilling.

3. *Winchester House* valued at £45-£50 million equivalent to such well-known companies as Dunlop, Lonhro, W. H. Smith, Ever Ready, Granada, Associated Newspapers and Foseco Minsep.
4. *Woolgate House* (£40-50 million) compared favourably with United Biscuits and Rugby Portland.
5. *St. Alphage House* a mere £35 million could readily match a value which was currently being assigned to such industrial heavies as Vickers, Marley, Smiths Industries and Rowntree Mackintosh.
6. *Moorfields* (not the eye hospital, but the new headquarters of Merchant Bankers, Lazards) at a modest £30 million was seen to be worth more than Albright & Wilson, International Computers or Rolls Royce Motors.

Well might Shakespeare have one of his characters say in *The Tempest*, "I would give a thousand furlongs of sea for an acre of barren land." Though judging from the antics of delegates attending an international conference convened by the UN to discuss the Law of the Sea, it will not be long before a barren acre of sea will be considered a greater prize than a mere thousand furlongs of grassland. The Law of Rent does not end at the sea-shore.

The authors who have contributed much useful knowledge and information between the covers of *Government and the Land* might profit from Henry George's perceptive observation which was trenchantly put in *Progress and Poverty*:

"The most valuable lands on the globe, the lands which yield the highest rent, are not the lands of surpassing natural fertility, but lands to which a surpassing utility has been given by the increase of population".

In spite of the ravages of inflation, this simple truth should not be allowed to be obscured, and with it the logic that the economic rent of land being created by the community, in justice and common sense should be returned to them.