

Land—the Unique Factor

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A review of two papers given at the Seminar on the Supply, Development and Allocation of Land for Housing and Related Purposes, sponsored by the United Nations Economic Commission for Europe, and held in Paris, April 1965.

CONCERN has been expressed in Western European countries over rapidly rising land prices and the consequent effects on housing costs and rents. "In many cases" said Mr. J. Seip, of Norway, "costs have become too expensive for people with ordinary incomes because rents or down payments have been too high." As a result of the rising cost, public bodies turned frequently to rent subsidies. These, however, gave rise to concern because "subsidies go into land speculation profit." On the other hand, if subsidies were not paid shortages arose and prices increased, leading to the encouragement of further speculation.

In Mr. Seip's view there were two ways of tackling the land cost problem. Either public authorities could purchase and manage land or they could enforce the better functioning of the land market. Both methods of bringing land forward could be helped by fiscal measures. In Norway all profits from land sales are treated as income and taxed accordingly, but if the land is sold to a public body the tax rate is lowered, thus encouraging such sales.

Stating the case for differential annual taxes on improvements and on land, Mr. Seip said: "If the tax is at a higher rate on the land than on the building it should particularly tend to curtail land prices. One of the European countries with the most effective land tax system is Denmark." During recent years, however, Denmark had enjoyed rapid economic expansion, which combined with other factors had offset the force of the land tax. From a town planning point of view, Mr. Seip pointed out that "a high land tax is an appropriate measure for splitting up large lots and increasing the supply of land, thus influencing land prices in a downward direction."

Later in his paper Mr. Seip drew attention to the side effects of betterment levies and the practice of double dealing which followed direct control of land values by the state. Most European countries had discarded price control but it was retained in Norway to some extent.

Mr. H. Darin-Drabkin, of Israel, produced one of the most interesting general papers of the Seminar. "The character of land," he said, "as a value-accumulating property tends to have the very opposite effect on prices from the usual supply and demand mechanism. The rise in prices as a result of the greater demand tends to diminish the supply instead of increasing it (as in other commodities) because of the expectation of further price rises. Moreover, land does not generally depreciate with time as do other commodities."

In spite of the fact that in Israel, much land is state owned, a rapid rise in urban land prices had taken place in the last six years. This had been most prominent in the centres of cities and was clearly related to rates of growth. An analysis of land prices revealed that similar patterns were evident in most Western countries.

Country	Year	Land price index	Cost of Living index
Spain	1950	100	100
	1963	1000 ¹	194
Israel	1953	100	100
	1963	1500 ²	280
Denmark	1957	100	100
	1963	278	115
U.S.A.	1948	100	100
	1962	259	125

¹ Accelerated development areas. ² Central Jerusalem.

From these figures Mr. Darin-Drabkin drew some clear conclusions about the economic and social effects of rising land prices. He pointed out that as prices increase, more money is required for land acquisition. Small and medium investors drop out and land transactions become the domain of the large scale investors and property speculators. The land market therefore becomes oligopolistic; competition is restricted to a small number of people controlling an increasing land area. Those seeking somewhere to live are affected. Where land cost is a high proportion of total building costs, grave consequences arise, particularly in developing countries. Slums spring up at a pace which creates serious economic and social problems and affects progress.

While many governments are taking stronger powers to acquire sites for state purposes Mr. Darin-Drabkin emphasised that there are no laws about the *non-use* of land. Thus there is little to compel land owners to unload sites on to the market. Unfortunately he did not go on to discuss the contribution that land-value taxation could make to increasing the supply of land and reducing its cost. He considered, however, that there was a need for examining compensation systems.

Both these contributors to the Seminar showed the land price problems facing the Western nations, but it is a pity that they did not look closely in the direction of true reform, which is clearly within their grasp.