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Conclusions and Recommendations

THE FIVE years up to 1990 were characterised by frenzied activity in the urban land market, a period reminiscent of the speculative boom of the early 1970s. That was one reason why, for the purpose of this study, we chose 1985: it was the most recent year when the land market was 'normal', in terms of the secular trends. The housing market illustrates this point. We placed a value of £139.7bn on residential land in the South-East, which constituted 58% of the total. The value of that land rose markedly from 1986. By 1988, acres in the South-East worth £2,000 as farmland were fetching £1m or more with planning permission to build houses. Our calculations based on 1985 values provide a sound baseline from which to extrapolate trends, which reveal that rent has increased dramatically as a proportion of national income (Table 2: II).

The methodology employed has been one of simple arithmetic, aggregating the quantity of land in particular uses, and multiplying these by values which we derived from both Inland Revenue and market sources. Where assumptions had to be made, these were biased in favour of caution. One result is that the capital value of land — which we place at £505bn (excluding minerals) — is understated. For example, we valued residential land on the basis of the number of housing units. This approach fails to take full account of the 'hope' value of land that is coloured 'pink' on the planner's map, land which the owners hold in the expectation of one day converting cornfields into construction sites. That value is, of course, traded, and therefore 'bankable' but it is not measured in our assessment of the agricultural sector.

Further Research

We provide the first authoritative guide to the value of Britain's natural resources, which enables us to challenge the reliability of some of the official figures. This is notable in the case of industrial and commercial land, which the Central Statistical Office estimated to be £85bn. Our figure is £143bn, which specialists in this type of property intuitively felt was an *under-estimate*.

Further research to resolve such controversies is essential. The government accepted a recommendation by the House of Commons Treasury and Civil Service Committee (1988 : x) that the reliability of statistics in the national accounts should be investigated. MPs, alarmed at the range of residual errors in the official data, described the situation as 'disturbing'. The implications are critical:

Without a clear statistical account of how the economy behaved last year it stands to reason that Treasury officials are ill-placed to forecast how the economy will perform this year.

The value of such a review of the statistics, however, turns on whether the appropriate variables are being measured. Policies cannot be rationally formulated without a sound quantitative assessment of the *relevant* influences on the market. The land market constitutes an area of unparalleled ignorance. Yet its impact on the markets which regulate labour and capital is of crucial significance. Land displays certain characteristics that are unique. For example, the trend in the price of land over the medium term is upwards. Property (because it incorporates a large land value component) outperforms other assets in the long run. The share of national income going to rent increases, while the share to 'profits' — meaning the returns to capital, properly defined as man-made artefacts — decreases, over the course of 20-year business cycles (Harrison 1983). The present findings verify this hypothesis.

The motives for investing in land, and the consequences for the rest of the economy, are distinctive but generally disguised by the absence of information. For example, the DoE (1988 : 27) takes the view that 'Speculative hoarding is not seen as a major problem'.

No evidence was adduced in support of that perception. This is not surprising.

The problem overall is that much of our knowledge is based on case studies of limited geographical extent and that our understanding of the wider incidence and relative importance of all these factors is very limited (DoE 1988 : 29).

Nonetheless, the notion that land speculation is not a major problem can be challenged by studies that pinpoint this phenomenon as having a significant bearing on the economy. Consider, for instance, the investigation by the National Audit Office (1988 : 3) into the National Health Service's use of property. It found that the NHS had hoarded land 'for long periods on the advice of the District Valuer in the hope that sale values might improve'; one in five health districts confirmed that at least 40% of their land was disposable. This speculation in real estate may be rational from the point of view of the individual property owner, but may not be the best policy when judged against considerations of social welfare. But how does the underuse of precious natural resources affect the nation? An impressionistic answer was offered by the Audit Commission (1988 : 17), which expressed this view after examining the propensity of local authorities to hold land in a vacant state:

Land is frequently held 'in advance of need' when the authority has no coherent plan for its exploitation and there is little likelihood of making the necessary resources available for development. As a result, the authority locks up land with development potential which could be exploited by others with benefits for the community as a whole.

It would seem to be incumbent on District Valuers and councillors to justify a strategy of 'idling' land that would otherwise be used for the construction of homes, offices or factories. But given the present state of the art, how can we adjudicate on the conflict between the individual's interests and the wider claims of society, unless the fullest information is available as to the quantities and values involved? We can only guess at the social costs and benefits of what has been a lackadaisical approach to managing the nation's resources.

It is evident that a new primacy should be accorded to data on the

land market. Otherwise, there is the risk of an escalation in the reported practice of writing confidentiality clauses into contracts, which 'prevent publicity of property deals' (*Estates Times*, February 26, 1988). The free flow of information is a pre-condition of an efficient market. The ownership and value of shares traded on the stock exchange are openly recorded in the public files; and there is no attempt to disguise the identities of employees who dispose of their labour, or the value of their wages and salaries. We cannot discern any special reasons why the land market should be shrouded in the secrecy which inevitably limits its efficiency.

A New Domesday Book

Ultimately, there can be no substitute for on-site inspection of land values. Britain needs a new Domesday Book. A nationwide assessment of natural resources may sound a daunting task, but it would be a brave man who suggested that what was possible in the time of the Normans would not be possible in the age of the micro-chip!

The Inland Revenue established a Valuation Office as long ago as the First World War, after Parliament had ordered that natural resources should be valued for fiscal purposes. Although the relevant legislation was allowed to lapse it was nonetheless decided to retain the Office, which exists to this day. Recently, one of its valuers was asked about the feasibility of valuing land on a nationwide basis. He replied:

Provided the ground rules were clearly established I do not think that the valuation process itself would present any greater problems than those of the present (rating) system (Fenwick 1987).

In fact, according to a study by the Land Institute (1974), the process would be simpler and cheaper to undertake than that of valuing both land and buildings as required by the rating system. We believe the costs to be within the realms of practical politics; they would not exceed the charge imposed by the need to compile the register for the Poll Tax (estimated by the AMA/ADC [1988] at £144m). The money spent on acquiring a complete valuation of one of the three factors employed in the productive process would rapidly repay itself by greater efficiency.

It was with this in mind that Henry S. Reuss, who at the time was chairman of the House Committee on Banking, Finance and Urban Affairs, proposed in 1978 that the U.S. Government should establish a comprehensive land price index. His arguments are worth restating for the light they cast on our recommendation that more information on the land market should be provided through official sources.

Reuss contended that land prices were rising 'more rapidly than almost any other element in the economy,' and yet were largely ignored in dealing with inflation generally or the escalating prices of housing, food and other products in which land was a significant factor. For example, in the 30 years after 1949, the Consumer Price Index rose by 300%; the price of the typical new single-family house went up by 500%; but the price of the land under that house increased by 1,275%. A land price index was a 'useful first step' in alerting officials and the public to the role of land in the economy, making it more likely that appropriate changes in taxes and other policies would be proposed and eventually enacted. Despite a great deal of scholarly research stemming from this political initiative, the federal government in Washington does not yet have at its command the vital tool of a national land price index (see Chapter 12).

Until the British government assumes its responsibility for carrying out the task of providing such information, scholars in academia and researchers in the private sector will have to do the best they can with the material at hand. In this connection, the land price index published in the DoE's *Housing and Construction Statistics* series lags well behind market developments, and the research in the Inland Revenue's *Property Market Report* is updated only twice a year. As a result, official land market data is of interest to the historian but of little use to analysts and policy-makers who are supposed to keep abreast of rapidly changing market conditions.

A Cadastral Survey

The imprecision of the statistics on land use is a national scandal. We have compiled an assessment of the amount of land in the various categories of usage which we believe to be the best available.

Nonetheless, a full cadastral survey is urgently required. Married with the information being collated annually by the staff of the Ordnance Survey for the Department of the Environment, on the rate of change of land usage, accurate information on the stock would confirm, in our view, the buoyancy of land as a source of income.

But there is another urgent reason why the government should finance a cadastral survey. Major political decisions affecting land use will have to be taken within the next few years. Inactivity will itself constitute a decision with far-reaching consequences, so there is no way of dodging the problem. Perhaps the most dramatic example is the prospect of change in agriculture. If member governments of the European Economic Community pursue their radical proposals for reducing the subsidies and protection accorded to farmers, an estimated one million acres would no longer be used to produce food in Britain. But even if the governments fail to agree on substantive reforms to the Common Agricultural Policy, the rate of increase in productivity ($2\frac{1}{2}\%$ per annum) will dictate the need to 'idle' a great deal of farmland just to restrict food surpluses to their present levels (Agriculture EDC: 1987). Decisions with such sweeping effects on the rural environment ought to be taken with the benefit of the most precise information.

We are conscious of the fact that, in recent years, the amount of money spent by government on research has been husbanded. We would point out, however, that a cadastral survey cannot be regarded as an optional extra to the process of policy-making. Without the information, decisions could be taken with fearful results, which would be felt over an inter-generational timescale. The Thatcher government has not limited the expenditure of public funds where it has deemed such spending to be necessary to implement departures from previous practice. For example, it has been willing to accept the increased costs of administering the Poll Tax, which are calculated by the AMA/ADC to be two-and-a-half times more expensive than the previous approach to raising revenue for local government through the tax on property.¹

Towards New Policies

The quality of decisions taken by Parliament on contemporary issues of major significance would have been enhanced by the availability of more data on the land market. To illustrate the thesis that the impact of the land market penetrates deeper into policy-making than is generally appreciated, we focus on four of these issues.

(i) Free markets

The Conservative Government which came to power in 1979 placed the primacy of the market mechanism at the centre of its economic programme. It judged the strategy of previous governments, which favoured a greater degree of State involvement in the economy, to have failed. Nine years later the Chancellor of the Exchequer was moved to claim that 'the transformation of Britain's economic performance during the 1980s, a transformation now acknowledged throughout the world, is above all due to the supply-side reforms we have introduced to allow markets of all kinds to work better' (Lawson 1988).

This pronouncement came at the end of nine months during which the housing market presented the economy with serious problems. The cost of housing, forced up, in the main, by the restricted supply of land, distorted the labour market. Wages were higher than they need have been and employees were prevented from moving about the country in response to the availability of jobs; the credit boom — fuelled by accelerating prices in the housing market — destabilised the balance of Britain's foreign trade; and the capital markets were thrown into a state of uncertainty, as the Chancellor sought to deal with the problem by raising interest rates (Bover *et al.* 1988). All of this was due primarily to the power exercised by those who operate the residential land market! Evidently, there was considerable scope for reforms to encourage efficiency in the distribution of resources within the property sub-markets.

Critics of government policy maintained that the problems were further aggravated by the decision to abolish rates on residential properties: relief from the property tax was predicted to raise

house prices by an average of 20%, and by considerably more in London.

That the property market was not functioning efficiently, whatever the success achieved by the government in other markets, was clear from the depth of dissatisfaction within the ranks of the Conservative Party itself. Many backbench MPs vociferously objected to the decision by the Environment Secretary (Nicholas Ridley) to allow more construction on greenfield sites.

Most observers agreed that, if it were possible, new construction ought to take place on re-cycled land in the cities. The debate, however, was bedevilled by an absence of precise information on whether sufficient land *was* available. Builders complained that they had insufficient land at their disposal; the government said sufficient land was zoned to meet development needs.

Related to this area of controversy was the problem of whether the pricing mechanism was doing its job. Evidently it was not, for the Environment Secretary (Lean 1988) suggested that he was disposed to use *force majeure* to unlock land that was being withheld from those who wanted to build houses in the cities. The point to which we wish to draw attention is this. The most accurate indication of the wishes of prospective house buyers is the price of land, which — if the market were operating freely — responds to demand. One precondition for an effective operation of the pricing mechanism is the full and free flow of relevant information. The fact that land was no longer affordable for many families who needed homes suggests a serious defect somewhere in the allocative mechanism.

(ii) The Poll Tax

A revealing argument was employed by the Prime Minister, Margaret Thatcher, during the Parliamentary debate on the Poll Tax as a substitute for the rating system. Objections to the government's proposal to change the revenue-raising system for local authorities were met with the counter-claim that no alternative to the Poll Tax had been adequately advocated. If there is substance to this defence of the Poll Tax, it arises solely from the fact that information was not available to explain how the rating system could be reformed to everyone's satisfaction.

There have been a variety of criticisms of the integrity of the rating system.² The overriding objection is that, insofar as the tax falls on the value of a building, it is a disincentive to investment in improvements in living and working conditions. This suggests the need to untax that portion of a property's value that is due to improvements on the land.³ The tax revenue could then be derived from site values alone, which is the form of rating system employed by a large number of municipalities in Australia. The dynamic benefits of such a reform are alluded to by the DoE (1988:39), which discussed the problem of dealing with vacant land in Britain's inner cities. It noted that 'because land without buildings is unrated, they (rates) do nothing to stimulate the re-use of vacant land'.

Such a proposal for reform of the rating system has in the past been met with the fair objection that information was not available on whether land constituted a sufficiently buoyant source of income to finance the needs of local authorities. We now know that the rental income of land exclusive of capital improvements is more than sufficient to underwrite the costs of locally-administered services. An alternative to the Poll Tax can now be seen as a realistic possibility, if the political demand for it existed.

But previous attempts to reform the rating system in favour of a site-value only tax have been met with the objection that such a property tax is unworkable. In this connection, it is worth noting some international practices.

Land is valued apart from the capital improvements upon it in countries as economically and culturally diverse as Australia and Taiwan, and as geographically dispersed as New Zealand and Jamaica. Perhaps the model worthy of immediate study, because of the convenient access to information, is Denmark (see Appendix 3). There, the system of land valuation has been part of the government's responsibilities for over seven decades. The data on a site-by-site basis are so accessible to the public, that they are now even published in the Danish equivalent of the Yellow Pages (Harrison 1988:19). This accessibility to information on land values, and the meticulous system of public records, facilitates the housing market and cuts the transaction costs to consumers.

The introduction of computers for the 1981 revaluation enabled

valuers in Denmark to improve their efficiency. They generate assessments that are extremely close to market prices. Table 10: I indicates the correspondence between the assessed value and sales price, which by 1986 were for all practical purposes identical for residential properties.

Table 10 : I
Denmark: difference between assessed value
and sales prices: %

	<i>Single-family homes</i>	<i>Summer houses</i>
1973	-10	-40
1977	-7	-21
1981	-5	0
1986	-3	-1

We find, then, confirmation of a fact that is acknowledged among Britain's professional valuers: the assessment of land is a skill which yields results of the highest possible accuracy.⁴

(iii) Impact of tax cuts

The Thatcher government placed a high priority on cutting tax rates, with the aim of stimulating the supply-side of the economy. While it is not clear that the taxpayers were the principal beneficiaries, there is now abundant evidence that the strategy served to subvert the supply-side reforms in the labour and capital markets. The starting point of any analysis has to be Ricardian rent theory which, as we saw in Chapter 1, predicts that an increase in net income is to some degree offset by a rise in rents payable to landowners, leaving the real disposable income at or near the former level. This suggests that, to be effective, a tax-cutting fiscal strategy requires a mechanism for neutralising the capacity of the *land-owning rentier* to appropriate the gains.

A study by the Department of the Environment concluded that the main taxes affecting urban land markets were Corporation Tax,

the Rates and Value Added Tax. What happens if, say, the Corporation Tax rate is lowered?

The lower the level of Corporation Tax, the greater a company's bargaining power in terms of financial resources available to bid up rents in order to secure and retain the premises of its choice. Landlords benefit twice over ... (DoE 1988 : 39)

Whether the added bargaining power rests with the beneficiary of a tax cut, or the landowner who is in a position to exact a greater share of someone else's fiscal good fortune, need not detain us here. The outcome remains the same: the price of land rises to absorb the gains from the Chancellor of the Exchequer's decision to cut taxes. Thus, while the government thought it had 'no policy measures directed towards land prices' (DoE 1988 : 54), an inescapable consequence of the Thatcher administration's tax-cutting policy was that land prices were driven up.

This power places an awesome responsibility on government. In recent years, the direct impact of a number of important government policies on the price of land has been ignored; the potential consequences did not feature in any of the parliamentary debates that preceded the enactment of the laws. Yet these policies constituted a systematic redistribution of income in favour of land owners. Major fiscal implications flow from this ability to increase the economic rent of land — a power, we stress, that is regularly exercised, though usually from a starting point of ignorance. Two of these are identified here.

(i) A government that wished to cut taxes that fall on labour and capital, as part of its economic strategy (for example, in the pursuit of full employment: lower taxes ought to expand the demand for goods and services, in turn stimulating new investment and employment) could only succeed if it prevented the fiscal benefits from leaking into higher property prices. This leakage has been identified as a serious obstacle to supply-side programmes: see, for example, Gilder (1981). A tax on the rent of land is the only mechanism that would neutralise the propensity of the land owner to appropriate the taxpayers' windfall gains without further disrupting economic activity. The success of this policy would depend on the rate at which the tax was levied. To deter landowners from

snatching the increase in people's disposable incomes, the tax rate would have to be high, with a compensating reduction in the rate of other taxes.

(ii) Economists as far back as Adam Smith argue that a tax on land values is superior to other taxes, in that it does not represent an obstacle to the wealth-creating process (through, for example, the impact on the price of products, and the motivation of people to work). A government that wished to enhance living standards by improving the performance of the economy could do so by substituting the tax on land values for other taxes. This rationalisation of the tax structure could be accomplished with the minimum of disruption. During the transitional phase, the buoyancy of rent as a tax base could be regulated by the rate at which the burden of other taxes was reduced.

(iv) Consumer Choice

Higher prices restrict consumer choice. This is not necessarily so in the labour and capital markets, where higher prices signal a shortage and so attract a fresh supply. This response tends to moderate prices. Where the supply of a particular factor is scarce, rising prices operate as a rationing mechanism, thereby ensuring an efficient allocation of resources.

The land market, however, where the factor in question is relatively fixed in supply, is unique: rising prices encourage owners to withhold their sites, speculating on the prospect of an even higher capital gain in the future. The eyesore sites — hundreds of them in prime locations in most cities of the western world — bear witness to this phenomenon.

The amount of vacant land in Britain increased during the 1970s and early 1980s. There was no shortage of valuable sites in central locations available for development by the private sector. Prices, therefore, ought to have *decreased* to levels that would have made these sites attractive to investors. That the market and the pricing mechanism were not working satisfactorily is evident from the fact that the government deemed it necessary to establish new bureaucracies (urban development corporations) equipped with draconian powers and charged with the task of prizing some of these sites out of the hands of owners and placing them at the disposal of

prospective users. Ironically, however, far from injecting fresh competition into the land market, the government unwittingly formulated policies that helped to raise the price of land to unaffordable levels. A case in point is the Enterprise Zones, where firms received government grants and tax allowances for capital expenditure and relief from local rates.

The capital allowance concession increases the rate of return to developers and again tends to feed through into higher land values. The rates concession represents a direct saving to tenants (and owner occupiers) but there is evidence that it is largely offset by higher rental values, which in turn feed through into capital and land values. (DoE 1988: 40).

Consumer choice was similarly restricted by government policy. The decision to abolish rates on residential properties, starting with Scotland in 1989, is illustrative. The scale of the rise in the price of land was controversial. The government predicted that house prices (which effectively meant residential land prices) would rise by about 5% (DoE 1986: 102). Economists in universities and the City suggested a more marked rise, reaching 20% or more in the London area. One of these noted that 'The wider economic effects are uncertain but likely to be very significant' (Spencer 1988: 1), citing threats to the supply-side of the economy as a major consequence of the decision to abolish the residential property tax. So far as we know from the public debates on the replacement tax, the 'community charge' or Poll Tax, this impact was a wholly incidental effect of the government's change in the system of raising revenue for local authorities. Yet coming at a time when housing land prices in the South-East already exceeded £1m an acre, the government-induced rises had a significant effect in raising house prices to unaffordable levels, and so retarding the extension of home ownership.

Governments may consider it right that there should be losers and gainers as a result of the promulgation of new laws. At present, because of the imperfections in, and a shortage of information about, the land market, people's incomes, economic prospects and asset values are altered by a process that is largely covert. In a democracy, the electorate is entitled to have the full accounts of government decisions at its disposal, so that the politicians can be

challenged. Governments which seek to influence the economy should be similarly concerned to know how they are affecting the value and distribution of the real estate of the nation.

NOTES

1 The possibility of an economical compilation of property market data is illustrated by British Telecom's Video Map Imaging System, a computerised map-based property search system. Ordnance Survey maps are stored on video discs, and can be accessed in seconds by using a keyboard and colour monitor. The system was developed for Land Registry offices, providing rapid and cheap access to records. By linking estate agents and solicitors into the system, a nationwide database of current prices and useage could be established at a very low cost and no delay. For the first time in history, the property market could systematically derive comprehensive indices of values of the sort that are taken for granted by dealers on the Stock Exchange! Chorley (1987) provides a comprehensive account of the methods and technology at our disposal for collating geographic information.

2 We exclude the criticism about large increases in the rates liability for some property owners, following revaluation (which first made itself felt in Scotland in 1987). This discontent is wholly the responsibility of successive governments which chose to postpone revaluations; the dissatisfaction does not arise from an intrinsic defect in the property tax *per se*. If revaluations had taken place on a regular basis, in accordance with sound fiscal practice, the changes in tax liability — both upwards and downwards, in line with movements in property prices — would have taken the form of small, manageable increments.

3 Alternatively, the depressive effect on construction generated by an undifferentiated property tax could be mitigated by a progressive transfer of the burden away from the value of capital improvements and on to land values. This is the course adopted by some cities in Pennsylvania, including Pittsburgh — the city which Prince Charles, among others, has commended for its rehabilitation of the built environment.

Table 10 : II
Two-rate tax cities, Pennsylvania, September 1987: %

	<i>Land tax rate</i>	<i>Building tax rate</i>
Scranton	4.375	0.8
Harrisburg	5.525	2.188
McKeesport	9.0	2.0
New Castle	4.0	2.28
Duquesne	6.36	2.7
Washington	6.056	1.68
Pittsburgh	15.15	2.7

A study of Pittsburgh's dual-rate property tax concluded that a 1% decrease in the tax on buildings results in a 2.36% increase in the amount of new housing constructed in the city (Bourassa 1987).

4 Another feature of the Danish experience is worth noting, from the point of view of the cost of instituting an initial nationwide assessment. Valuers are recruited locally by the municipality to supplement the work of the taxation authorities' professional staff. The local valuers are selected from members of local political party organisations, and the composition of the valuation committees is largely a reflection of the local political party structure. According to the valuation law, no specific training or experience is required. When appointed, new members of the valuation committees are given introductory training, organised by the Inland Revenue. The job of local valuer is normally a sideline occupation; the fee received for a general valuation is about 10% of a skilled worker's annual income. This explains why the computerization of the valuation process in 1981, which reduced the number of valuers who had to be engaged locally, was not perceived as a threat against the vital interests of the professional groups. In spite of the reduction in their number, local valuers have welcomed the computerization, which executes the trivial, routine calculations. This has left them free to concentrate on applying their specialised, local knowledge on a few types of properties.

Hector Wilks, the London surveyor who undertook the valuation of every site in Whitstable on behalf of the Land Institute, employed unskilled assistants in the project, without detriment to the final result. This approach could be adopted for a fast and economical survey of the value of land in Britain, without loss of efficiency.