'Plus values' VERSUS 'whole values'

By David Richards

"WHAT IS CURIOUS," remarked the Oxford conference organisers in their introductory paper, "is how little real concern town planners in practice, and the developing academic tradition in the planning schools, have actually given to land issues."[1]

What was not curious was that this self-serving myopia was not about to change.

More manipulated than manipulating, operating within a market system that serves to dissipate their actions, caught between the conflicting briefs of development control and development promotion, bedevilled by internal power struggles and external political squabbles, the planners had plenty to occupy them without worrying about the land question.

However, one concern that should have brought them up against it was "the vexed question of compensation and betterment", that which "effectively emasculated planning before the war" and which "remains largely unsolved."[2]

It was repeatedly stated that there is a concensus that Development Land Tax (DLT) is the most acceptable way of socialising development gains.[3] The only controversy concerns whether local authorities should be allowed to divert the profits released by planning permission away from the Treasury through the practice of extracting "planning gain" (i.e. the provision of public facilities by developers alongside private developments as a condition of granting permission).[4]

It was also stated that DLT is the least efficient revenue-raiser, hinders development, and has been exempted almost out of existence.

Could it be that DLT's acceptability depends upon this impotence, which allows it to be held up as a policy on the land question, but at the same time ruffles few feathers?

This suspicion is strengthened by the fact that there is a discontinuity between the policy instrument and the rationale behind it.

The theoretical argument is that increases in land rents represent an "unearned increment" to the land-owner, and are therefore an appropriate subject for taxation.

Thus, Geoffrey Keogh, an economist at the Faculty of Regional Studies, Reading University, states in his paper to the conference, 'The Economics of Planning Gain', that there is "an economic rent received simply as a consequence of the grant of planning permission. Since development will theoretically occur, provided the developer can earn normal profits, this introduces the possibility of imposing a tax on the unearned economic rent. In principle, any tax up to 100 per cent could be levied without inhibiting efficient development, although in the United Kingdom, Development Land Tax presently stands at 60 per cent while no estimate has been made of 'planning gain' as a tax on development profits."

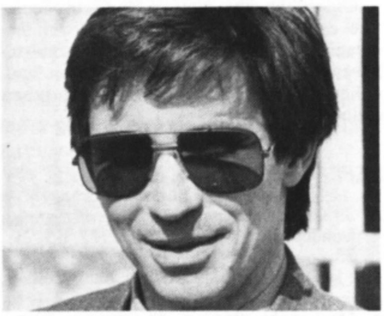
Keogh slips casually from the concept of a tax on unearned economic rent to the concept of a tax on abnor mal development profits, such as DLT.

Like most theoreticians, he has failed to distinguish between the two separate markets that exist for land, and to note that one tax applies to the rental (use) market, whilst the other applies to the market in the selling or capital value.

The remarkable fact about DLT is that it does not touch unearned economic rent at all, not even the "unearned increment." This is because it concerns only the capital price of land and has no effect on the recipients of land rent.

It is the rental market for land which is vital in economic activity. The value of land in economic theory is its rent. It is this value which is a social surplus and which should be used for social purposes.

The selling price of land and its investment value exists merely because the social surplus has been alienated into private hands. The creation of titles to the freehold ownership of land has given land a capital value which is the market value of the right to receive or enjoy land rents.



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This market value is totally dependent upon the legal titles, and upon the rental market. Were all the rent to be taxed away from the landowners there would be no selling value and no investment market in land, for there would be no private economic value left for marketing. Possession of land would then be regulated purely by the rental market.

DLT, however, applies only to capital gains made in the selling price. The whole of the rent of land continues to accrue to the owner of the freehold title.

THE SECOND weakness of Keogh's argument is the arbitrary point at which economic rent suddenly becomes unearned. Apparently only rental increases are unearned. Though Keogh is only analysing those increases following the granting of planning permission, the Uthwatt Report of 1942 was unable to make any moral distinction between increments due to the specific actions of the public sector, and those due to the development of the community in general.

But the whole idea of the "unearned increment" is an illusion. If the increment in rent is unearned, so must be the whole of rent, for it is purely that sum of successive increments to an original value of zero. No date can be fixed before which rental increments can be said to have been earned. J.S. Mill proposed such a date simply as a matter of political convenience.

The policy of taxing so-called unearned increments has been part and parcel of the error of applying to the capital market arguments based upon the rental market: "Planning gain is the realisation of some or all of the economic rent as a community benefit," writes Keogh, conducting his analysis with graphs of land rent against distance from the urban centre.[5] He can do no other, for such supply and demand analysis requires that the quantities be expressed as rates of flow over time. Land rent incorporates the time dimension, purchase price does not.

The only way to realise some or all of the economic rent as a community benefit is for the government to collect the rent itself. And not just rent increases or their capitalisation.

Apart from being arbitrary, that has, in the past, left landowners with no incentive to offer land to the highest bidders and the land allocation mechanism has broken down.

Only a full tax on the whole of land rent would achieve the desired result. Landowners would then have no say at all in the level of rents, for their function as rent collectors would have passed to the taxman. The rental market would continue, however, for it requires only that users bid against each other and that rent receivers take the highest bids on offer.

It is remarkable how pervasive amongst land specialists is the failure to distinguish between the two land markets.

Sue Barrett typified the tunnel-vision in her introduction to the third day of the conference: "The complexity of relationships when a plot is changing its use is the core of the land problem."

And the continuous rent appropriation in between use changes? It escapes unnoticed. Yet the problems of betterment, and of the representation of the social as well as the private interest in land use decisions, which are aspects of the capital market, would in fact mostly dissolve if the government were to take the rent in the rent market.

This theoretical deficiency explains the puzzlement aroused by the UK experience with betterment taxes. Variations on the theme have been repeatedly introduced with great fanfare, and yet have equally sunk into obscurity.

THE MORAL argument which politicians have found so persuasive has been that of the "single taxers", but the instruments which they have produced have had the same likeness to the single tax as has chalk to cheese. Small wonder that they have been found distasteful.

Dr. Rachelle Alterman, senior lecturer and chairperson of the Graduate Program in Urban and Regional Planning at the Technion-Israel Institute of Technology, was commissioned by the Centre for Human Settlements (Habitat), Vancouver, to survey the world's "land value recapture" policies. Her initial 80-page draft was presented at Oxford with the proviso that it was not to be cited. However, her understanding of the subject became clear in group discussions.

Land value recapture actually means "plus-value" recapture. The plus-values to be recaptured are those in the capital market; the conception of a continuous rent appropriation is totally absent.

This is surprising because Henry George's *Progress and Poverty* is listed in her references. However, when asked why she had not included this proposed "whole-value" recapture scheme amongst her spectrum of land policies, she admitted that she had only actually read other people's summaries of his ideas and had not understood them.

It is quite clear that much of the blame for the ignorance concerning Henry George's theory amongst land policy specialists is due to terminology. "Land value taxation" is an ambiguous label. It can include taxes on the capital value of land (such as DLT) as well as taxes on the rental value of land (such as site value rating).

As the extension of owner-occupation is the predominant land policy throughout the non-communist world, the capital value of land is overshadowing its rental value in the common perception. Land value taxation is therefore bound to imply to the specialist and layman alike some sort of tax on the capital value of land.

Unless the advocates of land rent recapture can clear up the ambiguity over the meaning of land value, they will continue to have difficulty in making an impact on land policy in the U.K. or in any other country.

REFERENCES

1. Healey and Barrett, 'Land Policy' p. 15.
2. Sir Colin Buchanan, *The State of Britain,* London: Faber and Faber, 1972, pp. 21, 25.
3. E.g., S. Markowski, 'Urban Land Policies for the 1980s', p.34.
4. Markowski, *ibid.*, p. 38. opposes "planning gain". M. Loughlin, *Apportioning the Infrastructure Costs of Urban Land Development,* Conference Paper, supports it.
5. This statement may well be accurate, though not int he way intended. Keogh is wrong to regard planning gain as merely a tax on development profits and thus as a straight alternative to DLT. If the public facility detracts from the level of private rents chargeable in the future, it transfers some of the rent stream to the public sector. The rents to be capitalised are thus reduced, and development profits are lower than they would otherwise have been. But they have not existed and then been taxed. They have been prevented from existing.

   This may be a new argument in favour of planning gain as opposed to DLT. But such a piecemeal procedure of bargaining between local authorities and developers can hardly be the most rational way of realising the rent of land for the public benefit. Keogh admits as much on page 11, but as a consequence proposed a local variant of DLT.

NEWS in BRIEF

TAX VETO

MARYLAND builders are relieved that Governor Harry Hughes has responded to their eleventh-hour plea to veto a bill that would have made developers pay an agricultural transfer tax for building on farmland.

The bill slipped through the legislature in June. It would have imposed a tax of three to five per cent on the price of sub-divided land, and raised the state about $720,000 a year.

The revenue was destined for the Maryland Agricultural Preservation Fund, which is used to preserve farms.

The new tax was seen as an attempt to recover some of the tax revenue that is lost on farmland that is assessed at low values, for tax purposes – to help farmers.

$1m question

ONE MILLION dollars have been provided by the Rockefeller Foundation in the US and the Nobel Foundation in Sweden so that scholars in 15 countries can try and work out why orthodox economic theories have failed to explain the world recession. The enquiry is to be directed by the International Federation of Institutes for Advanced Study.

Where the 'free' go hungry

INDEPENDENCE has produced few benefits for the Indian peasant, according to politician Chandra Shekhar, who has just concluded a six-month Gandhi-type walk across the sub-continent.

His thoughts were reported in the *New York Times* on June 27:

"When we fought for independence, we thought it would be a freedom where there would be freedom from poverty. But after 36 years, our people still go hungry and homeless, our children are malnourished and our villagers beg for drinking water.

"I have seen the ravages of malnutrition in western India, and tribesmen in central India told me how they could not protect the honour of their women from landlords."

Oil dividend

ALASKA'S citizens have received cheques averaging $385 – their share of the State's oil rent revenue. The money comes from the interest on a $4.2bn State fund made up largely of revenue gained in royalties on oil. Alaska had the highest per capita *income in the US last year: $16,257. The District of Columbia's* per capita *income was next in line, at $15,550.*