

II Policy

Introduction

A good starting point for an examination of urban land policy is to ask why one is needed. In recent years, it has often been implicitly assumed in the academic discussion of urban questions that any extension of state action is necessarily beneficial, while the effects of existing state action have not been critically examined. The time seems ripe for a new assessment of what J. S. Mill, in a still astonishingly relevant discussion, called, 'The grounds and limits of the *laissez-faire* or non-interference principle'.¹ The policies with which we are concerned can be divided into:

- a) State participation in the real estate market.
- b) Town planning.
- c) The taxation of rises in land value.

Within each type, there are aspects on which nearly everyone accepts the need for state action, and aspects where its extent, or type, is debatable. For example, public authorities have to acquire land for purposes such as roads, so that arrangements have to be made for compensating previous owners, and for public management. The amount of this type of 'necessarily public' land has increased sharply in recent decades.² Beyond this generally agreed level of participation in the real estate market are 'optional' fields ranging from 'land banking', the provision of public housing, to a public monopoly in the development or allocation of real property.

Similarly, everyone accepts the need for some kind of town planning. However, 'town planning' can mean many things, and it takes on a more 'anti-market' character in Britain than in most other countries. Some proponents of British-style planning and council housing even deny the existence of town planning in a country with what many people would consider such excellently planned cities as West Germany. This paradox suggests (a) 'planning' in the sense of detailed control of development can be carried out by bodies other than the state, although only central or local government can undertake 'strategic' planning, and (b)

planning and development systems should be judged in the light of how they actually work. For example, to lump together, and criticise, West Germany and the USA, as being 'unplanned', as many influential British writers have done, is to ignore important differences between systems, and their respective strengths and weaknesses.

The 'optional' areas of urban land policy are those in which state action is intended to correct alleged defects in the market mechanism or – a very different approach – to replace it by a system of administrative allocation. These defects in the urban land market can be divided into: (a) inefficiencies and (b) inequities. Questions of efficiency concern market failure. This can arise from various causes – insufficient information, too short a time-horizon, a divergence between private and social costs. As Professor Foster points out, some state action is needed to provide the participants in the urban development process with the information without which they cannot efficiently organise their activities; a Land Register, to take the simplest case, can be produced only by a state body. But the extensive planning control adopted in Britain has not achieved this desirable dissemination of information. Britain has signally failed to produce a Land Register, which is available in many 'less planned' countries, while it would be bizarre to suggest that British local authorities attach high priority to publishing information. Most people would agree when Professor Foster goes on to advocate the function of the planning authority as a 'spokesman for the future'.³ But this assumes that the planning authority is a better judge of the future than the participants in the market process. No one who has studied the swings of fashion in planning circles can make this assumption with much confidence. More familiar forms of 'market failure' concern the location of industry, city size, traffic problems and urban decay. All these cases, however, indicate that there can also be 'planning failure'. It is clear, for example, that old residential areas often do not adapt well to changing conditions, and that some kind of renewal policy can be beneficial; it is equally clear that the policy of 'comprehensive redevelopment' has often done more harm than good.

Considerations of equity have underlain most of the taxes on rises in land value which have been proposed over the last hundred, or implemented over the last seventy, years. These taxes have been responses to the sudden, large financial gains which can occur on development, especially 'greenfield' development. There is a strong case on grounds of equity for some type of tax, but experience has shown that taxes designed to skim off large 'unearned' gains – when framed with little understanding of how the land market works – can cause serious

inefficiencies and inequities. The taxation of rises in land value involves all the considerations discussed by students of public finance since Adam Smith. But the 'canons of taxation', and experience in many countries, have been ignored in most post-War discussion of land value taxation, and not only in Britain. A proposed Californian property tax which was nearly passed in 1978 was, according to one expert observer, 'drafted on the back of cocktail napkins'. Britain differs from other countries only in the speed with which such drafts become law. Professor Foster, after a brief survey of the British planning system, calls for 'a thorough reappraisal of planning controls – if not a bonfire, at least an intense bright light'.

The whole question of the operation of the urban land market and the role of the state raises the same basic issues as the great 'plan v. market' controversy that has taken place during the past half-century in both Western and Communist countries. There is a large amount of theoretical discussion and practical experience on these issues – the Stalinist system, the moves towards a 'socialist market economy' in Eastern Europe, the British and French experience of industrial nationalisation, price control and central planning, the 'socially responsible market economy' of West Germany – which could illuminate the general issues underlying public land policy. In the event, land policy has been discussed in almost complete isolation from this body of economic knowledge, and even from any detailed examination of the land policies in other countries. There is a large field of international experience waiting to be researched. Our subsequent discussion can merely attempt to put some current issues in British land policy into a broader perspective than that within which they have usually been discussed.

REFERENCES

1. J. S. Mill, *The Principles of Political Economy*, Bk V. Chap XI
2. In Cologne, the average amount rose from 42m² per head in 1922 to 103m² in 1973.
3. 'Planning and the Market', in *The Future of Planning* (Peter Cowan ed.) London, 1973.