

# LAND PRICES AND THE LAND COMMISSION

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**SIR**,—Mr. John Mephram, in his letter published in your issue of June 10, at page 1069, asked for other views on his reply to Dr. Denman's opinion that landowners will add 40 per cent levy to selling prices of land. Dr. Denman's suggestion seems to be widely supported in the profession, and there is a belief that land prices will rise rapidly as a result of the Land Commission Act.

Both landowners and developers have in the past sold their commodity for the best price they could get—the full market value for the land and for the houses built on it. If the land has been, and is being, sold at the maximum value which the market can support, it is not reasonable to suggest that without any significant change in either supply or demand the value of such land can be increased by 40 per cent, or by any other amount.

Incidentally, for a landowner to pass the full rate of levy on and leave himself with the full net value of the land before levy, he would have to add considerably more than 40 per cent because the whole of the increase in value is chargeable to levy. In a simple case (and leaving out the existing agricultural value of the land) if we say that land is worth £10,000 an acre, then for the vendor to allow for the levy and still receive a net £10,000 an acre, he will have to sell the land for nearly £16,500 an acre; clearly this is just "not on."

If land values rise or fall in the present circumstances it will be as a result of the strengthening or weakening of demand, and I cannot conceive that demand will strengthen so quickly, nor by so much, as Dr. Denman suggests.—Yours etc.,

Hertford.

P. SAUNDERS

**SIR**,—With respect, Mr. P. Saunder's line of reasoning (*The Estates Gazette*, July 15) appears to be defective in one vital aspect.

If an owner had hoped to sell his plot for, say, £10,000, and now, because of the betterment levy he faces a 40 per cent tax on his net development value, which may reduce his proceeds by perhaps £3,000 or £4,000, he will not sell unless he has to. That is to say, he will hold off until the price offered is attractive enough to induce him to sell, unless, of course, he has reason to believe that a compulsory purchase order hangs over his head.

Mr. Saunder's line of argument would be valid if he were talking of a land-value tax, assessed on the annual land value only, and charged irrespective of whether the land were used or not; for all economists, both modern and classical, concede that it is an economic fact of life that such a tax cannot be passed on. However, the

betterment levy has the exactly opposite effect to that of a land-value tax. As the betterment levy applies only as and when land is disposed of, or developed, one does not need to be a professor of economics to see that it must inhibit the supply of land that would otherwise have been offered for sale, and that it must tend to discourage development as well—Yours etc.

London, N.W.1.

V. G. SALDJI

**SIR**,—With reference to Mr. V. G. Saldji's letter in your issue of August 5, I agree, to a certain extent, with his line of argument concerning land prices, particularly that a prospective vendor may hold off selling until the price offered is attractive enough to induce him to sell, bearing in mind his possible levy liability.

However, there are, at the present time, other, probably stronger, factors that might induce a vendor to sell, namely Part II of the Land Commission Act, and the Minister's statement in the House of Commons that the amount of levy will be increased to 45 per cent, and then up to 50 per cent, of development value reasonably quickly.—Yours, etc.

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J. H. MEPHAM  
Director

**SIR**,—Mr. J. H. Mephram, in his letter published in your issue of August 19, highlights two strong factors that might induce an otherwise reluctant vendor to sell, namely compulsory powers under Part II of the Land Commission Act, and the Minister's threat to increase the levy to 45 per cent and then to 50 per cent reasonably quickly.

Clearly, however, the hesitant vendor who does not feel that he may be under threat of compulsory purchase will only be prodded into offering his land for sale by the threatened increase of levy *while it remains a threat*. Once it becomes a *fact*, and the levy were to reach, say, 50 per cent, then the discouragement to sell would be even greater than at present.

Furthermore, it has been pointed out that if owners, hesitant to sell with the levy at 40 per cent, delayed selling, and thereby risked incurring a 45 per cent or 50 per cent levy when eventually sale took place, they would still be no worse off provided that land prices had in the meantime increased by 10 per cent or 20 per cent, as the case may be. And such increases are not impossible in view of the fact that the present law is fighting market forces instead of harnessing them.

We have already witnessed the paralysing effect on

the land market of the 100 per cent development charge of the 1947 Town and Country Planning Act. The present 40 per cent levy would already appear to be tending in the same direction, despite the inducements mentioned by Mr. Mephram.

An indication of this tendency was given in the Nottingham *Guardian-Journal* of August 21, which reported a local builder as commenting that from April 6, "the availability of land to (local) building firms dried up just as if somebody had turned off a tap." In confirmation of this, Mr. C. M. Carver, Secretary of the Nottingham and District Association of Building Trades Employers, is quoted as saying that "it was as though the supply had been sterilised." If this is what is happening with a 40 per cent levy, we can only expect a hardening of the arteries with a 50 per cent charge on development value.

Yet the Government really has no excuse for clogging the land market in this way, for there have been Labour Party leaders who knew their land economics, and who, like Philip Snowden and Herbert Morrison, advocated land-value taxation and its offspring site-value rating, which are not only different from this clumsy levy but have exactly the *opposite* effect. This was shown by the Simes Report on the *Rating of Site Values* in 1951, which stated (paragraph 168) that a tax on the unimproved value of each parcel of land, whether used or not, "would tend to bring into the market land that would otherwise not have been offered for development, thus increasing the supply of available land and tending to lower its price . . . development would be actively stimulated."—Yours, etc.

London, N.W.1.

V. G. SALDJI

## Land-Value Taxation— Builders Would Benefit

PETER RHODES

**A** SHORT NOTE on a recent edition of *LAND & LIBERTY* has appeared in the *Architect and Building News*. In an attempt to throw the customary cold water over the site taxation theme, the author commented: "Land and Liberty is a fine slogan, but we must beware of getting carried away in a whirl of idealism."

This gentle dig at our "unashamed devotion" to land-value taxation might have brought a twinkle to the eyes of those familiar with the subject, particularly since the critic fastened on to the much vaunted cry that everyone has a right to a return on an initial investment. The advocates of LVT, however, consider that no one should benefit from doing nothing. Land is passive, and of itself produces nothing. It is labour and capital that does the producing. Fortunately it is not difficult in this case to recognise the special pleading beneath the veneer of objective challenge.

"How would such action (LVT) affect the builder-

land owner?" asks the correspondent. "It is he, the house builder, who tries to have a stock of land upon which to build for months, or, in an ideal world, years ahead. As the Minister of Labour recently said, "profits are not immoral; they are essential to the working of our economy."

Our critic has carefully ignored two vital considera-



tions; the effect of withholding land from development on the economy as a whole, and the essential moral difference between investment in capital and investment in land. In the first case it is partly the acquisition of land by firms in advance of immediate development needs that leads to the regular increases in land prices that are a feature of our economy. Building firms do this because they know that in the long run land prices are increasing faster than equity prices and that by the advance acquisition of land they are in a better position to cash in on community-created monopoly values.

In the second place, the legal and fiscal policies of successive governments have neglected to emphasise the *economic* difference between profits from land and profits from other investments. The result of this neglect can be seen in the relative inefficiency of the nation's "mixed economy" in which one half of the population is busy subsidising the other, while the land speculator waits for the fruits of increased productivity, housing subsidies and grants, and urban renewal and expansion to fall into his lap.

Unfortunately, not many people in this country can see the mistake the *Architect and Building News* has fallen into. Builders, architects and developers exist only to furnish finished products to the consumers. Consumer demand for new building is governed significantly by relative land prices, since competition in the construction industry fixes the ceiling on building costs, and the rate of interest falls evenly. Demand for buildings can increase only if prices fall, and it is the cost of sites which can most readily be reduced by a land-value tax.

As long as builders seek unearned increments from rising land values instead of striving for competitive profits, the nation's modernisation programme must suffer. Fortunately the examples of foreign experience show that by taxing land rent, builders, land owners and purchasers of finished buildings are brought closer and more rapidly together in a dynamic market situation. This is exactly what the *Architect and Building News'* reviewer has failed to appreciate. A more responsive and competitive market in land must mean a more competitive market in structures. Ultimately this would lead to bigger profits throughout the building industry.