



Auction Bidding or Betterment Levy?

PETER RHODES

DURING THE PAST hundred years, and particularly the last quarter of a century, political parties in Britain have both claimed and denied that the nation has a land problem. Emphasis has fluctuated between land price and land use, but rarely has the link between the two been acknowledged.

Since the last war, however, attempts have been made to do something about both, although most critics agree that we still have a long way to go, in legislative terms, to provide the most desirable results. Although the practical effects of the Betterment Levy and the Land Commission have yet to be felt, there is no shortage of prophets of doom. At the same time the existing land use planning machinery is creaking noisily and controversial reforms of present legislation are soon to be tabled. It seems unlikely that these two parts of the economy—land use and land price—will be made to run together smoothly, and the resultant shocks and reverberations will be felt throughout the country.

The latest critic of the management of the national estate is Mr. F. G. Pennance. In his recent booklet* he expresses considerable misgivings about both the land use planning system and the Land Commission. Head of the Department of Economics at the College of Estate Management, Mr Pennance has a sound knowledge of contemporary law and economic theory. It is not surprising, therefore, to find that his arguments against the Land Commission are shrewdly reasoned and well presented. His evaluation of the likely effects of the Betterment Levy is that in the long run land prices may rise as the level of land transactions declines.

In the course of his discussion on the theory of property taxation, Mr. Pennance emphasises that a tax on pure land values falls on the owner of the land at the time the tax is levied: "He cannot shift the burden of the tax on to buyers or renters by raising price since nothing will have happened to their circumstances to increase their ability to pay more." This point is made in the booklet to illustrate the fact that the Betterment Levy is different in its effect from a land-value tax, but the author does not explain the difference as clearly as one might hope.

How does Mr. Pennance approach the twin problems of land use and land price? Regretably his analysis starts in the middle. The problem he presents and then attempts

**Housing, Town Planning and the Land Commission* by F. G. Pennance. Institute of Economic Affairs, Ltd., 7s. 6d.

to tackle is that of "development value" or "betterment" arising purely as a consequence of town planning legislation.

Planning restrictions apart, Mr. Pennance holds the view that "the cost of land is irrelevant (to planning policy) since high land prices are the result of general prosperity." "If land prices are free to find their own level," he argues, "it is difficult to see what is meant by suppliers so-called 'reluctance' to bring forward land for development. If the current price is not high enough to attract more land from its existing uses then this represents an equilibrium situation or the pressure of demand will bid land prices higher to secure additional supplies."

In this analysis Mr. Pennance has neglected a number of important considerations that have a significant impact on community development. In the first place, site owners are nearly pure monopolists. While they cannot secure prices higher than the market will stand, having regard to prevailing prices for alternative land, they will generally part with their holdings only if one of two conditions is fulfilled; either their need for immediate capital must be so great that they can no longer resist the cash returns, which are assumed to have reached a peak, or it must be financially disadvantageous to them (negative returns) to retain their present holding in its existing use.

In the second place, in the land market situation which has existed in recent years it can be argued that the non-disposal of land by prudent owners expecting greater future returns has impeded investment in commerce and industry. While we can see that X million square feet of new floor space has been created in the last ten years with land at an average price of £Y per acre, we cannot know what the additional investment and growth rate would have been if land prices had been only half as high.

Since Mr Pennance has chosen to look only at land value increases arising from planning legislation, it is not surprising that his suggestions for reform do not provide a comprehensive and radical approach to the whole problem of community created values in land. After a careful appraisal of the present legislation, Mr. Pennance suggests that the Land Commission should be retained "to stimulate the market in land and loosen the constraints upon it." He considers, however, that the levy should not be left to the Commission but administered by the Inland Revenue and simplified. The reason for this minor

reform is that the division of function proposed would lessen the risk of the Land Commission using its powers to promote more development by public authorities and an uneconomic use of land. Mr. Pennance, it seems, is more concerned about the Land Commission favouring public developers and local authorities than the regressive effects of the Betterment Levy. He argues finally that the Betterment Levy could perhaps be replaced by a system of auctioning planning permissions to the highest bidder. The purchaser of the permission would then negotiate with the site owner to effect the development, having paid a form of Betterment Levy in advance!

Mr. Pennance has certainly stretched his ingenuity to the limit. Viewing property ownership rights and land development rights as two variable and saleable commodities, he claims that his scheme would achieve the recovery of betterment "through the thousands of individual decisions taken by persons intent on maximising their own net gain." Although there would seem to be little prospect of such a scheme being introduced in the immediate future, a system of this sort could be made to work, although it would probably be very unwieldy in

A New Look at Free Trade

ROY DOUGLAS

SUPPOSE that you were engaged in discussion with a young, intelligent friend on matters which bore on free trade, and he asked you for some reading matter. What would you recommend to him? I suppose that you would mention Henry George's *Protection or Free Trade?* as the best and most lucid exposition extant. But you would have one or two reservations. You would feel that George's examples necessarily referred to the nineteenth century, and that he had not met some arguments which perturb modern critics—like balance-of-payments, currency difficulties and all that—for the very simple reason that these problems did not exist in George's day.

A magnificent new book by two American professors of economics* fulfils the need for a really modern work on the subject better than anything I have read. Offhand, I cannot recall one single serious argument that I have heard against free trade which is not fairly and squarely met—and met in an idiom that satisfies at once the exacting demands of the professional economist and the needs of the layman who is simply put off by jargon.

The authors do not press their points to those limits of fanaticism to which, alas, some free traders are all too prone. Small concessions are made here and there to the protectionists; arguments which they advance are not treated as universally stupid or dishonest but are admitted to possess some limited force. But these arguments are counterpoised with other much stronger and more general considerations which clearly establish the over-

operation.

Unfortunately, in trying to reconcile his feelings of social justice and his admiration of the free market within the present climate of thought in both political parties, the author lost sight of the real problem and the only reasonable solution. The problem arises out of the legal sanction that enables an owner of land to capitalise its rental value. The monopoly position of the land owner which has prevailed since freeholds were introduced, is today enhanced by planning control.

The planning system can be justifiably blamed for many ills. The system of freehold land tenure, however, is an older and more vicious institution. Its economic consequences touch upon every aspect of human production. The so-called betterment problem will never be solved until the economic rent of land is appropriated at source. The possession of land would not be impaired but the most efficient use of land would be encouraged. Land use planning would be facilitated, the price of land would be reduced, and the need for a Land Commission would disappear overnight.

What more could Mr. Pennance want?

whelming balance in the free trader's favour.

The authors are particularly impressive when they examine the underlying ideas of the protectionist case and are able to show how the real strength of protectionism resides in the popular appeal of arguments that are completely superficial but satisfy the prejudices and fears of those who are unwilling or unable to study the matter more deeply.

Inevitably, the book suffers from one defect for the British reader, in that the arguments and example have a strong American flavour. Thus we read much of the activities of American individuals and bodies that are largely unknown to the British reader. Again, the exigencies of the American economic position are different from ours. In the very first sentence the authors say that they do not consider the free trade versus protection issue to be "of dominant importance in its own right." That is true for America, but scarcely for Britain. The U.S.A. could be self sufficient, or very nearly so, while Britain has nearly twice as many people as she can feed from her own resources. Hence international trade is, in the etymological sense, vital to Britain—while it is of less over-riding importance to America.

One day, I hope, someone will take this book and write a "British edition," with British examples, and with certain variations of emphasis aimed at the special problems of these islands. When that edition comes out, I think that the British free trader will have just about the perfect weapon for his armoury. Until that time, *Yaeger and Tuerck* in its present form stands as a great modern classic of perceptive, lucid and thoroughly honest apologetics.

If the reader is a free trader already, he will be a far more effective one when he has soaked up the arguments in this book. If he happens not to be a free trader at the moment, he probably will be by the time he has finished it.

**Trade Policy and the Price System* by Leland B. Yaeger and David G. Tuerck. International Textbook Co., 25s. 0d.