Betterment Charges A Superficial Policy

By P. R. HUDSON

Review of the paper *The Case for Betterment Charges* read by Alan Day, Professor of Economics, London School of Economics, at the Colloquium on Land Values held in London, March 13 and 14, under the auspices of the Acton Society Trust.

PROFESSOR DAY'S reputation as both an academic and popular economist is high. In political circles and in the professions his work is given careful appraisal; his frequent appearances on television, his many radio broadcasts and his journalistic ability have tended to brand him as perhaps the most popular "expert commentator" on current economic affairs. No one could accuse him of being an obscurantist, and his contribution to the Colloquium was clear if somewhat guarded and unhappily conceived.

It has often been stressed in this journal that visible betterment is but one side of the land values question. Professor Day opened his paper by pointing out that betterment arises in four particular circumstances.

First, the greatest "administrative betterment" bounties occur when land is employed in new use or at greater intensity, i.e. when land is re-zoned or where redevelopment at greater density is permitted. Secondly, there is "general betterment" which results from increased economic activity, increased population and increasing demand for a fixed supply of land. Thirdly, there is "redevelopment betterment," where although there is no increase in the intensity of use, land values appear to increase with new development, i.e. maximum value is realised. Finally, there is "locational betterment" where as a result of public investment land values rise in a limited geographical area. This last form of land increase may be accompanied by falls in value elsewhere: these may be dramatic and noticeable or thinly spread over a wide area.

In Professor Day's view the case for attempting to collect these value increments rested on three arguments: the fact that there is a fixed quantity of land; that sites have individual and unique qualities and that public decisions by national and local government affect land values.

The first of these arguments had a long history stemming from Ricardo and emphasised by Henry George. The second arose from the imperfections of the land market and the monopoly value of sites. The third was perhaps most important. Land prices would continue to be influenced by market forces, administrative planning decisions and by guesses about such future decisions.

While the traditional Left held the view that public ownership was the answer to the land values problem, the traditional Right denied that a problem existed. Professor Day stated categorically that "while there is no reason why the rental value of land, or the whole of any increment in value should accrue to the private *owner* . . . there is a much stronger case for saying that the *user* of land should pay its full rental value: otherwise some rationing device would be needed." While there might be some case for subsidies for the use of expensive land, Professor Day considered that these should be seen to be such and not concealed, as might be the case with public ownership. Similarly the effects of administrative decision on land values clearly showed that the view of the Right, that land was no different from any other commodity, was clearly false. In his opinion there was a strong case for examining betterment levies as a means of recovering gains resulting from planning decisions.

In the Professor's view, the failure of the Development Charges under the 1947 Town and Country Planning Act was attributable to a lack of understanding on the part of the public, to the size of the levy (100 per cent of the difference in value before and after development), and to speculation that the measure would be repealed. He also considered, surprisingly, that the time was ripe politically to reconsider a re-introduction of the Development Charge at a lower level, and suggested 66⅔ per cent might be a reasonable figure. It was admitted, however, that development charges would tend to discourage development to some extent, although the percentage to be levied could be adjusted to suit circumstances.

As far as "general betterment" was concerned, Professor Day did not consider this form of generally rising land values to be significant and felt that normal capital gains taxes and other measures would be sufficient to recover value increases. As regards "redevelopment betterment" and the high cost to local authorities of acquiring sites with monopoly advantage by virtue of existing floor space scarcity, he thought that this could be tackled by enabling public bodies to acquire land at less than market value or by imposing a development charge on vendors. The problem of collecting "locational betterment" resulting from public works was more complex because of the problems of assessment but he considered that there was a case for making an attempt.

Since Professor Day was set the task of arguing the case for betterment charges he may perhaps be excused for not considering a straight land tax approach to the problem of increasing land values. This was covered by other speakers. In separating the various types of betterment, however, he gave most attention to the glaring land

value benefit increases which result from administrative planning decisions. It needs to be emphasised that this is merely part of the whole question of rewards from land ownership *and does not squarely face either the moral issue of rewards from economic rent or the economic effects of its private appropriation.* Moreover, Professor Day, while pointing out the effect that betterment levies may have on restricting development did not mention the most important and undesirable side effects of such charges. In the first place, development charges are a premium which must be paid before development takes place and the cash has to be found from one source or another; secondly, there will always be a tendency to endeavour to pass them on in higher selling prices. While in all probability the whole of the charge will not be shifted, the general effect must be cost increasing to the users of land.

Given Professor Day's support of the argument that there is no reason why economic rent should be permitted to flow into private pockets and that there is a case for tackling both planning decision betterment bounties and increasing land values resulting from public investment, the case for a land-value tax which takes into account the effects of planning legislation on land values is unassailable. Such a tax would not only stimulate urban development and renewal, if judiciously administered, but would automatically take care of both betterment and "worsement." Furthermore, a land value tax would ensure that the users of land paid the economic price — a situation which the Professor holds to be desirable.

If there is any economic justification at all for specific betterment charges (and I do not support this view) then it can only be as a purely interim measure until a complete national land valuation has been carried out prior to the introduction of a land based annual tax. As far as development charges are concerned, they must be firmly ruled out as regressive in nature and ineffective in practice, making no real contribution to either the economic or the ethical sides of the problem. Only by the introduction of a comprehensive tax on economic rent can the price of land be reduced; only by such a tax can land become cheaper to buy but dearer to hold, thus encouraging optimum use.

WEAK ANSWER TO LABOUR'S LAND COMMISSION

THE PAMPHLET *Will the Tories Lose?* published by Pressure for Economic and Social Toryism, sets out for all to see their explanation of why things went wrong in the past; a theme for action from now on is presented in their latest pamphlet — *Call an End to Feeble Opposition.*

On the subject of land PEST's remarks are particularly relevant. One is glad to see that the Tory party now regards land as a major election issue, but what they come up with as an alternative to Labour's Land Commission is disappointing.

"Where profits from the increased value of land are not due to the efforts of the land owner, but are the result of planning decisions," they say, "a special form of taxation is required." The betterment tax that they suggest would be low — about 30 per cent. "It would then be possible for a national capital gains tax to be levied on *all* land and property transactions."

What the authors do not see is how narrow and clumsy this concept of land taxation is, and their failure to note the clear economic (and moral) distinction between the ownership of buildings and the ownership of land leads them into confusion.

Their reference to "profits from the increased value of land not due to the efforts of the land owner" makes it plain that they regard some profits from increased land values as being, in fact, due to the efforts of the land owner. This is impossible, for while the collective activities of individuals can and do result in increased land values, no particular landholder as an individual can be responsible for the increase in value of a particular piece of land. Increase the value of his "property" a person can, but only by increasing the value of *what he puts upon the land.*

The value of a poorly developed site or an idle site is of no less value *as a site* than an identical site with a well-developed property upon it, as any professional valuer will sustain. The legal definition of land, which includes buildings, is being substituted for the economic definition. which excludes them. Since the subject matter under discussion is land and land alone, it is vital to confine the term to its economic meaning.

The reference to a capital gains tax being levied on "all property transactions" further confuses the issue, unless by "property" the authors mean land and land alone.

The now common but erroneous statement that planning decisions result in increased land values, leads the writers into further error. Planning decisions only *reveal* or *release* land values already created by the presence and activities of the surrounding population and by public expenditure on improvements.

This is no mere debating point for it serves to show the reason why only *future* increases in land values are singled out for taxation, i.e. those allegedly arising from the granting of planning permission. Land is not something the use of which is enjoyed once and for all. Land confers a continual and perpetual benefit to the holder, and since this benefit is not self-created (as is true of man-made goods) it should be treated the same way in all circumstances, irrespective of when, where or how the value of that land arose or is enjoyed.

The taxation of all land values where they are realisable, coupled with the *untaxing* of industry, wages and trade would be a truly dynamic policy and one which cuts clean away from stop-gap nostrums such as development charges, betterment taxes and "capital" gains taxes which serve only to bedevil the whole issue and provoke unnecessary frustration and holdups in building and development, quite apart from their invidious nature.