

# Land & Liberty

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## EDITOR WITH A CAUSE



**RICHARD NOYES** (above) is the Editor of a New Hampshire newspaper. He explains - in the next issue of *Land & Liberty* - how he uses the Press to campaign for his cause, the full taxation of land values for the benefit of the community.

## AUSTRALIA: CASE STUDY

**MOST** of the municipalities in Australia tax the unimproved value of land - and exempt buildings. What are the economic effects? Special articles examine the experience "down under" - in the next issue of

**LAND & LIBERTY**

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**D**ISTORTIONS in the land market, arising from monopoly and speculation - generating rapidly-rising prices and urban sprawl - were repeatedly recited by participants at the World Congress on Land Policy as evidence that justified action.

The Congress, held at Harvard Law School in Cambridge, Mass., was repeatedly told by experts drawn from around the world that the "land problem" required priority political attention.

The proof came in the form of statistics and eyewitness accounts from academics, town planners, surveyors and the people in the front line - the land users.

Unfortunately, the major assumption guiding most speakers was that the market *per se* was to blame; and that the solution would have to incorporate a good dose of bureaucratic planning.

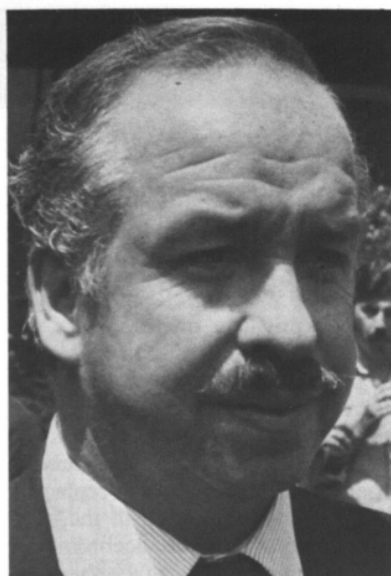
This view went largely unchallenged. Yet there is nothing more certain than that attempts at a planned solution have been as equally - if not more - unsuccessful as the so-called "free" land market.

For example, in 1947, Britain introduced a comprehensive planning system that was supposed to overcome the problems of the prewar "free" market. This failed lamentably to stop urban sprawl and the growth of derelict land in cities; but it has added red tape to the problems of developers who want to build houses, factories and offices.<sup>1</sup>

**T**HE SCALE of the problem is now well-documented. In the US, studies conducted in the past 20 years have shown that over 20% of land within the boundaries of the large cities (populations over 100,000) have remained unused.<sup>2</sup>

A study sponsored by the Lincoln Institute - the results were presented to the Congress by Prof. Jim Brown and his collaborators - revealed that about 23% of land on the outskirts of American cities lie idle. Land-owners, carefully questioned by a team of scholars in a unique research project, admitted that they preferred to speculate on future capital gains rather than go to the trouble of using the land productively.<sup>3</sup>

In the US, these horrifying effects have been largely the result of the monopolistic nature of land ownership. But alarming evidence of a similar problem of equal proportions has been accumulated for Britain's cities; and there is now no doubt that public



● Enrique Penalosa

sector landowners are among the principal culprits when it comes to allowing valuable acres to remain idle in the face of a strong demand from potential users.

Mrs. Thatcher's government, however, is focusing the blame entirely on the planning system and public sector owners. This is as simplistic as the contrasting belief that the market system is wholly to blame.

**E**NRIQUE Penalosa, secretary general of the UN's Habitat conference at Vancouver in 1976, delivered the first keynote speech, which revealed the frustrations and confusions of someone confronted with a problem of gigantic proportions.

Mr. Penalosa comes from Bogotá, in Colombia, where land prices have increased by 30% p.a. in recent years. When he was elected to the city council 20 years ago, Bogotá's population was 1.5m. Now it tries to meet the needs of 5m. residents: 140 hectares are taken over every year by squatters. As the city sprawls, "Land held by speculators can remain many years without use, even after it has been covered by city services."

He said: "Because of its unique nature, and the crucial role it plays, land cannot be treated as an ordinary asset controlled by individuals and subject to the pressures and inefficiencies of the market."

Therefore, "public ownership, transitional or permanent, should be used

## Land market distortions: Planning, the free market and 'plus values'

wherever appropriate to control land for urban expansion and implement land reform processes and supply serviced land at prices which can secure socially-acceptable patterns of development."

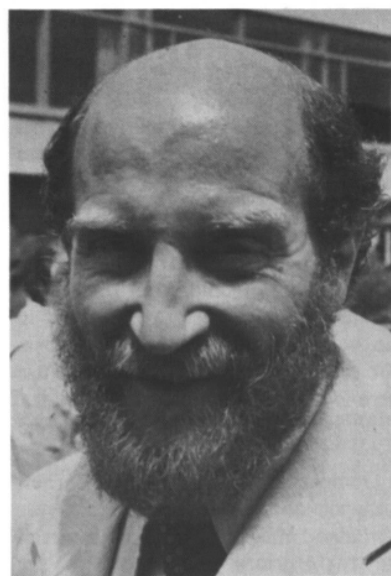
Yet he recognised that, "Unless social revolutions of the most drastic sort take place, urban land is not going to come under direct government control in the near future."

This presumably meant that only piecemeal public ownership was feasible, an approach that has in the past not solved the major problems. Indeed, Mr. Penalosa, who is head of the Colombian Institute for Land Reform, agreed that this policy had failed to meet society's housing and recreational needs.

**A**LTERNATIVE solutions were mentioned by Mr. Penalosa. One of them was the "very logical solution of a 100% tax on land."

Habitat, in fact, had recommended that what it called "plus values" – the unearned incremental rises in land values – should be taxed away for the community's benefit. Mr. Penalosa reaffirmed the need for such fiscal action.

"Taxation should not be just a source of revenue, but also a powerful tool to encourage development of desirable locations, to exercise a controlling effect on the land market, and redistribute to the public at large the benefits of the unearned increase in land values."



● Prof. Jim Brown

But, he said, there was a "paramount obstacle" to the rational use of land: no effective mechanism for monitoring land prices has been devised. "In the absence of reliable data, the fiscal and other tools that market economists use are nullified," he declared.

But this is not, as Mr. Penalosa suggested, a technical problem for which the experts could be blamed.

Economists systematically collate data on the labour market (wage rates), and on the money markets (interest rates). They monitor the rates of return to capital invested in industry, and have devised wondrous theories that purport to explain the work-and-leisure preferences of workers.

*There is no practical reason why the land market should not be equally well documented. That it is not systematically studied raises intriguing questions.*

**C**OLOMBIA'S experiences supply us with the answers. Her major cities measure the increase in land values that are caused by public expenditure on infrastructure such as roads. The municipal authorities then finance many of these projects out of what they call valorisation taxes – a tax on the increase in the value of land.<sup>4</sup>

There is, then, a sympathy with the equity considerations of land value taxation, and an accumulation of administrative and economic experience extending back over decades.

**WORLD CONGRESS ON LAND: Report by P. E. Poole**