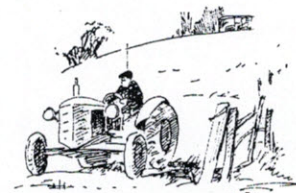


In Search of a Land Policy— An International Quest

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AS THE PACE of economic development quickens throughout the world, spurred on by rapid technological advances and bringing in its wake rapid urbanization, more and more countries are beginning to realise that traditional systems of land tenure frequently have a negative influence on the population's increasing requirements for more space and improved amenities. A recent Finnish study is representative of many now being undertaken.

In Finland the communes that have grown most rapidly during recent years are those in the immediate neighbourhood of big urban centres. In common with many European countries, Finland's population is becoming an increasingly urban one. In 1900, about 12½ per cent of Finland's population lived in the towns and cities but by 1960 this proportion had grown to more than 38 per cent and it is now estimated that more than one half of the entire population live in urban communes. Concurrently there has been a substantial decline in the proportions of the work force employed in agriculture. Whereas this represented 67 per cent of the working population in 1910, it now represents less than 26 per cent. In such a situation of relatively rapid change in terms of both absolute numbers and of their geographical distribution, the question of availability of open land close to the urban centres of growth is crucial.

In Finland, the land-policy situation varies from town to town. By virtue of long-established grants of land from central governments, some urban communes have so much land in their possession that there is no shortage of supply. In these areas current land prices are held to be reasonable but in some communes the supply of land depends entirely on private landowners and, where there is a strong demand, steep rises in price are a common occurrence. In Helsinki, which represents the extreme case, the rate of yearly increase in land prices in the period 1949-1961 was twenty-six per cent. This represented more than a tenfold increase between 1953 and 1962. Today in Helsinki the average price of a residential building plot is about half that of the improvement which is likely to be built on it. Generally speaking, in the urban communes it is difficult to obtain land for building purposes in suitable areas at a moderate price. In many areas, the land that has been developed in recent years has been that which was obtainable rather than that which would have been the most economical to develop in land-use terms. Not unnaturally, the communes have

been concerned about these trends.

In the lower-pressure areas, however, where the communes themselves possess large tracts of undeveloped land, it is the practice to grant building leases varying from forty to sixty years. The lease contracts are drawn up in such a way as to enable rent revisions to be made periodically, but only to take account of changes in the value of money rather than changes in absolute land value. A change in the pure ground-rent can only be made at the expiration of the lease. In such circumstances, it is not therefore surprising to find that the price of municipal dispositions of land is more favourable than that of land sold or leased by private owners. In other words, Finland has a double market in land.

It is also held that the taxation system has a number of negative effects on urban development. As land sales are exempt from any kind of tax as long as the land has been held for ten years by the same owner, it is easy to see that owners prefer to wait until the end of the tax liability period before disposing of their assets. When capital gains are made, they are treated as income and added to other sources of earning and taxed progressively. Professional sellers of land, however, are treated differently, being exempt from the tax if the buyer is a commune. This has tended to make public acquisition of land by agreement somewhat easier, but has decreased the tax return. In Finland acquisition by compulsory purchase is a lengthy process and compensation is at market value. With these conditions prevailing, it is not surprising that the urban communes have pressed for revision of land law.

In 1966 and 1967, draft legislation was prepared for an Increment Value Tax and for a special tax on vacant building sites but these measures were not passed by Parliament. The proposed reforms met with considerable opposition, particularly from unions of landowners and agricultural producers, backed by two political parties. More recently, however, the Association of Finnish Municipalities has asked that the Government should make it easier for communes to acquire land for their own purposes through simplified legislation and with the help of special finance. A change in the compensation code has also been proposed, together with measures for the public authorities to ensure that they benefited from the unearned increment in land.

The report concludes: "The present methods of land-use policy are not efficient enough to guarantee the purpose-

ful development of communities. Neither is society able to collect the benefits of the unearned increment to any considerable degree. Housing costs have increased in some areas to levels that are unreasonably high; the situation in most Finnish towns is not too bad as yet, although in many cases there is reason to worry. The outlook for the improvement of financing is not good. The best way in which the problem can be solved is by enabling the community to retain at least most of the unearned increment when land is acquired for public purposes."

Although this report is an interesting one and shows in a scholarly manner how in recent years the increase in land prices has been considerably greater than the rises in the wholesale price index, the industrial wage index and the cost of living index, the emphasis of the analysis is on the need for the communes to intervene in the land market. This is probably because Finland has a strong land-use planning system, but as the report states, "the greatest defect seems to be that public authorities cannot always ensure a reasonable implementation of their plans. Private landowners often postpone the sale of building sites in their possession for longer than is desirable for the benefits of the community. . . . This situation either results in a high price level, or makes it necessary to build in areas that are less suitable for these purposes. This also affects the cost of housing for private persons and the level of services to them . . . It is not in accordance with the principles of equality that town planning should have diverging influences on land prices and that the unearned increment should benefit some land owners and not others. There is fairly common agreement about the necessity to make public land acquisition more efficient."

It would seem from this report that, apart from a proposition made some time ago to tax vacant building land, there has not been serious consideration of a more efficient alternative that could well prove more acceptable to landowners and more efficient to the community as a whole—the taxation of land values on an ad valorem basis. The introduction of L.V.T., with taxation raised against valuations of land as if it were put to its highest and best use, would act as a tremendous spur to urban development and at the same time reduce the price of land to the ultimate consumer. It is a pity that this approach has so far escaped attention.

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Meanwhile, in the United States, some action is being taken in a more positive direction.

Following recommendations made by the National Commission on Urban Problems, studies are in hand in various parts of the United States for examining the relationship between assessed values and taxation purposes and current market values. The Commission has urged the States to reaffirm the principle of "full value assessment" and to see that property is assessed as

uniformly as possible, in relation to its market value, irrespective of the income status of property owners and the past or present income yield of properties. The need for reforms on these lines has recently been illustrated by a report published by the Urban Studies Institute of Grand Valley State College, Michigan. This shows that within Kent County there are significant differences in the assessment/selling-price ratios between municipalities. Moreover, assessments in the county showed that vacant land was valued at significantly lower rates than its market value dictated and proportionately lower than valuations of improved property. In one municipality, for example, more than 10 per cent of the properties were assessed at less than 10 per cent of the selling price. This report concluded that land speculators and owners of vacant land (often in slum areas) were being subsidised



by property owners of improved parcels. The report states that one possible way to reduce unproductive land speculation and the perpetuation of slum neighbourhoods would be to increase the tax on vacant land. This, in fact, could be done just by raising the vacant-land assessments to their proper ratio compared with improved parcels.

In a parallel Michigan study, the economists propose regular revaluations by an outside impartial agency, tax provisions to enable elderly persons to postpone their tax liabilities as a lien against the property, and the full assessment of farm land on the urban fringe at its highest and best use value. This report concludes that at the present time speculators are encouraged by low assessments to buy acreage well ahead of urban development and hold it unused while development catches up to it and the market value rises. If land were taxed more realistically, this speculation would be reduced.

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In the United Kingdom, politicians have yet to turn their attention to the non-taxation of vacant and idle land. This is a sorely-neglected field and one that deserves the closest and most urgent attention. The problems of urbanization are no less great in this country than anywhere else in the world and measures are needed not only to ensure a more efficient use of land, but also to stimulate the land market by ensuring that reasonably-priced sites become available in the areas where they are most needed. A good strong dose of L.V.T. is long overdue.