LAND & LIBERTY

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Subsidies—the Ultimate Beneficiaries

AS PREDICTED in these columns last year the Labour Government's grants-to-hotels scheme has caused land prices to rise.

According to Mr. Michael Brady, head of technical services for the Trust Houses Forte Group, the scheme has probably created more problems than it has solved. (*Daily Telegraph*, October 21.)

The idea was to assist tourism by encouraging hotel building through Government grants of 20 per cent of the construction cost per room or £1,000, whichever is the less. The grants are valid for all buildings begun before March 1971 when the scheme ends.

The grants have had the effect of attracting speculators and others not interested in tourism, said Mr. Brady. The grants scheme had caused land prices to be driven up rapidly and had made it difficult, if not impossible, for the established hotel companies to build needed medium-tariff accommodation.

Here is a simple lesson in economics which the Government might do well to note; what a landowner can demand for his land is the residue after current charges for labour and capital and other overheads have been met by the entrepreneur using the site. When the Government lowers these costs, the difference goes to increase land values in much the same way that subsidies to "farmers" and rate relief to agricultural land become capitalised in the price demanded for land.

This principle is born out by a statement made in the *Financial Times* November 5, by James Reedy, Head of Information Division of the National Farmers' Union, when defending subsidies to farmers and also in an answer to him by a correspondent on November 10.

In his letter Mr. Reedy said: "The effects of this decade of severe price squeeze on agriculture is already showing in the halting of expansion, the fall in land prices . . ."

The other contributor a Mr. John Gordon, made so excellent a reply that it is worth quoting in full:

"The true price of a commodity is the lowest price freely traded in the world market. If consumers are excluded from buying in the cheapest market, subsidies paid at any point in the chain of production and consumption are a gift to producers. It is irrelevant that U.K. farmers' prices are declining relative to industrial goods prices. There are industrial goods which are falling faster and no one suggests that they should be subsidised.

"James Reedy has only proved that farming at latitude North 51 to 55 is not, in this modern age, a good business. He gives the point away when he mentions that land prices are falling. Good. Rent, and the capitalised value of rent, is the difference between the production of a plot of land and the production of a hypothetical marginal plot of land, somewhere in the world. If new land in more favoured climes is brought into production, if new hybrids are developed, etc., the value of existing developed land must fall. This is a healthy process which should be encouraged, not impeded."

This principle is again underlined in a report published by the OECD referred to elsewhere in this issue.

The phrase "subsidies to farmers" is wholly misleading, as is "subsidies to agriculture."

A farmer in the national press recently complained bitterly of the former phrase, explaining that he was lucky to get three per cent on his outlay in spite of subsidies, and added the significant comment that he had only recently paid the full market price for his farm (where all the advantages given to "farmers" had already been capitalised in the price that he had paid).

Landowners of vacant possession farms, owner-occupiers of long standing and tenants on lower than market farm rents, are the real beneficiaries of subsidies in a greater or less degree. Here the benefits of so-called farming subsidies come to them not as *farmers*, but as *landowners*, or as participants sharing in the economic rent of land.

Does it really take much knowledge of economics or much ordinary imagination to forecast the ultimate beneficiaries if subsidies were to be doubled tomorrow? Or for that matter if they were halved?

If it is the Government's intention to subsidise landowners they should say so. If not, they should phase these landowning subsidies out. There is no justification for maintaining uneconomic farms on marginal or submarginal land when we have the world's markets in which to shop.

We have nothing whatever against landowners as such. They can hardly be blamed for taking advantage of the system as they find it, nor perhaps for pleading their own interests in Parliament at every opportunity, for this indeed seems the fashion nowadays for every group that can muster some kind of "union." The responsibility lies fairly and squarely with the Government and if their election promises on the free market mean anything at all, they should be extended to those areas which for far too long have been shielded from the free competition of the market place.

Housing, Land and the People

SEVENTY PER CENT of the people in the United States live on two per cent of the land, states an article in the *Christian Science Monitor*, September 22. This article, one of a series, on the "housing hang-up" emphasises the need of land for housing and its constantly rising price. In city after city, it says, empty land stands idle while house costs rise and people's hopes that better homes than they can afford will be built on sites of the old ones are doomed to frustration.

Says *The Monitor*:—

"As part of the soaring cost of an average single-family house, land has leaped from 11 per cent in 1950, to 18 per cent in 1960, to 25 per cent in 1970. In dollar amounts, that means an average house lot jumped from $1,144 to $2,808 to $6,200 in those 10 and 20-year periods.

Some specific examples of what is described as the dizzy land-cost spiral during the last ten years are given, as follows:—

"A house lot in Boston up from $3,694 to $9,210; Dayton, Ohio, from $3,589 to $8,228; Beaumont, Texas, from $2,309 to $5,294; Lafayette, California, from $5,090 to $10,752; and metropolitan Washington from $4,353 to $9,268."

Land costs account for the inflationary position of house prices and are probably the most ignored portion, it is stated, and it is significant that although construction and labour costs have also risen, they have actually declined as a percentage of total house-costs. Both builders and labour are indignant when they are blamed for the high cost of housing.

Land is not only in fixed supply (while demand increases), it cannot like goods be moved from where it is plentiful and comparatively cheap to where it is scarce and prohibitively dear.

When it is considered further that land has no cost of production and that taxation on its value uniformly applied, produces a contrary effect to taxes on commodities, it will be seen that there is every justification for treating it as a distinctive factor of production and not just as another form of capital.