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ALAN EVANS

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The Costs of the British Town and Country Planning System

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Foreword

IN HENRY HAZLITT'S *Economics in One Lesson*, an unorthodox yet revealing description of economics is offered:

> 'the whole of economics can be reduced to . . . a single sentence. *The art of economics consists in looking not merely at the immediate but the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups.*'[1]

Professor Alan Evans provides us with a clear application of this precept to an examination of the burden of the British town and country planning system. He does not focus on the direct financial costs of the restrictive effects but on the opportunity costs in terms of the foregone opportunities to all groups in society and he demonstrates that the adverse impact of public land planning is very wide. It raises costs and imposes a myriad of other distortions, many of which are unrecognised and unintended.

It might be supposed that planning restriction at worst would lead to shortages of land for some purposes and higher prices. However, even the latter proposition has been challenged. It is frequently argued that since the supply of undeveloped land is fixed its value is determined by the demand for land (which in turn is derived from the economic value of its uses) and not the availability of land. The authority usually cited is the Classical economist, David Ricardo: 'Corn is not high because a rent is paid, but a rent is paid because corn is high'.[2] Consequently it is wrong to argue that restrictions on the supply of land are a major contributory factor to the recent escalation in house or other land prices.

This is a misapplication of economic reasoning. Professor Evans has drawn attention to the fact that the planning system

[1] Harper & Bros., 1968, p. 11.

[2] D. Ricardo, 'On the Principles of Political Economy and Taxation', in P. Sraffa (ed.), *The Works and Correspondence of David Ricardo*, Cambridge University Press, Vol. 1, 1951, p. 74.

restricts the supply of *developed* land across the board. It is an *artificial* legal restriction on land available for development which must therefore contribute to raising land prices and hence house and other prices. Moreover, because planning authorities make decisions on the use to which particular parcels of land can be put, they necessarily determine the pattern of land use. The costs that these restrictions place on the British economy would be acceptable if they dealt with proven instances of market 'failure' or were explicitly taken into account when planning decisions are made. But, as frequently happens, public decisions are taken without any knowledge or apparent awareness of the economic costs and the harm inflicted on other groups in society.

The array of costs to which Professor Evans draws attention must make even the non-economist pause to reconsider the situation. He asks whether the implicit trade-off between a protected countryside and increasingly congested urban areas is justifiable. The impact of planning restrictions on prices in turn encourages high-density living, fewer gardens in cities, and less living space per household in urban areas as people react to high prices by economising on their use of costly land. The demand for housing in particular is fuelled by other distortions such as tax relief on mortgages. Apart from the major eyesores created by government intervention – by planners and public housing – the quality of life in urban areas must be reduced by these responses.

Professor Evans also suggests one intriguing economic explanation for what many see as Britain's falling architectural standards. The value of obtaining planning permission is so high and such a major component of the profitability of any development that developers have little incentive to build attractive buildings. Put in a slightly different way, given the absolute shortage of land for development, the value of a house or building *per se* is exceptionally high, but the *marginal* profitability of that house or building being well designed is low!

Professor Evans' discussion draws attention to the impact of the planning system on the young, on industry and on saving, investment and inflation. An increasing proportion of income is invested in land and houses and less in savings available for other forms of capital investment. The planning system also damages export industries which use land extensively, affects

business start-ups in the south and perhaps deters direct foreign investment.

It has been argued that Britain is a small island with a relatively large population so that restrictive planning controls are inevitable if the countryside in the south is not to be turned into one vast urban sprawl. It is absurd and devious to cast the debate in terms of support for the existing planning system warts-and-all or no planning. The present crisis arises not from the concept of 'planning' but from the fact that the British town and country planning system has grown from one designed to guide development to one whose function is the public direction of investment in land development. These are two totally separate functions. Since the latter pays no attention to economic factors, or does so in an *ad hoc* and capricious manner, it is not surprising that it imposes high costs on the community.

Furthermore, presenting the argument as a contrast between two extremes ignores several other germane factors. First, public planning has been responsible for a significant degradation of the urban and rural environments. Second, the demand for land is determined by its economic value in various uses. As land for development becomes more scarce, its price will act to choke off demand. Thus it is not evident that London will develop into an urban sprawl like some Australian and American cities. The price of land will necessarily be higher here than in physically larger or less densely populated countries. Third, the debate cast in these terms totally ignores alternative legal and fiscal methods of controlling land development. The common law gives individuals a variety of legal arrangements which can be used to control development ranging from the law of nuisance to restrictive covenants. This point has been made by a previous IEA author and Professor of Law:

> 'When we speak of planning, we tend to think of the planning legislation from 1909 up to the present. But we should all be aware that private planning preceded legislative planning by hundreds of years. The schemes created under the common law of landlord and tenant and the law relating to restrictive covenants, have produced some of the most beautiful developments in this country – parts of Westminster, Bloomsbury, for example. Indeed, some of our most beautiful urban developments – parts of Oxford, Cambridge, Chelsea

and Hampstead, for example, would never have been permitted under our present planning legislation.'[1]

The planning system has usurped these individualised land planning arrangements by perhaps the most complete system of land-use control which has ever existed in this country or anywhere else in the world. Put slightly more graphically, there has been complete nationalisation of land development rights in the UK. The advantage of private contractual planning arrangements is that they would take into account individual preferences and economic realities and would penalise those who made mistakes, because the developers would end up by paying for their mistakes in terms of low profits or even losses. Here it is disappointing that the Government's deregulation activities have not actually examined the real economic costs of the planning system and the way it can be privatised so that it will be more responsive to economic factors and individual preferences.

One of the reasons why the planning system has evolved into a restrictive straitjacket is that it places a wedge between gains and costs. A number of IEA authors, especially during the 1960s, argued vigorously that planning decisions should be based on cost-benefit considerations.[2] However, unless a positive incentive is given to those involved in the planning system to support development or else take into account the costs their denial of development permission imposes on the rest of society, there is little hope for greater rationality in the system. That is, policy proposals should not begin and end with the incantation that economic realities must be taken into account in public decision-making or before a planning decision is taken. A far superior way of introducing greater economic rationality is to harness the self-interest of the principal parties involved in the development process.

Professor Evans suggests one such scheme. Under the present system those adversely affected by a scheme have only the right to object and the not insignificant political power they can exercise to block a development. If the development is permitted

[1] W. A. West in *Private Capital for New Towns*, Occasional Paper 28, IEA, 1969, p. 38.

[2] D. J. Reynolds, *Economics, Town Planning and Traffic*, IEA Research Report, 1966; D. R. Denman, *Land in the Market*, Hobart Paper 30, IEA, 1964.

the so-called 'planning gain' goes to the community at large through specific projects such as community centres, roads and other public amenities. Yet those who are directly and most immediately affected get no financial compensation for the harm they may sustain. If they were compensated, this coalition of interests would be less likely to object to a development and the local and political forces against economically justified development would be weakened.

But perhaps the most comprehensive scheme which addresses this difficulty was proposed by the late Professor F. G. Pennance in a *Hobart Paper* published in 1967,[1] which proposed the auctioning of development rights to the highest bidder. This proposal has several attractions. It would ensure that the development went to those who valued the land the highest, and could with appropriate reform generate money for the local authorities. Under Professor Pennance's scheme those who objected would also have the right to 'bid' to *prevent* the development. As he argued, the

> 'economic merit in introducing third parties . . . [is that] it ensures that objectors to development (i.e., to higher-order uses of land resources) must back their objections with purchasing power to match the bids of others who wish to use these resources, if they are to prevent development. If they are successful, it means that they place a higher value on preserving existing uses than others place upon a changed use'.

Schemes like that of Professor Pennance could be developed.[2] One modification would be to auction development rights but with compensation given to existing landowners for any diminution in the value of their property. Like Professor Evans' proposal, this would 'buy' the support of objectors. If the revenue from auction went to the local authorities, they too would be more inclined to release land to its highest valued uses.

Recent reforms now mean that there should be a presumption in favour of development. But this alone does not ensure that the full economic effects are taken into account when planning decisions are made. It does not alter the penalty-reward system of planners and, as Professor Evans notes, economic factors are

[1] *Housing, Town Planning and the Land Commission*, Hobart Paper 40, IEA, 1967.

[2] G. Mather, 'Pricing for Planning', *IEA Inquiry*, No. 3, March 1988.

easily swamped by environmental, local and political reasons why permission should not be given. Self-interest will always triumph over administrative directives; it therefore follows that reform should harness self-interest.

The IEA dissociates itself from the analysis and conclusions of its authors. Professor Evans' discussion provides a thoughtful and comprehensive analysis of the burden of the town and country planning system which will be of interest to a wide audience. He has alerted us to a host of unintended consequences of planning and his discussion is a valuable contribution to the debate over land development. The IEA particularly commends Professor Evans' *Occasional Paper* to teachers and students of economics. In the light of the importance of planning and its wide-ranging effects, it is surprising that urban economics is rarely taught in British universities and polytechnics. The author has shown that the study of land planning has direct relevance to the economics of international trade, savings, investment, entrepreneurship, and small firm formation and economic growth. The IEA would consider its educational task amply fulfilled if Professor Evans' lucid discussion re-ignited interest in the economics of land use and planning.

June 1988 CENTO VELJANOVSKI

The Author

ALAN EVANS was born in Surrey in 1938. He was educated at Charterhouse and took articles qualifying as a Chartered Accountant in 1960, winning one of the seven certificates of merit awarded in the English Institute's Final Examination. In 1961 he went to University College, London, to read Philosophy and Economics, and, instead of going back to accountancy, went to the University of Michigan for one year in 1964 before returning to University College, London, to research for a PhD in the economics of residential location.

Between 1967 and 1971 he was a Lecturer in the Department of Social and Economic Research at the University of Glasgow, researching in the economics of land-use planning and of city size. From 1971 to 1976 he carried out research at the Centre for Environmental Studies before spending a year at the London School of Economics as an Economics Lecturer.

He was appointed Reader in Environmental Economics at the University of Reading in 1977 and Professor in 1981. He was Dean of the Faculty of Urban and Regional Studies between 1984 and 1987. In 1983 he was Kinsman Scholar at the University of Melbourne. He currently holds a Nuffield Research Fellowship to study the economics of land.

He is the author of *The Economics of Residential Location* (1973), *Urban Economics* (1985), was co-editor of *Public Economics and the Quality of Life* (1977) and *The Inner City: Employment and Industry* (1980), and has published extensively in urban and land economics.

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I am indebted to Paul Cheshire, Geoff Keogh and other colleagues in various departments of the University of Reading for extensive discussions on the subject of economics, land and urban planning. Cento Veljanovski and the staff of the IEA have helped to sharpen both ideas and words. I have to acknowledge the financial support of the House-Builders Federation to work on this topic and to thank the Nuffield Foundation for the award of a Research Fellowship to study the economics of land. None of those mentioned would necessarily agree with the contents of this paper for which I am responsible.

A.E.

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ALAN EVANS

I

INTRODUCTION

'The table was a large one, but the three were all crowded together at one corner of it. "No room! No room!" they cried out, when they saw Alice coming. "There's *plenty* of room!" said Alice indignantly, and she sat down in a large arm-chair at one end of the table.'

LEWIS CARROLL
Alice's Adventures in Wonderland
Chapter VII: 'A Mad Tea-Party'

HAS THE British town planning system been a success? If you look only at the physical environment in Britain the answer would have to be 'Yes'. It has ensured that industry and homes are physically separated, it has helped to reduce densities in the crowded inner cities as people moved to the New Towns, it has limited the expansion of urban areas, and restricted sporadic development in rural areas. Because town planning has become part of the local political process, many people have become involved and have felt that they have a recognised stake in their environment and their neighbourhood.[1]

But is it an economic success? From an economic point of view, if a development is prevented in some neighbourhood and diverted to another area where it would do less harm, then, if the

[1] In some earlier work, I have demonstrated the economic necessity of some control on the density of residential development: Alan W. Evans, *The Economics of Residential Location*, London: Macmillan, 1973, pp. 88-97; and 'Neighbourhood Externalities, Economic Clubs and the Environment', in London Wingo and Alan Evans (eds.), *Public Economics and the Quality of Life*, Baltimore, Md.: Johns Hopkins University Press, 1977.

other costs at each location are equal, this is to the good. But if the development is prevented in *every* area, there is an economic cost to this lost development which is seen in higher prices and a lower standard of living. This has become obvious to most people only very recently with the recognition that there is a connection between spiralling house prices in the South East and the reluctance of the counties and districts to permit development. But the costs of the planning system are not limited to higher house prices. These are only the most evident of economic costs.

The purpose of this *Occasional Paper* is to demonstrate and trace through the economic system, so far as possible, all the economic costs of limiting development. These economic costs are less obvious than the benefits of the system to the physical environment, but, as I shall demonstrate, they are significant. The most important occur because the restrictions on the amount of land available for development mean that any increase in demand leads principally to increases in price. These price rises impose significant costs on the community, partly in terms of lower environmental quality in urban areas where development is allowed and partly in a lower standard of living. The total effect has been significantly to reduce the economic welfare of the community.

In this *Occasional Paper* I shall identify the economic effects of the higher price of land and the costs they impose on the population in general. First, firms and households have to adjust to high and rising land values by using land intensively and economically. Secondly, the high value of land with planning permission for development means that planning permission itself has a high value so that the development process is distorted as firms put resources and effort into obtaining planning permissions and local and central governments respond. And, thirdly, high and rising property values affect the process of economic development, altering the structure of the British economy and reducing the rate of economic growth.

II

Origins of British Planning

The British planning system, when it came into existence soon after the Second World War, was intended to guide rather than restrict development. Various strands of thought came together – the garden city movement, a reaction against the uncontrolled spread of pre-war ribbon development along main arterial roads, the desire to encourage development away from the conurbations and to reduce densities there. Policy-makers felt that people were concentrated, to their disadvantage, in major urban areas. The expansion of these urban areas, it was believed, should be prevented, and people encouraged to move to new developments, possibly new communities (e.g. the New Towns), elsewhere in the country.

It was expected that the birth rate would continue to be low as it had been in the inter-war years, so that only a limited amount of development in rural areas would be necessary to accommodate the proposed decentralisation of the urban population. For example, in the *Greater London Plan 1944*, Sir Patrick Abercrombie assumed that 'the population of the area will not increase, but on the contrary will be somewhat reduced', whilst 'a grand total of 1,073,000 persons would be decentralised, or moved from the central mass' of Greater London. This limited amount of development could be accommodated in new towns, or the planned expansion of existing towns, saving the countryside from unsightly urban sprawl. The farmers would act as guardians of the countryside.[1]

Planners' Growth Predictions Wrong

This attempt at planned development failed because the planners wrongly predicted the growth in the demand for land. The population increase was significantly bigger than estimated. But this was not the sole reason. Increases in personal incomes enabled people to seek more housing space, and this also contributed significantly to the growth in demand. A further stimulus to demand was given by improvements in transport which allowed people to live further from their place of work, on

[1] Patrick Abercrombie, *Greater London Plan 1944*, London: HMSO, 1945, p. 5.

cheaper land. The demand for land also grew for uses other than dwellings. The shift from high-density city-centre shopping to out-of-town supermarkets and retail warehousing is obvious enough, although, in Britain, this shift was limited by planning restrictions.

A similar kind of shift has occurred in the use of industrial land. Fothergill *et al.* record that the amount of factory floor space per manufacturing employee increased from 28 sq. ft. in 1964 to 48 sq. ft. in 1985 because of changing production methods, and as productivity increased. An old mill might have four floors and entirely cover the site; a modern factory might have only a single storey and cover only 40 per cent of the site. To replace the mill by a modern factory with the same area of floor space would require a 10-fold increase in the land area used. To accommodate the same working population as only 25 years ago, the land area used would have to be increased 20-fold.[1]

Law of Supply and Demand

There is no reason to expect that planners would have been able to predict increases in the demand for land of this order of magnitude. But the initial underestimates of the demand for land and a reluctance to allocate land for development have meant that demand has increasingly outstripped supply. The land market has responded in the way an economist would expect. The price of land has increased to choke off this excess demand and to ensure that the quantity demanded equals the quantity supplied. In effect, the high price of land causes firms and households to economise on their use of land and to occupy less space than they otherwise would. It is for this reason that the use of physical measures of land 'needs' and 'availability' is misleading. The amounts of land currently used by firms and households are determined by the existing price of land and are therefore less than if more land was available. The rise in price brings the quantity supplied and the quantity demanded into balance *given the planning restrictions.* It is therefore circular to calculate the amount of land available and then the amount of land needed by activities *on the basis of the existing pattern of land use,* and to find

[1] Stephen Fothergill, Sarah Monk, and Martin Perry, *Property and Industrial Development,* London: Hutchinson, 1987, pp. 30, 33-74.

that the two are more or less equal. It would be astonishing if they were not.

Non-economists always expect to find physical symptoms of shortage and surplus. To the economist these physical symptoms will occur only if the price is fixed at a level which does not equate the quantity demanded and the quantity supplied. The post-war housing shortages were obvious because most people lived in rented accommodation and rents were fixed below market-clearing levels. Agricultural surpluses are obvious in the European Community because commodity prices are fixed above market-clearing levels. Farmers could achieve higher prices by limiting their output; when this is done, as it has been with milk and milk quotas, physical symptoms in the form of surplus milk or milk products no longer occur.

Planning Restrictions Increase Prices

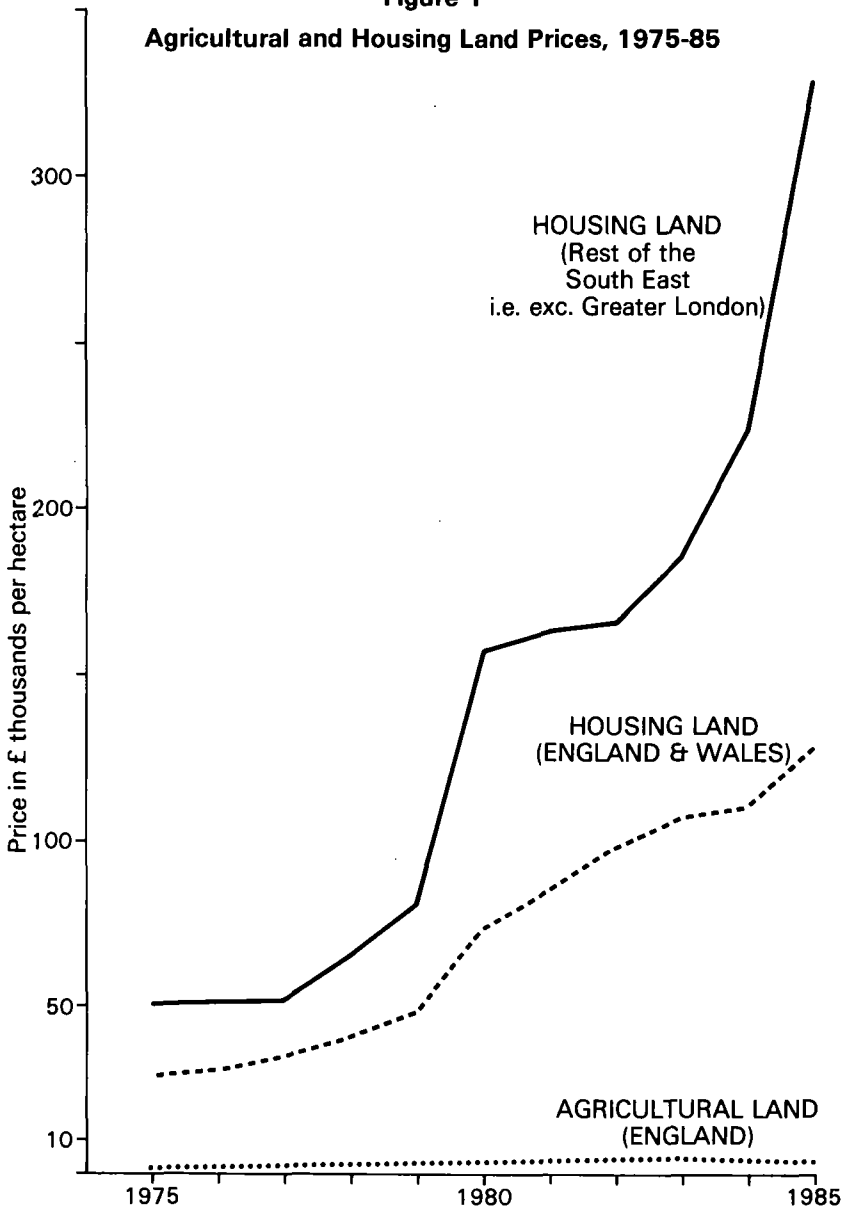
Restrictions on the supply of land for development manifest themselves first in the form of higher land prices. Adequate data on land prices have been collected and published only since the 1960s, but some evidence is depicted in Figure 1 which shows the price of land for housing development in the South East (outside Greater London) between 1975 and 1985. The price of land for housing has over this period risen much faster than the price of land for agriculture. According to the *Property Market Report* published by the Inland Revenue in October 1987, the price of agricultural land in the South East at that time was about £4,200 per hectare (about 2·5 acres), whilst the price of housing land was at least £984,000 per hectare. The ratio was lower in other parts of the country but still large. The lowest price for housing land was in Wales where the average price per hectare was at least £145,000 and the average price of agricultural land was, at most, £3,900 per hectare.[1]

These differences between the price of agricultural land and the price of the same land but with planning permission for housing are highly significant. They indicate that if planning controls were relaxed, many owners of agricultural land would be able to sell it for development. As a result, the price of development land would fall to a level closer to that of agricultural land.

[1] Valuation Office of the Inland Revenue, *Property Market Report*, Autumn 1987, No. 48, London: Surveyors Publications.

Figure 1

Agricultural and Housing Land Prices, 1975-85



Source: Housing and Construction Statistics, HMSO; *Farm Incomes in the United Kingdom,* HMSO.

The difference in prices in the two markets, at the margin, is maintained only by restricting the transfer of land from one market to the other.

Planning Controls and Prices: Fallacious Argument

Some have argued that planning controls can have no effect on the supply of land as this is determined by the price of housing.[1] This argument is false. First, it can be shown to be wrong in theory. If the supply of housing land is restricted, so is the supply of housing; house prices are therefore higher than they otherwise would be. Even if one were to accept the view that the price of land is determined by the supply of housing, the price of housing is in part determined by the supply of housing, and this is affected by the supply of land. Thus an increase in the supply of housing land leads to an increase in the supply of housing, which in turn reduces the price of housing and hence the price of housing land.

Second, there is empirical evidence which clearly refutes the argument. To obtain such evidence we must study a variety of urban areas which are otherwise similar but differ in the amount of land which is available for development. This cannot be done in Britain where all cities are subject to similar constraints on development. It can be done in other countries, however. Thus Rose analysed the determinants of the value of land for residential development in or near 26 of the largest urban areas in the United States. He found that restrictions on the available supply of land, both natural – the presence of large bodies of water – and legal – zoning ordinances and land-use regulations imposed by local governments - significantly raised land prices.[2]

[1] For example, W. S. Grigson, *House Prices in Perspective: A Review of South East Evidence*, London: London and South East Regional Planning Conference, 1986.

[2] Louis A. Rose, 'Urban Land Supply: Natural and Contrived Restrictions', *Journal of Urban Economics*, 1988 (forthcoming).

III

The Cost of Land in Different Uses

Town planning distorts the allocation of resources and the pattern of land usage in a variety of ways. In this section the physical and financial consequences of the planning system are identified in the major sectors of land usage – housing, shopping, leisure, and offices and manufacturing.

Housing

It has already been argued that rising *per capita* incomes and a growing population have been responsible for the surge in the demand for housing in the post-war era. This growth was not foreseen by planners and, perhaps, could not have been foreseen. Even when the number of dwellings exceeded the number of households, as has been true since the late 1970s, demand has not slackened because higher real incomes have led to a demand for second homes. This effect has led to escalating house prices and thence high land prices which have been fuelled by the artificial restrictions created by the planning system. Figure 2 shows the changes in the price of land, incomes, house prices for South-East England (outside London) and retail prices (nationally) in the period since 1963. It can easily be seen that the price of land has risen considerably faster than incomes and twice as fast as retail prices. Houses which use relatively large amounts of land have risen in price faster than others, and, indeed, as Figure 3 shows, the rise in price of a dwelling seems to have been directly related to the amount of land it occupies. The price of bungalows has risen much faster than the average prices of other kinds of dwelling whilst, at the other end of the scale, the average price of flats and maisonettes has risen least of all.

As dwellings which use land intensively have become cheaper relative to others, so the number sold has increased. Figure 4 shows, over the same period, the proportion of newly-constructed dwellings of each building type mortgaged with the building societies. It can readily be seen that the proportion which are bungalows has fallen over the period from over 25 per cent of the total to less than half of that, whilst the proportion of newly-constructed dwellings which are flats, maisonettes,

Figure 2

House Prices, Housing Land Prices, and Incomes in the South-East (outside Greater London), 1963-85

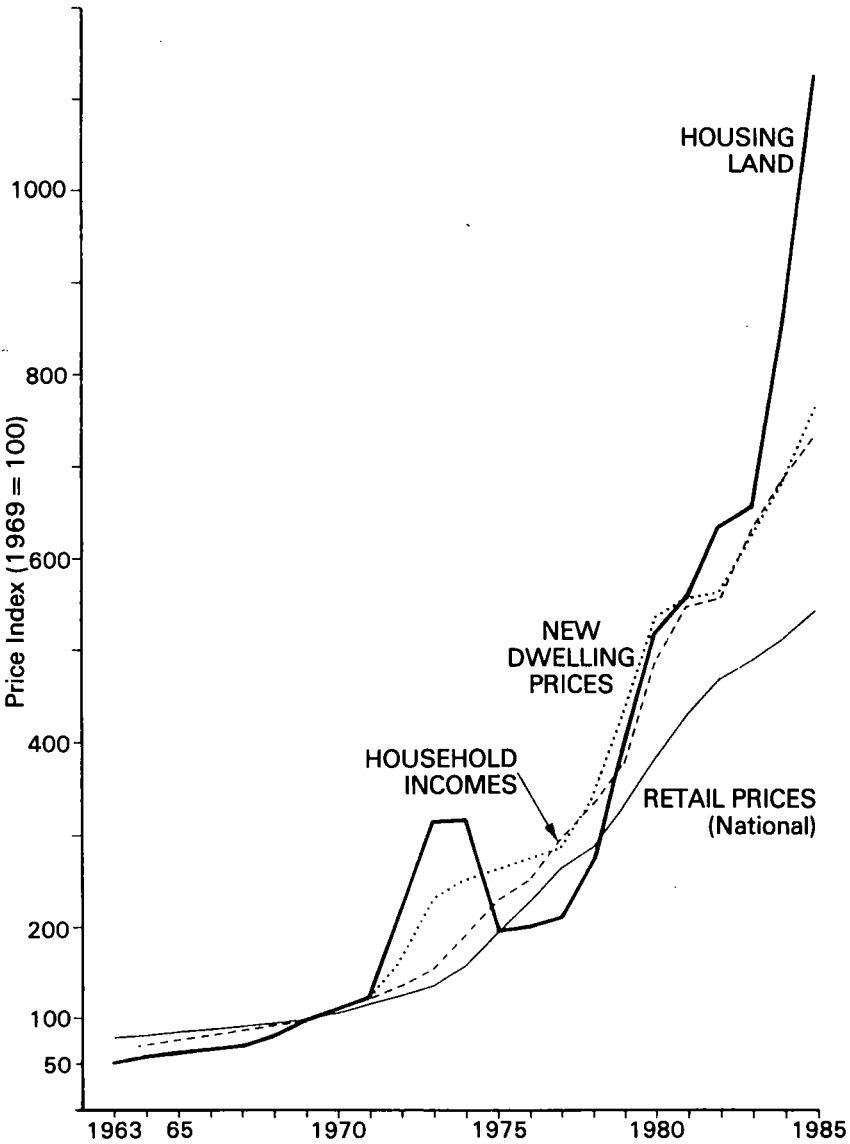
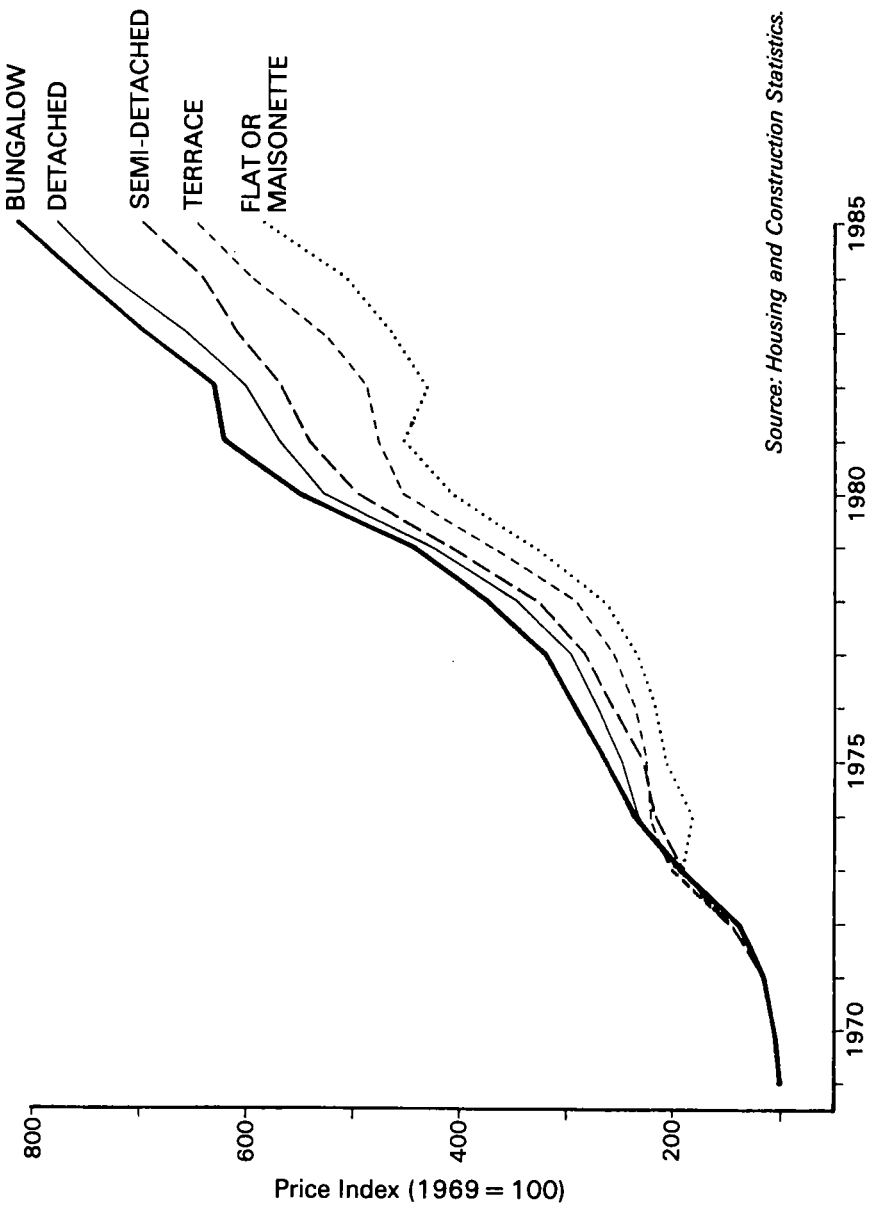


Figure 3

Dwelling Prices by Types of Dwelling Mortgaged, 1969-85



terraced or town houses has increased from less than 10 per cent to over 25 per cent of the total. This shift has occurred because of the change in prices and not, say, because the size of households is becoming smaller and requiring smaller dwellings. If the latter had caused a significant shift in demand, the prices of flats, maisonettes, etc. would have risen faster than the prices of other kinds of dwellings. Since they did not, the view is confirmed that the price of buildings which use a lot of land rose as the price of land rose, diverting demand towards dwellings which used land more intensively. Thus, the market mechanism acted to reduce the total amount of land required for housing.

Further support for this argument can be found in Table 1 which shows the types of dwelling sold in different regions. In the South East, where land prices are high, proportionately more dwellings are flats and maisonettes. There is no reason to suppose that households in the South East are either smaller or poorer than those elsewhere.

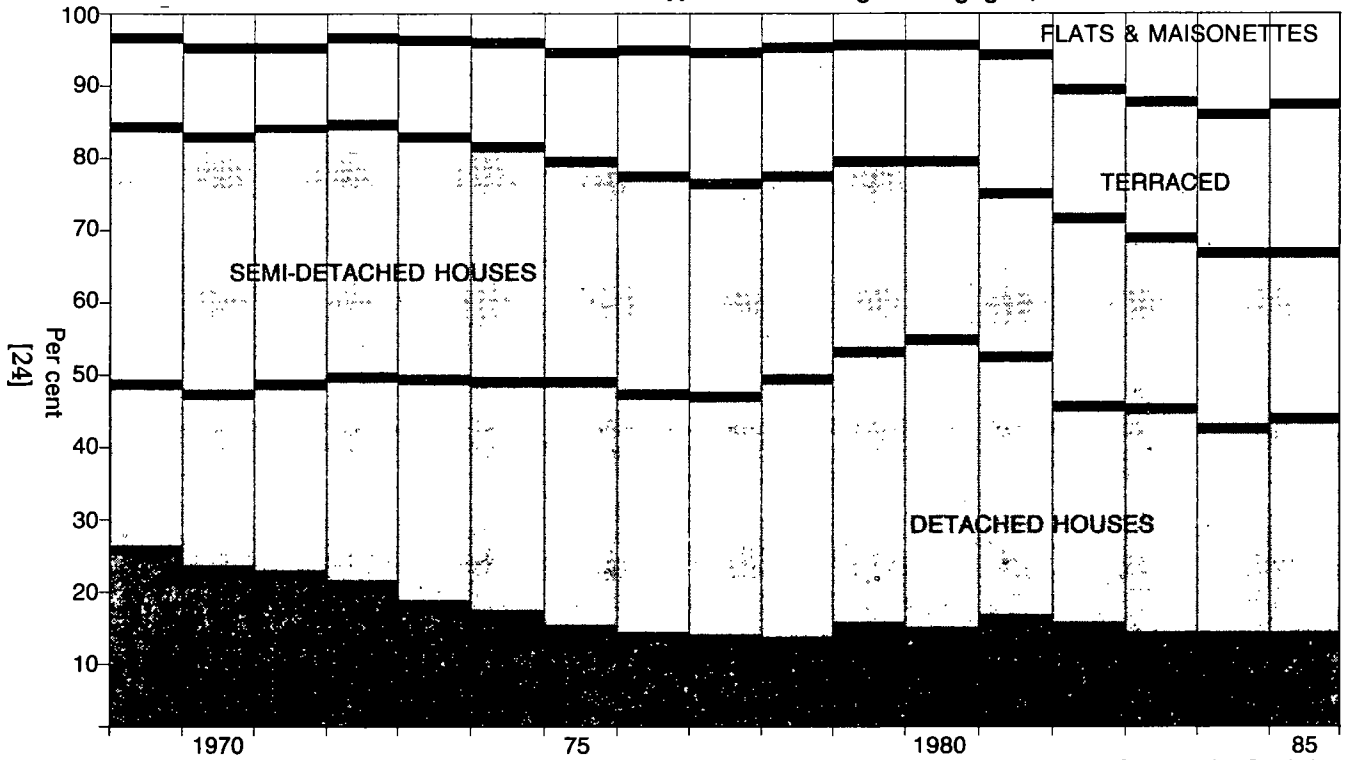
Contrasting attitudes and ambivalence

It is ironic that this change should have occurred during a period when there was a strong reaction against the large 'high-rise' blocks of flats which had been built for local authorities in the 1950s and 1960s. In the early 1970s local authorities accepted that flats were unpopular and construction of the larger blocks virtually ceased. In the public sector people wanted houses rather than flats even if this meant that they used more space, and political pressures ensured that these preferences were translated into construction policies. The private sector, on the other hand, moved in the opposite direction. People bought what they could afford and this was often a flat. Buyers failed to connect this with the limitation of their choices imposed by planning restrictions on housing development, limitations which in general they supported.

Rising house and land prices are viewed ambivalently by house owners. The owners of larger dwellings have made large (untaxed) capital gains, whilst those who have not bought or who occupy small flats find the possibility of home ownership or of a step up the system becoming more difficult. Over time, therefore, first-time buyers find that they must buy dwellings which are smaller in size than earlier generations could do.

Figure 4

Distribution of Different Types of Dwellings Mortgaged, 1969-85



Source: Housing and Construction Statistics.

TABLE 1: **Dwelling Types Started in 1987, by Region (per cent)**

		Houses			
	Bungalows	*Detached*	*Semi-Detached*	*Terraced*	*Flats and Maisonettes*
North	23	40	16	10	11
North West	18	47	15	6	14
Yorks & Humber	29	39	17	7	7
W. Midlands	13	54	16	6	11
E. Midlands	22	49	17	8	4
East Anglia	17	36	15	20	12
South West	11	35	18	20	16
Greater London	2	6	5	18	69
Rest of S. East	6	34	11	18	30

Source: National House Builders Council, *Private House-Building Statistics* (quarterly).

First-time Buyers Forced to Borrow Proportionately More

First-time buyers have also been forced to borrow a higher proportion of the purchase price. In South-East England the price of a house purchased by first-time buyers borrowing from building societies was about 2·75 times their recorded income in 1969 but only 2·5 times in 1985. They borrowed approximately the same multiple of income in both years, 2·13 in 1969 and 2·10 in 1985, so that the amount they had to put up out of their own savings had fallen from 23 per cent of the cost in 1969 to only 16 per cent in 1985.[1] First-time buyers had to buy smaller dwellings on average for two reasons: first, because the rise in the price of housing meant they could only purchase a smaller dwelling, even if it cost the same multiple of income as earlier first-time buyers might have spent; second, because the rise in the price of housing relative to the price of other things meant that their savings could pay for only a smaller proportion of the price of the house or flat.

Reduction in Urban 'Green Belts'

The planning restrictions have caused the price of land to rise, and the price of dwellings which use relatively large amounts of

[1] Department of the Environment, *Housing and Construction Statistics, 1976-1986* and *1969-1979*, London: HMSO, 1987 and 1980.

land has risen relative to others. Buyers have, as a result, purchased flats and terraced houses which use less land. In this way the price system ensures that the land which is available for development is used economically. But this is only one of the ways in which the preservation of rural areas affects the environment in urban areas as builders, developers, and house owners respond to price incentives and seek out ways to use land more intensively. Fairly obvious to any prospective house buyer is the small amount of open space in any new development. Even in a new estate of detached houses on the edge of a country town, the amount of land devoted to a garden is the proverbial 'pocket handkerchief' and will be far less than in any older development. In the London suburbs and elsewhere in the South East where land prices are very high, houses with large gardens are demolished to make way for a number of terraced or town houses in a close.

Scavenging for Land

The process of change to a higher density urban environment can occur rapidly where single sites can be acquired. Frequently, the owner of a house with a large garden realises that it is of considerably greater monetary value as a building site than as a vegetable garden or rose bed. The process is slower and more time-consuming if the ownership of a possible building site is split amongst a number of owners. For example, a developer may wish to acquire adjacent semi-detached houses, demolish them and construct a small block of flats. If they come onto the market simultaneously the situation is simplified, but this is unusual; more often the developer has to take a speculative position by acquiring one initially, hoping to purchase the other later by persuasion and a more generous offer.

In some cases the process of change may be very drawn out. In Kenton, Middlesex, a block was surrounded by houses with unusually long, and relatively narrow, back gardens. Over a period of some 20 years a developer patiently negotiated to buy the ends of these gardens so that a number of houses could be developed in the centre of the block. Twenty years spent acquiring a building site is probably exceptional, but it is indicative of the strength of the incentive provided by the market

to use the land which is available for development more intensively.

One way in which the density of development can be increased is through the development of various small sites where building had not been profitable before. Numerous examples of this can be seen alongside the railway lines leading into London. Small, irregular pieces of land adjacent to the railways were left vacant because, being so close to the railway and affected by noise and dirt, the price at which any houses could be sold would fail to cover the cost of construction. As the price of housing has risen, development of these sites has become profitable, and houses and flats have been built on these scraps of land despite the poor quality of their immediate environment.

Building an Extension

A further example of the intensification of land use occurs through the perceptions and actions of the house owners themselves as the price system encourages the extension of existing houses. An owner may seek to move, say, from a three-bedroom to a four-bedroom house as the household's income and/or family size increases. If the family is living in a suburban area developed before, say, 1960, their existing house will probably have a garden of reasonable size. In searching for a larger house they are likely to discover that any recently built house has a 'pocket handkerchief' garden, and is not cheap. They then perceive that they could expand their existing house by adding an extension. An alternative is for the household to buy a smaller house with the intention of extending it, although the possibility of planning delays or refusals makes this a riskier undertaking. Of course, extension of the house has to be physically possible, and this is most likely where the frontage is wide and, usually, an attached garage can be built over and behind. In some outer London streets, where the economic and physical conditions are right, virtually every house has been extended in this way.

Summary

The effect of planning constraints on the development of land outside existing urban areas is that house prices and land prices within those areas are considerably higher than they otherwise

would be. In the case of land the price is up to 100 or more times higher, as Figure 1 indicates. These high prices are an incentive for a high density of development and re-development. Accessible open space, the space where most people live, primarily garden space, is developed and built over in order to preserve inaccessible open space, land in rural areas which few can visit because the land so preserved is almost invariably private. This environmental swap – the maintenance of the rural environment at the expense of the urban environment – is mostly unrecognised. But it is especially ironic when the economic pressure for re-development to higher densities affects urban conservation areas, so that, in effect, an urban conservation area is destroyed (because 'one cannot stand in the way of progress') in order to preserve the rural environment (where, apparently, one can).

Moreover, this reduction in the quality of the urban environment affects all the inhabitants of the urban area. So although owner-occupiers may make capital gains from the increase in the value of their housing, they are made worse off through the reduction in the quality of their immediate physical environment. The only unequivocal gainers are those, not unknown amongst the aristocracy of England, who live in a preserved rural area and own property in urban areas.

Shopping

The restrictions on the amount of space available for development affect land uses other than housing, generally to the cost of the inhabitants of urban areas, but without the compensating capital gain which occurs with housing. The debate over shopping is centred on the extent to which shops should be contained within the traditional central areas of towns and cities and whether out-of-town shopping centres should be permitted. The argument has, therefore, been over the physical pattern of development – economic factors have been largely ignored. In practice, British planners have restricted the development of out-of-town shopping centres and considerably slowed a trend which has been very evident in other developed countries, particularly the United States and France. In practice, of course, this has also restricted the amount of land available for shopping developments and this restriction has resulted in land values which are even higher than those for housing. In a study of the costs of

planning,[1] Cheshire *et al.* attempted to compare the price of land in similar cities in the United States and England. They reported that, in 1983, while the price of land for shopping in Stockton, California, was of the order of £100,000 per acre, shopping land in Reading, Berkshire, was priced at £2·5 million or more per acre. A similar difference was observed between Erie, Pennsylvania, and Darlington, County Durham – £83,000 per acre versus over £1·1 million per acre.

Thus a far higher price for land and space has to be paid by a British shop than by an American shop; indeed the rent for the site may be some 25 times higher. If shop properties yield a rent equal to about 5 per cent of capital value, a ground rent of £5,000 per acre per year in Stockton is implied – just over 10 pence per square foot – and a ground rent of £125,000 per acre per year in Reading – or nearly £3 per square foot. Whilst the first may have little impact on the costs of shopping facilities, the second cannot but do so. Moreover, it will have a bigger impact given that real incomes are lower in Britain. Compared to its US counterpart, the British shop must obtain a higher profit per square foot in order to pay the ground rent. To do this it must either charge higher prices than otherwise or it must use the site more intensively; in practice it will have to do both.[2] How it copes with the problem will depend on the degree of substitution which is possible, and here little other than impressionistic evidence is available, since there are no accurate data. However, those who have visited similar American and British towns, and the much larger number who have crossed the Channel and shopped in the French hypermarkets, will certainly have noticed the differences between shopping practices which exist because land is cheaper in one country than in another. The French hypermarket will be more spacious, with wider aisles, it will be less crowded, and the provision of parking space will be more generous. The British equivalent has to achieve a higher turnover per square foot and

[1] Paul C. Cheshire, Stephen Sheppard and Alan Hooper, *The Economic Consequences of the British Planning System*, Discussion Paper No. 29 in Urban and Regional Economics, Reading: University of Reading, Department of Economics, 1985.

[2] Although other factors are also evident it is not entirely coincidental that, according to the *Guinness Book of Records*, the shop with the highest known turnover per square foot is in London (Marks and Spencer, Marble Arch).

so will be more crowded, with narrower aisles, longer queues at check-outs, and more restricted parking space.

Hotels and Restaurants, and Leisure Activities

Planning restrictions affect other activities, particularly those where a major cost is that of land, or where space is not used intensively. For hotels a major part of the total cost of a room is the cost of the space, with little opportunity to use that space more intensively. As a result, the price of hotel space in Britain tends to be higher than in other developed countries, as those who have travelled in Europe or North America can confirm.

The same is true of restaurants. Here other factors relating to the quality of the service and of the food obscure the pattern, but most travellers will have noticed the higher cost of dining out in Britain as opposed to North America or Europe.

Hotels and restaurants have been able to pass on these higher costs to their customers because demand has been relatively buoyant as incomes have risen. Other consumer activities have not been in this position. There has been the same pressure to use land intensively, but they have not been able to pass on higher land costs to their customers. Admissions to the cinema, for example, would have declined in any event because of competition from television, but the decline has inevitably been hastened by the fact that cinemas were usually built in shopping centres where land is in short supply. The re-development of a cinema and its replacement by a supermarket has been an attractive commercial proposition. And whilst in the USA new cinemas in out-of-town shopping centres have been commercially viable, in Britain the rarity of these centres and their small size where they are permitted has meant that marginal uses such as a cinema are excluded. Where cinemas have remained the economic pressure has been to use the land intensively with two or three screens, and, most recently, multiplex cinemas with even more screens, as at Milton Keynes and Slough.

There are other examples. The disappearance of the suburban dog-racing tracks of London may have occurred anyway, but their closure has certainly been hastened by the planning system which has made such large tracts of land for commercial development very scarce. Hendon Dog Track and, most recently, that at Slough have disappeared, the latter replaced by a Co-op

Superstore. The same commercial pressures threaten other sports where areas of land are not used intensively. The most newsworthy have been the proposals to re-develop the Fulham and Queens Park Rangers' football grounds in West London.

Offices and Manufacturing

Planning restrictions on the amount of space available for housing, shopping, hotels, restaurants, and leisure affect the cost and kind of facilities available to consumers and thus directly lower their standard of living. The restrictions also affect the use of land for production in offices and factories and have an additional indirect effect on people's real incomes.

The Reading/Stockton comparisons carried out by Cheshire *et al.* demonstrated considerable differences between land prices. Land for offices was about £83,000 per acre in the Californian city but ranged from £600,000 up to £13 million per acre in Reading. Similarly, the cost of land for manufacturing was about £86,000 per acre in Stockton but between £400,000 and £500,000 per acre in Reading in 1983.

That manufacturing land is relatively less expensive in Britain than land for office space whilst the two categories cost more or less the same in the United States is, at least in part, because there has been a general presumption against hindering manufacturing growth, particularly in the early 1980s when government was attempting by example and exhortation to 'lift the burden' of central and local government controls from industry. On the other hand, despite Britain's dependence on services, offices were not regarded as wealth-producing in the same way as factories. This has led to a greater willingness to permit industrial development rather than office development. But the position taken by local authorities may be contradictory. Indeed, in southern England in 1988, the overall policy appears to be to permit manufacturing development, in order to encourage economic growth, but to restrict housing development to prevent in-migration of a labour force for the factories which are constructed.

Effects of High Land Prices and International Competition

The high price of land for office space and manufacturing has consequential effects as occupiers compete with each other and

against firms located abroad. To maintain profitability the users of space must minimise their production costs. They might pass on the higher cost of space in higher prices, but if they face international competition the prices cannot be higher than those of their competitors. If the cost of land and space in Britain is higher than elsewhere, the higher cost of space is a burden which British manufacturers and commercial services bear and which they have to cover by reducing their costs elsewhere. The extent of the burden is difficult to gauge, for it depends on the degree to which labour or capital can be substituted for land, and the ease of substitution will vary from firm to firm. For example, some firms may be as efficient in a multi-storey factory as in a single-storey plant; in others the most efficient production process may necessitate a single-storey plant.

If substitution is easy, the burden will be light, but if it is difficult, the burden will be heavier. In the latter case either the cost of capital or the cost of labour must be reduced. But in the modern international economy, capital is mobile across national frontiers; moreover the machinery, computers, etc., which constitute the capital investment are also traded across frontiers. So the cost of capital tends to be irreducible, and as a result the higher land costs must either result in the firms going out of business or in their paying lower wages and salaries to their employees than those they compete with in international markets. In this way the costs of the British planning system are borne by the population in the form of lower real incomes.

Factor-Price Differences and International Trade

The differences in the price of inputs between Britain and its international competitors may have other effects on the structure of industry and trade. Firms and industries which use little land or which can easily substitute labour and capital for land will find it easier to compete internationally than firms and industries for which substitution is difficult and which are, therefore, likely to go out of business.

This argument has been thoroughly developed in one of the basic economic theories of international trade.[1] If some countries

[1] Called the Hecksher-Ohlin Theory after the two Swedish economists who first developed it, it is discussed in any textbook on international trade theory: for example, Ronald Findlay, *Trade and Specialization*, Harmondsworth, Middx.: Penguin Books, 1970.

have relatively more of a particular factor of production than other countries they will specialise in the production of commodities which use relatively more of that factor. They will tend, consequently, to import commodities which use relatively more of their scarce factors. So a country which has relatively less land and relatively more labour than others will specialise in the production of goods and services which require less land and more labour. In Britain the planning system has restricted the supply of land for industry and commerce and so this land has an artificially high price. According to the theory, the result should have been a shift of production over the years away from more towards less land-intensive activities. Such a shift has been evident in the move from manufacturing to services – so-called de-industrialisation. But the decline in Britain's manufacturing industries and rise in its service industries has, of course, also derived from other factors. The same change has, after all, been evident in other countries, albeit to a lesser extent. But the basic economic theory of international trade would predict that one of the factors promoting de-industrialisation will have been the shortage of land for development created officially through the planning system.

The theory of international trade goes on to suggest that the shift away from land-using activities results in a lower demand for land than would otherwise be the case. In turn the reduction in the demand for land means that the price of land is lower than it otherwise would be if there were no international trade. If all goods could be freely traded and various other conditions fulfilled, international trade theory suggests that the price of land would fall to the level prevailing elsewhere, and the wages of labour would rise. Taken only as an indicator of a general tendency, the theory suggests that the shift out of manufacturing and into services and activities which use less land will reduce the demand for land. This means that the price of land will not rise as much as it would have done if there were no international trade.[1]

[1] In practice, the price of land for manufacturing and services could fall to the level prevailing elsewhere only if all goods and services could be traded across frontiers. Housing, above all, cannot, so the price of manufacturing land could fall below the price of housing land only if local authorities were unwilling to allow the development of industrial land for housing. Since they are usually only too willing to allow this, regarding it as an environmental improvement, the price of housing land is a floor below which the price of manufacturing land is not likely to fall.

IV

The Operation of the Planning System

The planning system has an impact on the process of development in a way which was not foreseen by those who originally devised it. A change occurs because those who are to occupy buildings do not deal directly with those who develop land and construct buildings. Planners and the planning system also act as intermediaries. Of course, this is and was intended – the planning system is designed to determine what is built and where it is built. What I shall argue is that the system itself has an impact on the *process* of development which was entirely unintended.

Rent Seeking

The planning system has evolved over time from a system designed to guide development into what is regarded by the planners as 'socially optimal' land use into a system to control and restrict development. As a result, the price of a site becomes dependent less on its location or other physical and economic characteristics than on the kind of development which the planners decide is legally permitted, or is likely to be permitted, or it is hoped will be permitted.

Planning permission has thus become a valuable economic 'commodity'. The owner of a few acres of agricultural land in South-East England worth a few thousand pounds can sell it with planning permission for residential or other development and become a millionaire overnight. Thus planning permission is worth money and it is therefore worth spending money to obtain it.

Economists call this kind of activity 'rent-seeking expenditure'. The term was first coined by Professor Ann Krueger who used it to describe several features of import licensing in India and Turkey.[1] She observed that obtaining an import licence was valuable so that people were willing to spend money to acquire it. Moreover, it was clear that people did spend money in this way, either directly, on promotional activity, or indirectly, so as to put

[1] Ann O. Krueger, 'The Political Economy of the Rent-Seeking Society', *American Economic Review*, Vol. 64, No. 3 (June 1974), pp. 291-303. The concept is also credited to Gordon Tullock, 'The Welfare Costs of Tariffs, Monopolies and Theft', *Western Economic Journal*, Vol. 5 (June 1967), pp. 224-232.

themselves into a position where a licence could be obtained. From an economic viewpoint, however, this rent-seeking expenditure was a dead-weight loss in the sense that it did not improve the efficiency of the economy. The diversion of activity into rent seeking from the production of goods and services reduced real incomes in the economy.

The same logic can be applied to the granting of planning permission. Planning authorities restrict development, thus making planning permission a valuable right. It becomes worthwhile for a potential developer to spend money, often substantial sums of money, to try to obtain planning permission. How much money will be spent will depend on the value of the permission when obtained, and on the probability of obtaining it. Suppose a developer owns four sites and it is estimated that on each site there is a one in four chance of obtaining planning permission and that, if granted, each permission would have a market value of £1 million. If the developer has a neutral attitude to risk, he will seek to maximise the capital gains from these sites. He will therefore be willing to spend up to a quarter of a million pounds in each case in order to obtain permission. He may be unlucky and gain nothing or lucky and obtain two or more, but on average it is probable that somewhat less than a million pounds will have been spent and one planning permission gained worth £1 million. From the developer's point of view, therefore, such rent-seeking expenditure will have been profitable. From the standpoint of the national economy, however, the expenditure is wasteful; the same result could have been obtained if dice had been rolled. Moreover, this expenditure on publicity, architects, consultants, expert witnesses, counsel, and so on, necessitates similar expenditure by local and central government, and this is not taken into account by prospective developers in considering the profitability, from their viewpoint, of applying for planning permission. In the end the total expenditure by both sides is likely to exceed the value of the planning permissions actually awarded.[1]

[1] Local authorities' current expenditure on Town and Country Planning in England in 1982/83 amounted to £539 million, of which £166 million was covered by income, largely fees and charges. Thus total expenditure by the public and the private sectors for the larger United Kingdom certainly amounted to over £1 billion.

It might, of course, be argued that the value of the physical environment is such that, even from an aggregate national economic standpoint, it is worthwhile spending large sums to determine which sites should be built on. However, the amount spent depends very little on the environmental value of a site in its existing use; the major determinants of the amount spent on trying to obtain planning permission are the value of the site in some alternative use and the probability of obtaining permission. If the possible increase in value from obtaining planning permission is low, the amount spent will be low, no matter how high the environmental quality of the existing site. On the other hand, the expenditure by a developer to try to obtain permission for, say, a shopping development on disused gravel pits close to the M25, London's orbital motorway, may be very large indeed.

Planning Gain

That planning permission can often be worth considerable sums of money has not gone unnoticed either by central or local government. It was a major factor leading to the introduction of Development Gains Tax and Development Land Tax, which extracted up to 70 per cent of the gain for the state. Now that Development Land Tax has been abolished, gains on land development are taxed only as capital gains. Nevertheless, the existence of these gains has had a lasting effect on the behaviour of local governments. They have increasingly realised that the power to grant development rights is valuable. As a result, local governments have behaved as an economist might expect by seeking to trade the valuable good – planning permission – for something else of value.

Section 52 Agreements

This effect is clearly seen in the so-called Section 52 agreements of the Town and Country Planning Act 1971, which have become common. These require the developer to agree to provide some amenity for the local community.[1] For example, some land in residential development may be handed over to the local authority as a park. In urban areas the *quid pro quo* for

[1] Geoffrey Keogh, 'The Economics of Planning Gain', in Susan Barrett and Patsy Healey (eds.), *Land Policy: Problems and Alternatives*, Aldershot, Hants.: Gower, 1985.

permission to develop a site for offices or shops may also require the developer to agree to construct some housing or, say, a library, or a community centre, which will then be handed over to the local authority. In the case of large developments by experienced developers, they may not need to be persuaded by the local authority but may include in the development scheme ideas which they consider will appeal to the local authority's planning officers and its development control committee, such as leaving part of the site vacant and landscaping it.

Clearly, the appropriation of gains to the community in this way is of greater economic value than their dissipation in the form of rent-seeking expenditure. The current situation seems to be that both are likely to occur. Indeed, part of the developer's publicity to improve the chances of obtaining permission is likely to be the advertising of the gains to the community which are likely to result from the development.

The Developer's Role

The operation of the planning system gradually and imperceptibly changes the character of development and of developers.[1] In the market, production and exchange take place through the producer finding out what the consumer wants, either directly or by trial and error, and supplying it. A developer in a country with a relaxed planning system would see his role as providing developments which appealed to possible customers. Developments which did not satisfy this criterion would be less profitable.

In the British context this does not occur. The developer must first obtain outline and then detailed planning permission for a development, and only then can the buildings be constructed and sold. The major part of the profits from a development is likely to accrue to a developer when permission for the development is obtained rather than from the construction and sale of houses, offices or shops. If most of the profits can be made in this way, then for many developers gaining planning permission will become a relatively more profitable activity than

[1] For a discussion of the changing characteristics of the housebuilding industry, Michael Ball, *Housing Policy and Economic Power*, London: Methuen, 1983, Ch. 3: 'The modern speculative housebuilding industry' and Ch. 5: 'Housing development and land dealing'.

building and selling houses, offices or factories. Since property has been made a scarce commodity, more or less anything can be put up and sold. An uninspired development devoid of architectural merit may sell for less than one which is better designed, but the reduction in the total profits will be miniscule compared with the profits made from obtaining planning permission in the first place.

The Advantages of the Large Developer

The costs and uncertainty introduced into land development by the planning system also affect the size of developments and the size of the firms engaged in development. Obtaining planning permission for a development is a risky business with a low probability of success. It may require a large expenditure, especially if the potential profits are large. The small firm is therefore at a disadvantage in the planning system. Its resources limit the number of applications it can make, and if it makes only a few applications it may well end up with permission for nothing. A firm which seeks to avoid this risk must have a number of proposals under consideration at any one time so that, on average, its expenditure is not wasted and there is some assurance that permission for some kind of development will have been obtained by the time the firm has the resources free to develop the site. The system clearly favours large firms and squeezes out smaller ones.

Another factor favouring large firms and large developments is that the costs of application and appeal do not increase proportionately with the size of a development. The cost of obtaining planning permission will therefore tend to be lower per house or other unit the larger the proposed development. For example, the cost of expert witnesses and counsel at an appeal will not double if the size of a proposed development is doubled. The costs of trying to obtain planning permission for a development of 500 homes will be lower per house than the cost of trying to obtain planning permission for a development of 10 or even 100 houses. As the developers attempt to minimise risks they may put in a number of applications each for a large number of houses with a fair degree of certainty that one or two developments will actually be permitted.

Thus the operation of the planning system not only favours

large developers at the expense of small; it also provides an incentive to put up large developments. As far as new housing is concerned the system tends to favour uniformity, even monotony, and gives few incentives for variety.

Land Banking

A firm of builders needs to have sites available for development as construction on other sites nears completion so that the firm's resources (labour, management, plant, etc.) can be transferred from one to the other and not be left idle or dispersed. This requirement encourages firms to hold 'land banks', that is, land with outline planning permission for development which is not needed immediately by the firm. It also encourages the trading of land with planning permission. Obtaining permission, as we have already noted, is a risky business. The time taken to obtain it can also vary considerably. If a developer obtains permission for more developments than anticipated and/or if permissions are obtained more quickly than expected, the firm may become the owner of an extensive land 'bank', sufficient to provide a supply of development land for many years. On the other hand, the developer who is unlucky may end up with too little land for development. In that event the firm with no land bank may be forced to pay an excessive price for land with planning permission in order to stay in business and keep the management team and workforce together.

Some firms become, whether accidentally or deliberately, the owners of very large land banks, whilst others, either accidentally or through bad management, have too little land. In these circumstances, trading land from land banks between development firms is a profitable activity. Indeed, sites may be sold several times before construction is eventually begun. Moreover, each owner has an incentive to apply for a new detailed planning permission, with new architect's drawings, in an attempt to extract permission for a few more square feet of space from the local authority, and so increase the value of the site still further. The trading of land with planning permission becomes an activity in itself, one that for many firms may be more profitable than the physical process of development. As was remarked in the *Investors Chronicle* in August 1974 at the time of the 1970s land boom:

'Despite appearances, housebuilding is only partially the business of putting up homes. The houses are the socially acceptable side of making profits out of land appreciation'.[1]

V

The Impact on the Economy

So far we have primarily discussed the micro-economic effects of the planning system: first, that it restricts the supply of land and increases its price and therefore leads to high-density development; secondly, that considerable resources are devoted to gaining planning permission.

In this section I shall consider the impact on the national economy of the planning system. I shall argue that the system, primarily through its impact on land and property values, is likely to have slowed down the rate of economic growth in Britain.

It has already been argued that the high price of land will have led to the substitution of other factors for land where this is possible. Where substitution is more difficult, industries will face higher costs, and competition from countries where land or other prices are lower will force them to contract. The net result will have been a shift of production and employment away from some activities which use a lot of space, primarily in manufacturing industry, and towards activities which use relatively little space, primarily services. In this way the planning system will have contributed to the so-called de-industrialisation of Britain over the last 30 years or so.

Location and Growth

Planning also influences economic development in other ways. In the first place it is obvious that the planning system, because it restricts and controls, must have a negative impact on economic growth. If a firm is refused permission to develop at its optimal location, then the alternatives, either no development or development elsewhere, must on average result in the firm's

[1] Quoted by Michael Ball, *ibid.*, p.147.

costs being higher and/or its profitability lower. This will be untrue only if either the firm's managers, on average, make incorrect decisions about locations and/or the planning system creates offsetting cost reductions. An example of the latter might be if the planning system zones a group of industrial firms into one location, so that their costs might be lower because some services could now be provided – a bus service, for example – which could not have been if they were scattered.

Examples could probably be found of planning which reduced firms' costs, but it is very unlikely that this would be generally true; almost invariably costs will be increased. This increase, however, is the most predictable and obvious of the costs of the planning system, so that any supporter of the present system must regard it as an acceptable price to pay.

From an economic point of view the benefits must exceed the costs. The differential between the price of developed and the price of undeveloped land at the margin gives an indication of the possible economic cost. If the price of land for development were, say, £25,000 per hectare and the price of agricultural land £5,000 per hectare, the difference might be regarded as acceptable. It is questionable, however, whether society's valuation of lack of development is equal to a million pounds per hectare; but that is the implication of the current price differential in South-East England.

Planning Delays

Secondly, the delays and paperwork involved in dealing with planning controls also have an impact on the economy. The cost of operating the system can be quantified on one side. In 1983 it was estimated that the cost to local government of operating the system amounted to £500 million.[1] It can be assumed that a similar cost is borne by the private sector, giving a total cost of £1,000 million per annum.

It is more difficult to estimate the costs of the delays imposed by the system which have received some attention recently, as part of the attempt by the Government to remove bureaucratic controls from industry and commerce. Two White Papers have

[1] Cheshire *et al.*, *op. cit.*, p. 22.

listed achievements and proposals.[1] In practice, the delays on development imposed by the system probably have only a limited impact. Whether or not a development takes place a few months earlier or a few months later is usually not of much importance.

A more significant cost is the uncertainty which the system creates: will a development go ahead at all? In this respect speeding up the system is somewhat beneficial because the uncertainty is resolved into certainty rather sooner. It is doubtful, however, whether this uncertainty could be significantly reduced without such fundamental changes in the system that would amount to its virtual abolition.

Lifting the Burden?

The White Paper, *Lifting the Burden*, attempted to reduce uncertainty in order to encourage growth and development, by urging local authorities to adopt a presumption in favour of development. But such a presumption has little impact when local authorities are not concerned with the economic costs of the developments they prevent, which will be borne nationally and are therefore not observable by any individual.They are influenced by the *physical* effects of the developments they permit, because they are visible to local voters. The planning system is a system of physical planning, not economic planning, and is geared to the evaluation of developments by physical, not economic, criteria. Environmental reasons can be found for preventing almost any development, particularly one on a green-field site. A presumption in favour of development for economic reasons can easily be negated on physical and environmental grounds.

Migration and Growth

The third type of impact of the planning system on the economy has recently received considerable media attention, although statistical data have been hard to come by. It has become increasingly clear that planning controls are more restrictive in the southern part of the country than elsewhere because the demand for space is higher. Why this should have occurred since

[1] *Lifting the Burden*, Cmnd. 9571, London: HMSO, July 1985. *Building Businesses ... Not Barriers*, Cmnd. 9794, London: HMSO, May 1986.

the early 1980s is difficult to determine. House prices in the south started to increase relative to the rest of the country in 1983. The only substantial change which coincides with this is a dramatic shift in the direction of international migration. Before 1983, more people emigrated from the United Kingdom each year than migrated into it. After 1983 this ceased to be true, and in 1985-86, the last year for which figures are available, net immigration amounted to 67,000 people. Of these some 51,000 lived or intended to live in the South East. This change has occurred not because of a dramatic increase in the number of immigrants, but because of a substantial fall in the number of British subjects leaving the country. Therefore, since fewer people left the South East, more houses were required to accommodate the existing population, and because this was not matched by an increase in the number of houses being built, house prices rose.

At the same time that this shift occurred there has been a continuing reduction in the resources put into regional policy, which previously had been effective in steering industrial and commercial development away from the south towards the Assisted Areas in the north. Before the 1970s, in times of economic growth, regional policy damped down growth in the south. In the mid-1980s, as the economy has come out of recession, this has been much less true. A policy of taking work to the workers has shifted to one of encouraging workers to find work for themselves, and by implication this has included migration between regions. As faster growth in the south has increased the demand for labour in the area, so the demand for housing has increased and house prices have risen. The result has been a widening of the differential between house prices in the south and those elsewhere. For instance, the Nationwide Building Society reported recently that the average house size in Bedfordshire was 852 sq. ft. but cost nearly £43,000, whilst the average house size in Lancashire was 987 sq. ft. and cost only £27,000.[1] Of course, the increase in demand in the south relative to demand in the north arises, in part, because of the migration which does occur. But the house price differential also acts to choke off this migration. House owners in the north find that

[1] *Chartered Surveyor Weekly*, 23 April 1987.

they would be worse off if they sold up and moved, even if it meant moving out of unemployment into employment. Moreover, the problem appears to have been particularly evident for middle managers who have been unwilling to move south because they could not afford equivalent housing, whilst executives in the south have been unwilling to move north because of fears that the widening price differentials would make it impossible to move back again.

A Form of Regional Policy?

It could, of course, be argued that the house and land price differential is a form of regional policy. Firms having difficulty recruiting in the south might choose to move to or expand in the north. Or they might move north because labour costs were lower or because land and property cost less so that selling the branch in the south would yield a capital gain. Even so it is a very blunt instrument, one considerably less effective or efficient than a straightforward regional policy using taxes and subsidies. This is so for two reasons.

First, it is certainly true that a large firm which finds a location in the south of England too expensive will look elsewhere for likely locations in cheaper areas of Britain. But the large multinational firm is also likely to consider locations across the Channel in Belgium, or Northern France, or somewhere else within the European Community like Portugal or Greece where labour and land costs are both low. As a policy it is as if government decided to encourage the production of Austin Montegos by imposing a tax on Ford Sierras. The result would certainly be an increase in the demand for Montegos but there would also be an increase in the demand for Vauxhall Cavaliers, as well as for Renaults, Audis, Toyotas, and other similar vehicles. Diversion away from somewhere or something does not specifically divert people to somewhere or something else.

The second reason why maintaining high house and land price differentials is not likely to be an efficient or effective regional policy is that it is only the larger firms which actually consider alternative locations and are likely to transfer production between locations in different regions, and it is precisely these larger firms which think internationally. New firms and small firms are more tied to the location of the home of

the entrepreneur, and so are not likely to be able to move at all. Their choices are to grow or decline, to be born or die; movement to another part of the country would be so costly and disruptive as to be almost out of the question. These new or small firms will not be encouraged to move elsewhere by higher costs and difficulties in labour recruitment. They will either not come into existence or they will grow less rapidly than they would have done in a more permissive planning system.

Relocation's Detrimental Effects on Economic Growth

Moreover, in terms of the movement of jobs, the relocation of firms is of less importance than people generally assume. This has been very thoroughly studied in the context of the decentralisation of employment from the inner areas of the conurbations. Even here, where relatively short distances are being considered, that is, changes within metropolitan regions rather than moves between regions, it was found that only about 30 per cent of the movement of jobs was because of the relocation of firms.[1] Most of the decentralisation of employment occurred because of differences in the rate of growth of firms and the rate of firm formation. Firms in the inner city died off or grew less fast, whilst outside more firms came into existence and existing firms grew more rapidly. The creation of an unfavourable economic environment for growth in the south of England is therefore more likely to choke off economic growth than divert it elsewhere, and even if it is so diverted there is no reason to suppose that it will all be diverted to somewhere else in Britain.

Admittedly, the entrepreneurship which is suppressed may initiate other activities, ones which use less space or less labour. This would form part of the shift from manufacturing to services which has already been discussed. There is some evidence, however, to suggest that entrepreneurial activities which occur in the South East at the present time may be more important from the point of view of encouraging economic growth than those which take place elsewhere. In a recent study of the first few years of activity of firms in three parts of England – Reading, Stoke-on-Trent and Newcastle-upon-Tyne – it was found that 60

[1] For example, David Keeble, 'Industrial Decline in the Inner City and Conurbation', in Alan Evans and David Eversley (eds.), *The Inner City: Employment and Industry*, London: Heinemann, 1980.

per cent of firms in the Midlands and northern areas sold only to their local area, and only 2 per cent traded internationally. On the other hand, only 30 per cent of the firms in the Thames Valley dealt locally whilst 20 per cent were selling abroad.[1] So although the non-existence of new small firms in the two northern areas appeared likely to affect only the immediate locality, the stillbirth of new firms in the Thames Valley was likely to affect both the regional and the national economy. Thus the suppression of new firms in the South East would seem likely to affect national economic growth even if such suppression is balanced by the growth of new firms in the north.

The Rate of Saving

The fourth way in which planning restrictions on development appear to have slowed down economic development in Britain is less direct, but possibly more insidious because it affects the rate of saving in the economy and hence the level of capital investment. People save over time to increase their wealth and security to provide for their old age, and to pass on capital to their children and grandchildren. People are usually thought of as achieving these objectives by reducing their consumption and so saving out of income. These savings can then be invested and will go to increase the rate of growth of the economy.

But people's wealth may change not merely because they save out of income but also because of gifts, or windfall gains, or because the value of their assets alters. For example, a family may win the football pools. This increase in wealth will affect their rate of saving. The family which saves before winning the pools is less likely to do so afterwards; if it wins a large sum the most likely outcome will be for it to spend more than its income. In most cases changes of wealth of this kind will not matter. Some will gain and some will lose and the changes will largely cancel each other out. But in an economy where the supply of land is fixed, and if people are indifferent whether increases in their wealth occur through capital accumulation out of savings or out of increases in the value of their properties, the level of

[1] Richard Barkham, 'Regional Variations in New Business Size, Financial Structure and Founder Characteristics, Survey Results', Discussion Paper No. 32 in Urban and Regional Economics, Reading: University of Reading, Department of Economics, 1987.

saving is likely to be lower than it otherwise would be. The desire to have a higher stock of wealth is satisfied by increases in the value of land, rather than by capital accumulation out of savings.[1]

In many countries the supply of land for development is not limited as it is in Britain, so that rapid increases in the value of housing and other property have been less likely to occur. In Britain, however, the owner-occupied sector has seen rapid and massive increases in the value of its dwellings, particularly in southern England. House owners appear to believe that these increases in the value of their property will continue indefinitely. For most people the ownership of housing has been 'costless' in the past because the price of their house has increased at a faster rate than the rate of interest paid on their mortgage loan: so it is anticipated that it will be costless in the future. The sole limitation is in the amount which can be invested. Young couples therefore see the best policy as borrowing and investing as much as possible in their house or flat. In the short run they recognise that they will have to reduce consumption because of the high cost of borrowing, but they anticipate that after some years the increase in the value of the asset purchased will more than compensate them for the short period of reduced consumption. So the increase in the value of the house more than replaces other kinds of saving.

The Guardian, in a recent editorial (25 September 1987), commented that

> 'According to Reward Regional Services, London house prices have been rising over the past year at £53 a day – and tax free to boot. That is more than some people elsewhere take home for a week's work'.

With increases in wealth at that rate households have no incentive to save. They can even increase consumption, either by taking out a further loan on their existing property, or, if they move to another house, by taking out a higher mortgage than necessary. This 'equity leakage' has been seen, up to now, as an economic problem only because the interest on loans for house purchase up to £30,000 is tax deductible but the interest on loans for other sorts of purchases by consumers is not.

The increases in the value of housing encourage low rates of

[1] Donald A. Nicholls, 'Land and Economic Growth', *American Economic Review*, Vol. 60, No. 3 (June 1970), pp. 332-40.

capital accumulation. In this context one should note that 'gross fixed capital formation' accounted for 17·3 per cent of UK national income in 1984, a rise over 1983's 16·3 per cent. This percentage is about the same as that for the USA, but significantly lower than that for all other major countries, such as West Germany (20·8 per cent), France (19·6 per cent) and Japan (28·4 per cent).[1] As the *Guardian* editorial implies, house price changes can totally dominate any possible capital accumulation out of income. It is not impossible for a house owner in South-East England to own a home in which the value of his stake is larger than all of his income received since he bought it. The result is a lack of incentive to save and, in consequence, lower rates of saving, investment, and economic growth than would otherwise occur.

House Prices and Inflation

Finally, planning controls on development affect the economy through the rate of inflation. It is true that those who own homes feel themselves to be better off when house prices rise, because of the increase in the capital value of their house, but they also perceive that in some way the cost of living has increased. Those who might wish to sell their existing house and move into a larger one are clearly worse off, and this is unequivocally true of those who do not yet own a house. People's perception of the change in house prices is likely to differ from, and to be more accurate than, indices used to measure changes in prices. First, most of the indices of house prices underestimate the rate of house price inflation because they measure changes in the average amount spent on buying a house rather than the increase in the price of a representative house. Since people tend to buy smaller houses when the price of housing rises, it can be seen that the former measure will understate the true rate of price increase.[2]

Secondly, rising house prices are not directly reflected in changes in the retail price index, the usual measure of inflation. What is included is the average cost of a mortgage. But this is determined by two things – the interest rate and the amount borrowed. The amount borrowed is determined by what people

[1] *Britain: An Economic Profile, 1985*, London: Lloyds Bank, 1985.

[2] Geoffrey Keogh, *A Review of House and Land Price Data in the United Kingdom*, London: The House-Builders Federation, 1988.

No Room! No Room!

ALAN EVANS

Summary

1. The British Town and Country planning system was originally designed to guide rather than restrict development. It has grown into a system which prevents development across the board.

2. This has imposed significant costs on the British economy. Many of these costs arise from unintended and unrecognised effects of the planning system.

3. Planning controls have led to spiralling house prices and increasingly crowded urban areas. This has decreased the quality of urban life.

4. Planning controls also distort the pattern of investment. Because of restrictions on development, the capital value of houses is higher than it would otherwise be, so that savings for other purposes decrease. Thus less saving is available for investment in industry.

5. Planning controls make exporting industries which require land uncompetitive. The high cost of land drives firms overseas or deters foreign firms from siting their plants in the UK. Planning authorities allow factories to be built but not houses for their workers, thus creating labour shortages and high wage costs. Planning has stifled the growth of small firms which make a relatively greater contribution to economic growth.

6. Developers are not now in the business of building and selling property but in acquiring and trading planning permissions. This consumes a large amount of otherwise productive resources and a significant proportion of the final value of the property is related to the decision to permit development. Less resources are available for quality of design and construction.

7. Because of the uncertainty of obtaining planning permission, the system favours the large developer and therefore significantly inhibits competition.

8. Developers should be permitted to compensate those affected by a proposed development. If agreement cannot be reached, compensation should be set according to a fixed scale. This measure would ease objections to the development of green-field sites and release more land.

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think they can afford. If the price of housing rises people will buy smaller houses and hence the amount borrowed will not rise in line with the price of housing. Furthermore, the average amount borrowed by all borrowers does not change drastically if house prices increase since this only affects new borrowers. An increase in house prices therefore has only a small initial impact on the retail price index and then a continuing one as houses are bought and sold and the average amount borrowed increases. Changes in the retail price index therefore understate the rate of inflation when house prices are rising rapidly and also understate it when they are static.

Nevertheless, over time rising house prices are reflected in an increasing retail price index and are recorded as contributing to inflation. As I have demonstrated, house prices have risen considerably faster than the retail price index. Restrictions on development have therefore made their own contribution to Britain's endemic inflation in the post-war period.[1]

Summary

The increase in the value of housing assets diminishes the need to save, and the possession of a valuable asset reduces the incentive to save. There are, of course, other explanations for the low level of saving in the British economy, but the peculiarity of a consistently rising level of house prices must certainly be a factor which contributes to the low rate of saving and the low level of economic growth.

[1] The relation between house prices and inflation is discussed in Olympia Bover, John Muellbauer, and Anthony Murphy, 'Housing, Wages and UK Labour Markets', Discussion Paper No. 268, London: Centre for Economic Policy Research, 1988.

VI

Conclusions

The debate on the economic effects of the British town planning system has to date usually been conducted between interested parties – the planning profession, the housebuilders, environmental pressure groups.[1] It has appeared to have little consequence for the rest of the nation, nor has it been a prominent political issue. Only recently have two related problems received some attention from the media: the first, that planning restrictions may be causing house prices to rise, especially in the South East outside London, and the second, that the differential rise in house prices may be slowing migration between regions.

In this *Occasional Paper* an attempt has been made to show that there are other significant economic costs associated with the planning system. It has significantly increased land and housing prices, consumed substantial resources in obtaining planning permissions, and distorted the economic structure, all of which have led to the British standard of living being lower than it otherwise would be. Cheshire *et al.* suggested that the higher land costs alone have resulted in a reduction of real incomes, in 1983, of at least 4 per cent.[2] The aggregate reduction is clearly much larger than this, probably of the order of 10 per cent or more of national income (in 1986 this percentage represented some £30 billion).[3] It is questionable whether this is an acceptable price for the population as a whole to pay for the preservation of the physical environment, largely to the benefit of those living in rural areas.

At the time of writing the potential for conflict between rural areas and urban areas has become evident. On the one hand we have a Conservative Party back-bench group (called Sane Planning) seeking to limit or prevent development outside towns, and on the other, but rather less well publicised, we have protests in urban areas like that organised by the *Harrow Observer* in March 1988.

[1] For example, John Herington, *The Outer City*, London: Harper & Row, 1984.

[2] Cheshire *et al.*, *op. cit.*

[3] CSO Blue Book, *United Kingdom National Accounts*, HMSO, 1987.

'Angry homeowners worried at the spate of buy- and bull-doze re-development schemes that threaten to change the face of Harrow, have been told that only tougher planning laws will halt the march of the builders.

'Urgent action is necessary to halt the piecemeal erosion of back gardens and isolated pockets of local land, the politicians told Monday's Observer-sponsored meeting about the re-development of the borough.

'Four hundred people attended the meeting.'[1]

Avoiding Confrontation and Conflict

How, then, can development, whether in rural or urban areas, be made possible without confrontation and conflict? We cannot simply abolish the planning system for two very good reasons. The first is, of course, that some guidance of development is necessary to minimise environmental conflict. The second is that the immediate abolition of town planning would result in falls in property values which would have a catastrophic economic impact, far worse than any stock market crash. *What has to be achieved is a system in which development is restrained so that property values do not crash, and that adequate weight is given to the protection of both urban and rural areas against intrusive development.*

At present a planning decision determines the allocation of valuable rights. The landowner and/or the developer may or may not gain the right to develop the site in a particular way. The neighbours and others objecting to the proposal may or may not keep the right to an undisturbed environment. The future occupiers of the development may or may not gain the right to live there or otherwise use the site. The latter group, who in one sense are those most affected by the decision, are usually unrepresented when the decision over land-use is made, even though they are the ones who ultimately pay the developer (and hence the landowner) for this right. In South-East England the cost of this right, the amount a householder is willing to pay for the land on which his or her new dwelling is built, is of the order of forty or fifty thousand pounds.

The weakness of the system is that although new residents are willing to pay such large sums for the right to live at a location,

[1] *Harrow Observer*, 10 March 1988, p. 3.

those who lose the right to live undisturbed if the development goes ahead do not receive any direct compensation. Some schemes which have been suggested for selling or auctioning planning permission recognise the problem, but do not deal with it in practice. Such schemes ensure that some compensatory payment would be made to the local authority, but this would benefit everyone in the area equally, even the person selling the land and others many miles away who may be unaware of the development. The losers from the development receive a benefit which is too small adequately to compensate them. Payments for planning gains under Section 52 agreements are more likely to affect those living nearby, but even they are not usually regarded as adequate compensation.

Direct Compensation

A way of easing up the system would be to ensure that those whose environment is actually disturbed in some way by a development are directly compensated for their losses. In this way some measure of the economic cost of a development proposal would be taken into account as planning decisions are made.

Before a planning proposal comes up for decision or appeal developers should be permitted to negotiate with local residents to reach an agreement on the amount of financial compensation to be paid if the development is approved. It would then be possible for residents and developer to notify the local authority, or the inspector, that suitable compensation had been agreed. The local authority, or the inspector, could consider the proposal as they do at present, recognising the impact, even though small, on those living far from the development, and also taking into account ecological and other factors but allowing for the fact that many would-be objectors were satisfied with the compensation they would receive.

At present residents always oppose any development near to them. Only the extent of their opposition varies, and that can be measured by the amount of pressure put on local councillors to turn down planning applications by lobbying, petitions, letters, public meetings, and so on. If potential objectors were compensated, they should at least be neutral as regards any planning proposals – they might even support applications!

In many cases it might prove impossible to negotiate an agreed scale of compensation, but this would not preclude a planning application from being made. If it were made, and if development were permitted, compensation could still be paid on a scale laid down by the authority or the inspector. This system would not need to run for very long before 'case law' and established precedent resulted in a generally agreed scale.

In addition a scale fee would be paid to the local authority equal to, say, 10 per cent of the value of the land.

Because the price paid for land is determined by the sum of money left over after other costs have been paid, these proposals would not raise house prices, although the price of land would fall. However, both house and land prices would be held down as more development took place because fewer objected to new developments and more supported them. But house prices would not fall fast or far since the payments to the local authority and to potential objectors would set a floor for the price of housing.

Rural Green-field Development

These proposals would result in more development of green-field sites in rural areas. This seems a price worth paying to achieve faster economic growth and a higher standard of living. It is not clear that in countries such as France or Italy where planning controls are more relaxed the more numerous new houses in rural areas spoil the landscape, but the prices of these properties are a good deal lower than they would be in England. For example, *The Sunday Times* (8 May 1988) advertised, among other properties in France, a four-bedroom, two-bathroom converted farmhouse in 4 acres south of Caen at £95,000, while on our side of the Channel there was, for example, a three-bedroom, one-bathroom lodge in two acres in West Sussex for £180,000.

Those who travel outside Britain do not seem to think that the landscapes of Tuscany, Umbria, Brittany or the Loire Valley have been irretrievably ruined by piecemeal development. On the contrary, they seem to be pleased that villas and gîtes exist which are relatively cheap and which allow them to live in rural surroundings.

In the end it is for the people of Britain to decide whether they

are paying too high a price for 'the preservation of the countryside'. It is sometimes said that if planning controls were relaxed the whole of the South East would be under tarmac. But this is pure hysteria. At present only 19 per cent of the area of the South East is urban – 81 per cent is rural.[1] It has been estimated that even if all planning controls were taken off, the proportion that is urban would rise only to about 28 per cent[2] and most of the additional urban area would in practice be garden space – space which is no longer available with new homes because it is too expensive.

The pioneers of British town planning talked of 'garden cities for tomorrow' and hoped that planning would allow people to move away from crowded conurbations to these garden cities. It seems a strange perversion of the ideals of these pioneers that the system they worked to create should be used to prevent people moving to the country and to force them to live at high densities in gardenless flats and terraces. It should not be forgotten, after all, that a house which is prevented from being built in rural England represents another family which cannot live in the countryside and must remain in the town.

[1] M. Anderson and R. Best, 'Land Use and Change in Britain', *The Planner*, November 1984.

[2] Cheshire *et al.*, *op. cit.*

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No Room! No Room!

ALAN EVANS

Summary

1. The British Town and Country planning system was originally designed to guide rather than restrict development. It has grown into a system which prevents development across the board.

2. This has imposed significant costs on the British economy. Many of these costs arise from unintended and unrecognised effects of the planning system.

3. Planning controls have led to spiralling house prices and increasingly crowded urban areas. This has decreased the quality of urban life.

4. Planning controls also distort the pattern of investment. Because of restrictions on development, the capital value of houses is higher than it would otherwise be, so that savings for other purposes decrease. Thus less saving is available for investment in industry.

5. Planning controls make exporting industries which require land uncompetitive. The high cost of land drives firms overseas or deters foreign firms from siting their plants in the UK. Planning authorities allow factories to be built but not houses for their workers, thus creating labour shortages and high wage costs. Planning has stifled the growth of small firms which make a relatively greater contribution to economic growth.

6. Developers are not now in the business of building and selling property but in acquiring and trading planning permissions. This consumes a large amount of otherwise productive resources and a significant proportion of the final value of the property is related to the decision to permit development. Less resources are available for quality of design and construction.

7. Because of the uncertainty of obtaining planning permission, the system favours the large developer and therefore significantly inhibits competition.

8. Developers should be permitted to compensate those affected by a proposed development. If agreement cannot be reached, compensation should be set according to a fixed scale. This measure would ease objections to the development of green-field sites and release more land.

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