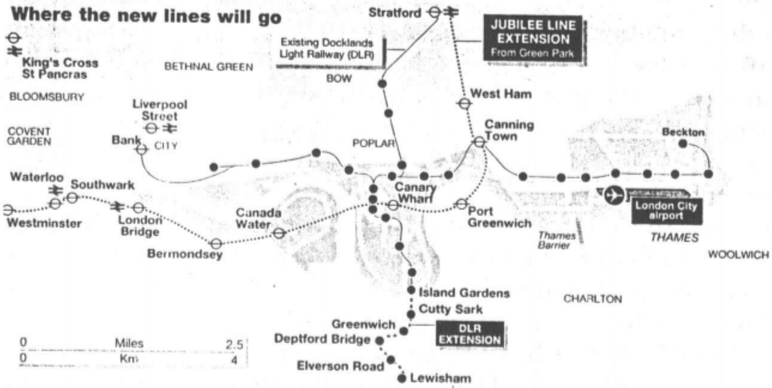
PLAN TO FUND TRANSPORT OUT OF RENT

TRANSPORT projects in London could be financed out of a special levy on businesses, argues a report commissioned by the Corporation of London.

The levy would be similar to the property tax levied on non-domestic properties. That means the levy would fall on the rental value of land. And since improvements on infrastructure would raise the value of land, the projects would be partly self-financing.



London's transport network is in desperate need of new investment. Government finance has allowed the rail network to deteriorate to the point where the economic viability of the British capital is being seriously compromised.

So the study, by two lecturers at the London School of Economics, suggests that a levy of lp in the pount on business rates (the British property tax) in Greater London would raise £75m a year twoards the capital cost of transport schemes.

But the Treasury opposes the plan. It argues that the levy would increase the burden on business at a time when rates are due to fall.

The Treasury's opposition reveals that it does not understand the economics of investment in infrastructure: improvements to the transport network would increase the profitable performance of enterprises, which could therefore afford to fund the investment.

And anyway, argue the LSE economists, the levy need only be imposed after businesses were invited to vote on whether to implement the plan.

* One example of how land values are increased is provided by the plan to extend the London Docklands Light Railway to Lewisham in south London. By improving people's access to docklands, costs of living and working in central and south London are reduced - and this is reflected in a rise in the value of residential and commercial land. Rationally, therefore, the investment ought to be financed out of that increased value. At least five consortia are bidding for the £100-130m privately financed extension to the light railway.

• According to Chancellor of the Exchequer Kenneth Clarke, about ú5bn of private investment will be directed to infrastructural improvements in the capital this year. This includes the £300m rail link from Heathrow Airport to Paddington station. But the government wants the finance to come from the private sector, and it does not regard a levy on business property as true private investment.

CHINA is an example of a country that needs to pay serious attention to the challenge of upgrading its transport system. It must spend at least $111bn in the next five years if it is to maintain its planned export-led growth, according to the east Asia analytical unit of the Australian department of foreign affairs and trade.

Bottlenecks in the transport system are threatening economic growth. In 1992, for example, delays in the delivery of coal from northern mines to southern power stations and factories cost China an estimated $70bn. The World Bank has proposed a doubling of capital investment in the transport system by the end of the century.

According to the Australian report: "So inefficient and inflexible is the infrastructure that it is slowly dawning on foreign investors that investing in China is not as profitable as it might have seemed. Producing goods in potentially the world's biggest market, where there is no efficient distribution system, does not generate good returns".

What the report does not note, however, is that a major part of the huge gains from an efficient transport system are channelled into higher rents for land. This means that, even as the investment is taking place, the money for financing the improvements is automatically provided out of the increase in land-rents. The Hong Kong metro's extention in the 1970s was funded by this method.

Under conventional fiscal systems, however, those rental gains are pocketted by landowners - or, in China's case, the leaseholders who occupy the land. So public sector investment is financed by taxes on wages and profits: this creates a political problem for governments that fail to use the rational system of public and private finance.