

# Building Jerusalem in England's Green and Pleasant Land: Land Use Planning and Economic Growth

Alan W Evans

The University of Reading

## Introduction

Over the past thirty or forty years a number of studies have been published in which the authors have set out to try to explain the low rate of growth of the British economy. Why was it that the UK had a lower rate of economic growth than most of the western European economies, let alone a rate lower than the double digit rates achieved by countries in the Far East such as Taiwan or South Korea?

Of late less has been heard of this theme, though more because the growth rate of other countries has slowed than because the UK growth rate has substantially increased. For example although Italy's GDP per capita overtook that of the UK in the early nineties, an event vaunted in Italy as 'il sorpasso', it is now slightly lower. On the other hand, so that the British should not feel too complacent, the Irish Republic's GDP per capita is now slightly higher than the average for the rest of the British Isles, almost certainly for the first time in recorded history.

In seeking explanations the authors of these studies have paraded the usual suspects – obstructive trade unions, inferior management, lack of investment, inadequate training and education, failure to follow up innovations, perverse macroeconomic policies, and so on. In the past land use planning has not usually figured in this identity parade. This does not necessarily signify a lack of guilt, however, as we shall seek to demonstrate in this paper. The main reason would seem to be that the studies have been written by 'mainstream' economists, and, particularly in Britain, such economists are trained to regard national economies as aspatial points and to ignore space, distance, location, and land as unimportant.

Nevertheless the neglect of land use planning is surprising. All the other possible suspects would deny any intention of slowing economic growth. The land use planning system in Britain, on the other hand, has been deliberately set up with the intention of constraining and restricting physical development. Moreover it is sometimes stated that this is likely to constrain and restrict economic development. For example the revised Oxfordshire Structure Plan of the early nineties states that they 'do not intend to restrain unduly' the growth of firms in Oxfordshire. Translated out of Orwellian Newspeak what this actually means is that they do intend to restrain the growth of firms in Oxfordshire, even if 'not unduly'. But how much is unduly? One per cent per annum? Two per cent? Even a reduction of a half of one per cent is substantial if extended over fifty years. Sometimes even, an actual pride may be taken in the way in which development has been stopped. For example the chair of Reading's planning committee, when stepping down from the post in 1989, said that his period of office had been very successful – because of the

number of proposals which had been refused – ‘Not one new major office development has been approved in Reading . . . We managed to keep development down’ Reading Chronicle, 12 May 1989).

The most usual position is, however, that economic growth and development is not the concern of town planners. Their concern is with achieving the best possible land use plan, even if this results in people’s real incomes being lower than they otherwise would be, for example with a land use plan which was not the best possible. Sometimes this too is made explicit. For example the Committee of Inquiry into the Greater London Development Plan in the early nineteen seventies stated that ‘we do not accept the statement that the improvement of London depends on the Londoner’s well-being’ (Foster and Whitehead, 1973). Or, to cite a more recent example, a survey by Jarvis and Russell (2000) of the views of town planners on the usefulness of price data to them noted that the typical response of planners working for local governments in southern England was that it was of no relevance - ‘the market should follow the plan, and not vice versa’.

Given these statements and comments it still seems strange that the influence of town planning on economic growth has been generally ignored. After all land use planning would appear to be a figure lurking in the shadows with a smoking gun saying it wasn’t anything to do with them and anyway it was an accident and they didn’t mean to do it, and what’s all the fuss it was only a scratch. The only explanation for planning’s omission from the line-up of usual suspects would seem to be that economists have concentrated their attention at the scene of the crime on the areas where the light is better, and have ignored the figure lurking in the shadows where they haven’t been trained to look.

Recently, however, the position has changed a little. In the first place spatial economists such as myself (Evans, 1988) and Paul Cheshire and Stephen Sheppard (1989) have attempted to draw out the implicit relationships between land use planning and economic wellbeing. And, secondly, in 1998 the Mckinsey Global Institute published a report entitled Driving Productivity and Growth in the UK Economy in which land use planning was specifically identified as a major factor inhibiting the competitiveness and efficiency of the British economy. The importance of this should not be underestimated. For the first time mainstream, non-spatial, economists have argued that land use planning could significantly affect the level of national income. Of course the report may still be neglected by British mainstream economists, but this is made less likely by the coincident infusion of a greater spatial awareness into the profession following the work of Krugman and others. Though it may take many years for any significant change to occur, nevertheless, land use planning has now at last been put into the line up of suspects, even if it has not yet been conclusively identified as the guilty party.

What we shall do in this paper is to explore the ways in which land use planning can impact on economic growth and welfare. The interactions are various. The relationship is not simple. But we shall show that it can have an

effect, and we shall also argue that the system can and should be reformed to take greater account of its impact on economic growth.

### **The Past and the Present**

For those who are unfamiliar with the system some background information as to the way it works is probably necessary. The system originated in the post-war era in the Town and Country Planning Act 1947. The continuing permanent effect of this Act is that all development rights were effectively nationalised. No owner of land has a right to develop that land. This has now been the position for over half a century and one which is completely unchallenged. It is not questioned in any way; there is thus no question of owners trading development rights as, say, in Italy or Spain, because they don't have any to trade. The owners of land are of course allowed to develop or redevelop their land, but only after obtaining 'planning permission'. Once again this situation is accepted and there is a miniscule amount of illegal development.

With some overall control and guidance from central government development plans for the area controlled by each local planning authority (l.p.a.) are drawn up or revised every five years. The system is not a zoning system. Although the development plans may indicate what kind of development would be likely to be permitted in the area, and where, it is still true that permission has (almost) always to be obtained, and it may be refused. If it is refused an applicant can appeal to the Secretary of State, i.e. to central government. A planning inspector is then appointed to hear the appeal. Before 1991 appeals of this kind were more frequent than they now are. Under the Planning and Compensation Act 1991 the plan as set down by the l.p.a. became the main factor in determining what might be permitted. Appeals therefore became less likely to be successful. Instead of appealing, land owners and developers now seek to ensure that theirs is the land included in the development plan as land which should be developed.

When the system first came into force, in the nineteen forties, there was no intention that the land available for development should be restricted. The original aim was that the amount required for development should be predicted and its location planned, the main aim being to prevent the urban sprawl which had started to disfigure the landscape in the preceding thirty years or so. Nevertheless over the years the system has become steadily more restrictive. Moreover, whether intentionally or not the effect of the changes in the way that the system is operated has been to decouple the planning and use of land from market forces. In the USA it may be possible to argue, with Nancy Wallace (1988), that zoning follows the market, but it would be impossible to argue this in the UK. This is clearly demonstrated by the huge differences between the value of agricultural land, without planning permission, and the value of the same land with planning permission for, say, residential development. In the vicinity of Reading, about thirty miles to the west of London, and the other side of its Green Belt, the value of the first would be about £2,000 per acre whilst the value of the second would be at least £1 million per acre and possibly £2m. Such price differences are not so

great in other parts of the country – they tend to decline with distance from London, but they are still significant and usually substantial.

The idea that development should be 'plan led' as laid down in the 1991 Act has further decoupled land use from market forces. Before then, as prices rose, it became worth while for developers to appeal against planning refusals with a reasonable probability of success. So, through the 1980s, as house prices climbed, so the number of houses being built increased. Now there is no possibility of success and development has to be in accord with the five year plans. As a result, as house prices have risen since the mid-nineties the number of houses actually built has fallen year on year. Indeed the number of houses being built is now the lowest figure for seventy years (with a much larger population) whilst house prices are, in real terms, at their highest.

In planning terms this degree of restrictiveness must presumably be seen as a success. The land use planning system has taken on market forces and won. It is in planning terms a great achievement, comparable to the green belts and the new towns. It seems therefore bad sportsmanship for the losers, the economists, to question whether the victory has been won at too great a price. And they are unlikely, as the losers, to be listened to. After all the costs that they are pointing to are economic costs, and the whole point of the battle was to establish the supreme importance of land use over such economic concerns. And according to the leading British planner, the main architect of the British system, Sir Patrick Abercrombie, an economist is merely 'a muddler talking about the Law of Supply and Demand and the liberty of the individual' (Abercrombie, 1959, p 27).

Nevertheless we shall continue nigglingly to point out that the decoupling of physical land use from economic and market forces does surely imply some loss of efficiency. After all the British land use planning system is being run with soviet style central planning, with production norms being handed down by central government. The economic implication is that the system is inefficient, but proving this is not easy. To start to do this we go back to the first English attempt at land use planning and see how it would have affected the economy if it had not been abandoned.

### **A Hypothetical Case**

Is it then possible that land use planning could affect economic growth? Many would reject the idea, but to try to keep minds open let us look at an example which is hypothetical but based on reality. In 1580 the first Queen Elizabeth laid down that there should be no new development within three miles of the gates of London. This first Green Belt was varied over the years, reaching a width of ten miles, and remained in force until 1666 when the Great Fire of London and the need for land to rehouse the population led to its abandonment. It is also true to say that it was also used as an instrument for gaining revenue, an early form of planning gain if you will. Under the Stuarts, and during the Commonwealth, those who paid up tended to get permission.

But supposing that there had been no Great Fire. Suppose that the Tudor Green Belt was seen as one of the great forward looking achievements of

land use planning. Suppose that amidst popular cries that 'Ye south of England is like to be buried under ye cobble stones' the constraints on development had been extended to the rest of the country, to ensure Britain's self sufficiency in the event of war, to preserve the forests to allow ships to be built, and to protect and support its most valuable export, wool. Suppose then that these extended constraints on urban development had been maintained over time. Certainly the economic pressures to relax them would have been great, but no greater than they are today. And the planners of the day would have been secure in the knowledge that it was for them to plan and for the market to follow.

Thus the demand for space would have increased and so the price of urban land, and it would have been used more intensively. There is evidence, certainly, that this was happening in the seventeenth century. Indeed the density of development in London was, paradoxically, one of the reasons why the fire spread so easily. But without the fire, and with the Green Belt, the expansion of Georgian London in the eighteenth century could not have occurred. It is possible, however, that the development of London as a financial centre might still have happened. What we can be sure would not have taken place in Britain would have been the Industrial Revolution. London could not have expanded to become an industrial city. And the blanket controls preventing development in other parts of Britain would have stopped the birth of the mining and industrial areas elsewhere in the country. Thus the industrial revolution would have taken place elsewhere. Britain would have remained an agricultural country with a huge out migration of the surplus population. Possibly, because of this emigration, average incomes would have risen, but total GNP would not have increased in anything like the way that it did. At best Britain would have survived to provide *lebensraum* for the German Reich, if it did not succumb to invasion in earlier wars.

Taking this long, if hypothetical, view one can see that land use planning can and would have economic (and political and social) effects. One can also see that constraints on the availability of land which force people to emigrate to find homes would have a greater negative effect on total GDP than on average GDP per capita. Of course it can be argued that this long view is too long, that there is no reason to suppose that any planning system could remain that inflexible. And a cost which arises only after a hundred or two hundred years can be safely ignored because discounting it to the present reduces the cost to almost zero, at the present. But it seems necessary to inquire into the possible effects of the current system, even though they may be far into the future. Because, more probably, the changes which result from the system occur so slowly and are so woven into the fabric of society that they are rarely identified as being due to the land use planning system.

### **The Intensification of Land Use**

A very good example of the problem of identifying cause and effect is supplied in the Rogers Report. An 'Urban Task Force' had been set up under the chairmanship of Richard Rogers, the architect, to 'identify causes of urban decline' and to 'establish a new vision of urban regeneration'. No economists were members of the task force and it appears to have consulted only one

identifiable economist in the course of its deliberations. No economic expertise was apparently thought to be needed to 'identify causes of urban decline' let alone to promote urban regeneration. The report, understandably therefore, has little in the way of economic analysis and some failures to understand economic principles.

So on page 67 of the Report it is observed that new houses in Germany can be some fifty per cent larger than those being built in the UK and urges British architects to study how to achieve this result. But this architecture biased observation ignores the economic reason why British houses are smaller. The policy of constraint in the UK has raised land and house prices. The effect of this is that people cannot afford to buy larger houses and therefore trade down and buy smaller ones. Because they buy smaller houses than they otherwise would land is used more intensively and the total population can then be accommodated within those areas where development is permitted. Since the Rogers Report itself supports the policy of constraint and argues that the constraints should be strengthened, it is, in plain words, economic stupidity to argue, at one and the same time, that new houses should be larger, and to fail to realise that the two policy objectives conflict.

It is not as though the economic effects resulting from the policy of constraint have not been identified and published elsewhere (Evans, 1988, 1991). In the housing market, as we have indicated above, housing is made more expensive so that people can buy less housing. In particular the price of dwellings which use land extensively, i.e. bungalows or single storey houses, have risen in price over the past thirty years or so at a faster rate than apartments. The result is that demand is shifted away from the former and towards the latter. So whilst a quarter of the dwellings built in the private sector in 1969 were bungalows, thirty years later the proportion had fallen to less than ten per cent, and in southern England, where land is most expensive, virtually none were being built.

Because the demand is lower in the north than in the south, so that the policy of constraint bites harder in the south, the difference has been used by Cheshire and Sheppard (1997) to try to estimate the implications of the policy of constraint. From their data on the town of Reading they estimate that the relatively higher cost of housing there was equivalent to a tax of ten per cent on income.

Of course this estimate is only indicative. For one thing those who bought their houses some time ago do not regard the higher prices as a cost but a benefit. Further, in order to keep and attract staff, companies have to pay higher salaries and wages than they would otherwise. The higher cost of land, together with these higher labour costs, have an impact on the way land is used. As international trade theory would suggest, activities which use land extensively and which use less skilled labour tend to be driven out, whilst activities which use land intensively and which employ skilled labour tend to supplant them. In southern England this can be seen in the gradual disappearance of extensive industrial uses and their replacement by activities which use land intensively, in particular by office employment, where

multistorey buildings can be used to employ skilled highly paid staff for whom the high cost of housing is less important. Given that areas with higher unemployment in the north are the areas which are likely to encourage industry by relaxing constraints, the effect is a relative displacement of manufacturing industry from the south to the north.

This difference between the south and the north raises a number of questions which have been inadequately thought through. The first is that, looking at the environment from an economic point of view, the difference between the price of land for residential development and its price for agricultural use should be a measure of the social costs, or negative externalities, of new housing on green field sites. After all the constraint on the availability of land presumably exists because of these social costs. But the price difference is much greater in the south than in the north, whilst there seems to be no reason to suppose that the social costs of urban expansion would be higher in the south than in the north. Indeed much of the south, East Anglia and the South West in particular are less urbanised than areas in the north where the price difference is least.

What there would seem to be is a usually unidentified confusion between land use planning policy and regional policy. That the two are run together is evident in the survey of the possible use of price data by local planners quoted earlier. Whilst Jarvis and Russell found, as we have already noted, that planners in the south saw no reason to have any interest in price data, planners in areas of higher unemployment in the north were considerably more positive.

Sometimes this connection between land use planning and regional policy is made. In the late eighties both Margaret Thatcher, then Prime Minister, and Nicholas Ridley, her Secretary of State for the Environment, went on record as saying that higher house and land prices in the south were a form of regional policy (Evans, 1990). However such statements were not repeated by them, nor by any other government minister since then. This appears to be because government advisers pointed out to them that as a regional policy it isn't a very good one. Certainly employment may be restricted in the south and firms may be driven to locate these jobs elsewhere, but given Britain's membership of the European Union, they may be relocated the relatively short distance across the Channel to the Pas de Calais where the French would be glad to welcome them. And if London is made into the most expensive city in the world, as it is in terms of office rents, hotel space, etc, then firms may divert their activities to Paris or Frankfurt rather than, say, to Liverpool or Leeds.

Even though ministers have clearly been advised that it is not a good idea to draw attention to the price differences between the north and south, and to describe them as a regional policy, yet, nevertheless, the price differences continue in existence, and have the same economic effects whether ministers remark on them or not. (This seems to be a feature of spatial economics in the UK. In the early nineties the then Chancellor of the Exchequer reduced stamp duty on house purchases for a limited period with the stated intention of

aiding the recovery of the housing market. At the same time he was reducing the extent of tax relief on mortgage interest for financial reasons. One policy change negated the effect of the other. But the Chancellor didn't mention the latter' effect on the housing market, so, presumably, in his eyes, if he didn't mention it then there was no effect!)

That the constraint on the availability of land has an economic effect would seem certain. But its effects may be dissipated in changes in the way that land is used and in encouraging emigration. After all, as Lou Rose (1988) clearly showed with respect to US cities, constraints on the availability of land may occur because nature has so contrived it as well as because man has. Hong Kong and Singapore are both short of land but their economic growth rates have been high for most of the past fifty years. South Korea has had, since the seventies, the tightest of man made constraints, in a country where only six per cent of the land area is urban, and where 'new towns', on the other side of Seoul's green belt, feature apartment blocks of twenty storeys or more. It would seem that other factors have to interact with the policies of constraint.

### **Macroeconomic Interactions**

One possible difference between countries is the way in which, for institutional reasons, a policy of constraint may have differing macroeconomic effects. There is, for example, a significant difference between the British and the Korean systems of financing house purchase which may help to explain their differing growth rates. Britain has had a system of housing finance which developed as a means of encouraging house purchase. The first temporary building societies were explicitly intended to allow a group of people to pool their savings so that each in turn got a house built. The permanent building societies which succeeded them took the view that they should encourage house purchase by lending a high proportion of the price of a house. The liberalisation of the system in the early eighties brought the banks into the housing finance market and made it even easier to borrow large sums on the security of the mortgage on a home.

The ease with which large sums can be borrowed has meant that, as house prices have risen over the past half century, house purchase has been seen as a means of saving. Between 1960 and 1990 the aim was to borrow the largest amount that you could and then buy with this sum the largest house that you could. Since this was a period of high inflation as well as rising real house prices the first few years were a painful exercise in budgeting. Quite soon, however, wage inflation would have taken care of the pain, and you would be in possession of an asset which was worth substantially more than you paid for it. Tax relief on mortgage interest paid also helped to assuage the pain. To illustrate this from personal experience, the house which cost five or six times my salary in 1980, when I was a Reader (Associate Professor), now has a value equal to nine or ten times my current salary as a relatively highly paid full Professor - and former Deputy Vice Chancellor (Vice President).

On the other hand, in South Korea, with an economically less efficient housing finance system, would be house purchasers have not been able to borrow a

high proportion of the cost of a house but have to pay most of the cost themselves. But they too have seen house prices rise substantially in real terms over the years. If they wished to get a foot on the housing ladder they have had to save, and save hard, before they could do so. The result has been a high level of savings, savings which Hannah et al (1993) argue have helped to finance the expansion of Korea's industries and the miraculous growth of the Korean economy. The British, on the other hand, paradoxically because of their more economically efficient housing finance system, have not had to save. To put the position again in personal terms. The increase in the value of my house over the years has been greater than the total net amount paid to me by the University. Any savings that I might make out of this pay would thus make little difference to my net worth. So therefore I like most other British owner occupiers have seen little reason to make great efforts to save. The result has been that the British have not saved money to pour into any expanding industries. It was, in fact, notable that the recession at the beginning of the nineties, which coincided with a fall in nominal house prices for the first time for over half a century, was prolonged because saving increased, as for the first time, virtually in living memory, the British faced up to the possibility that house prices could actually fall.

The second way in which the planning regime has an indirect effect at a macroeconomic level with the economic system is through rising house prices and their effect on the level of inflation, and through that route, to the level of interest rates. The constraints on the availability of land, and the delays associated with the planning system (of which more later), mean that increases in house prices have a very delayed effect on the amount of house building that occurs, if, indeed, there is now an effect.

So Tsoukis and Westaway (1994) calculated that the long run elasticity of supply of housing in the UK was about one. Topel and Rosen (1988) found that this was the short run elasticity in the US where in the long run, that is over five years, the elasticity was about 24. As we have already indicated, in the late nineties the elasticity of supply in the UK would appear to have fallen to zero, at best since prices have been rising whilst housing construction has been falling.

The economic implication of this disconnection of housing production from the price system is that when house prices start to rise they rise more steeply than they otherwise would do. The rise is not damped down after a year or so by an increase in the number of houses being supplied to the market. Conversely price falls are also likely to be steeper and deeper than they would have been if prices had not risen so far and so fast in the first place. Moreover since the price increases are so long lasting and steep there is always the possibility of a 'price bubble' as prices rise and people seek to get into the housing market before it is too late. Unfortunately this particularly affects younger people who become desperate to buy something, anything, before it too escalates out of their reach. Given that these young first time buyers are also those most likely to have mortgage loans which represent a high proportion of the price of the house that they buy, they are the ones who suffer most as prices fall, as they certainly did in the early nineties.

The destabilising and inflationary effects of price increases in the housing market mean that those concerned with setting interest rates have to keep at least half an eye on the situation in the housing market. Thus newspaper comment in 2001 and 2002, in discussing the interest rate decisions of the Monetary Policy Committee of the Bank of England, tended to be concerned with the impact, intended or unintended, on the housing market. In fact interest rates seem not to have been raised to choke off the housing price boom. This may be because when, on an earlier occasion, interest rates were raised to choke off demand in the south there was considerable critical comment on the negative impact of the change on employment in the north, where house prices were not rising at anything like the same rate. Nevertheless interest rates in the UK tend to be higher than in the Euro zone. Indeed an argument which has been used for joining is that the cost of borrowing would be lower. But a major reason why they are high, despite the low overall rate of inflation in the UK, is the wish not to add fuel to the inflationary flames by encouraging further attempted investment in housing. The possible impact on the housing market is a factor which would have to be taken into account if the UK were to join the Euro zone. If it did join, and UK interest rates fell to the level ruling elsewhere in the zone then house prices would rise substantially. In my view, unless the constraints on the availability of space were relaxed, or other measures taken, then equilibrium in the housing market would be only be reached when house prices were fifty per cent higher.

The third interaction of the planning system with the macroeconomy is more diffuse. But the disconnection of property development, particularly house building, from the market, evidenced currently by falling house construction accompanied by rising house prices, must have a negative effect on the efficiency of the British economy. After all the British planning system as it relates to house building must be one of the few remaining examples of Soviet style central planning. Central government has predicted the number of dwellings that are thought to be needed from the analysis of (largely non-economic) factors affecting demand, in particular demographic changes, changes in the total population, in the total number of households, and in the numbers of households of different sizes. The predicted numbers for the whole economy were then allocated across the regions, and, within the regions, across the counties.

The counties, and the local planning areas within the counties, were then expected to demonstrate that the amount of land required for these dwellings was available, although there was little attempt made to define the amount of land which might be necessary for any given number of houses. Since new housing developments are politically unpopular counties would first try to argue that more housing should be provided elsewhere, in other areas, and then to try to allocate the necessary land at the lowest political cost. Economic understanding suggests that if production norms are stated solely in terms of the number of units quality is not likely to be a major factor. Put in terms of car production you are likely to get Trabants rather than Volkswagens. So the housing provided in the UK to fulfil these production norms is likely to be as

anodyne and uninspired as it in fact is. Since the new occupants don't have votes when the proposals are considered the new housing is often provided in such a way as to preserve the environment of the existing voters but at the cost of a poor environment for the new inhabitants. It is in this way that new housing finishes up being high density developments next to railway lines or main roads (Evans, 1991).

Economists would generally argue that it would be better if economic signals through the price system elicited a response. Moreover the fall and general abandonment of Soviet style economic systems throughout the world would tend to demonstrate that market based systems are more efficient. But it is difficult to demonstrate this conclusively. Indeed the longevity of the Soviet system, and its periodic successes, usually when a specific national objective is in view, i.e. sputnik or the achievements of both the UK and USSR during World War II, would seem to demonstrate that the effects of a disconnection from the market may be long term. A system will easily survive the short run and may survive for decades before collapse occurs. The Elizabethan Green Belt lasted, after all, in one form or another, for eighty-five years. Maybe the second Elizabethan Green Belt has another thirty years to run before it too collapses in the face of accumulated contradictions. But the disconnection of the use of land from the market would certainly seem to have significant economic costs even if they only become impossible to ignore in the very long run.

### **The Planning System and Delay**

This decoupling of the use of land from economic signals relayed through the price system is also evident in the way that the land use planning system functions. Any proposal for development has to be approved. At the least, say for an extension to a house, this involves putting in an application to the local planning authority (l.p.a.), and waiting until 'planning permission' is given or refused. In theory a decision is supposed to be made within eight weeks, but the local authority incurs no penalty if the decision is delayed, and in some areas less than forty per cent of the applications will have been dealt with within the eight week period. The only possible remedy on the applicant's side is that after the eight weeks is up an appeal can be made 'on the grounds of non-determination'. But since the appeal can then take months to be heard and decided whilst the pressure for a decision is off the l.p.a. to make a decision the threat is one very much of last resort.

The whole process of engineering planning permission for development of land which one owns can take much longer than is implied by this sketch of the process. Thus land owners seeking to ensure that their land is developed would be well advised to be represented, and to lobby, early on in the process to ensure that their land is included in the unitary development plan as land to be developed in the next five years. The enquiry into this plan may itself be long drawn out. And even if planning permission is granted it may take months to sort out and agree the legal conditions (the so-called Section 106 agreement) associated with the permission. I have known this to take eight months in the case of some student housing at Reading. Other factors may induce delay. Another example of some student housing to be built on the

Reading campus demonstrates the possibilities. A proposal was submitted early in July 1998, after extensive discussions with planning officers during the formulation of the plans. A site visit for the members of the Planning Committee (i.e. the local politicians who would make the decision) was arranged to take place in September. Note that the eight weeks had already expired before the site visit took place. The application came before the Committee in February 1999, where the members asked for a second site visit with the site of the proposed building marked out because they had had difficulty in understanding the plans. At the next meeting in March permission was finally given, but with the condition that a tree on the site should only be moved at the optimal time for moving trees, i.e. in November. This was therefore done in November 1999. By then it was, of course, too late for a building to be put up in time for the next intake of students in October 2000. Building work actually started in the summer of 2000, two years after the application had first been lodged. Two changes were instituted by the Committee. The first, as already mentioned, related to the tree which, in the end, proved impossible to move and was chopped down, other trees being, by agreement, planted elsewhere. The second was to require the site of the building to be moved a metre or so away from an existing building which was part of another Hall of Residence. This was, it would seem, because some of that Hall's staff living in accommodation provided for them by the university in that building there lobbied the local councillors that the proposed location was too close to them. The main lobbyist reached retirement age a year or so later and of course moved elsewhere. (It may also be noted the idea of the externalities being internalised, in that the University owned all the land and buildings within a quarter of a mile, is a concept foreign to UK town planning.) It would seem doubtful, at best, that the gains from this delay were worth the cost.

The most notorious example of delay was the proposal for a fifth passenger terminal at London's Heathrow Airport. The first planning application was made in 1981 and was turned down, though the planning inspector nevertheless concluded that a fifth terminal would be needed. A second application was lodged in 1993. This went to a public inquiry which opened in 1995. The inquiry concluded four years later after hearing 730 witnesses, receiving 5,900 documents (with a shelf length of about 150 feet), and costing £83m. The inspector took a year and a half to write his report and the government took eleven months to consider it before a decision was announced. In the end it was, as The Sunday Times concluded on 25 November 2001, a 'long and very expensive march towards a foregone conclusion'. And of the two brightest stars in the British architectural firmament, Foster and Rogers, Foster's new airport terminal at Hong Kong was conceived, designed, and built whilst the British carried out an inquiry into whether Rogers' Terminal 5 should even be permitted. And, closer to home, and still more relevant to questions of competitiveness and growth improvements had been carried out at Amsterdam's Schiphol and Paris Charles De Gaulle with similar dispatch. In the competition between these three airports to be the main European hub the T5 saga has meant that Heathrow has lost considerable ground and will lose out further before T5 is actually built.

The exercise did achieve something, however. It was unarguable, to all except ardent conservationists, that the procedure was either a disaster or a joke, probably both. A disaster for the British and a joke to everybody else. The result was a Green Paper proposing a change in the system so that major projects of this kind could be approved in principle by Parliament, and that any inquiry would then focus on how it was to be achieved and not on whether it was to be achieved. This in effect was what had happened with respect to the Channel Tunnel, if only because the French would otherwise have built their half before the British would have got half way through a public inquiry. The TGV link on the French side of the Channel was, after all, completed by the time that the Tunnel was open. The high speed rail link on the British side is likely to be finished in 2007!

Some delay in order to evaluate the costs and the benefits of a proposal may be necessary and inevitable, as was argued by Keogh and Evans (1992). But the delay has to be proportionate to the benefits flowing from the evaluation as they failed to say. Moving a building a metre whilst delaying its construction for two years does not seem proportionate, however. But the planning system is not required to take the cost of delay into account, only to seek to achieve the best final result. And even this, for political reasons, may not be the result which maximises net social benefits, but the result which maximises the chances of the local councillors being re-elected.

Moreover, and I have not seen this stated elsewhere, the thoroughness of any planning inquiry is out of line with the procedure adopted with respect to proposals which do not involve physical development. Take the proposal in the Green Paper that similar inquiries will not be necessary in future. By analogy, and so as not to pre-empt the decision, such a proposal should be considered by an inspector in the same way as T5, indeed argued over at greater length and in greater depth since it is more important. We know, however, that it will not be, nor will, for example, new taxes, the privatisation or nationalisation of industries, declarations of war. Any proposal which does not involve physical development will be dealt with more quickly and less formally than one which does, even though the former may have a greater impact on people's lives, and, indeed, in the case of, say, government agricultural policies or taxes on pollution, may have a greater impact on the environment. The greatest paradox is, in fact, that government guidance as to how planning policies should be carried out are not subject to any form of inquiry. It is only the detail of any case which is subject to lengthy public inquiry.

Of course the government's proposals only relate to infrastructure projects of major national importance. It follows that delays will continue to occur with respect to other smaller projects. But as I have sought to demonstrate, although the cost of delay may be greater when the project is larger than when it is smaller, the total cost of the delays per £ invested may be the same.

What is likely to be the impact on economic growth? In macroeconomic terms do the delays mean that investment expenditure is less in any year, or that investment was less in some earlier years as the delays built up, but that since then some kind of steady state has been reached. Total investment in any year is the same in any year as it would have been, just later. In fact it would seem that investment would be likely to be lower, and that some investment by British or foreign companies which might have taken place in the UK would be diverted elsewhere. It is also true that the delay has a cost in that the net benefits of the investment are delayed, and that up to date technology is likely to be brought into use with some delay. Thus there is certainly a cost, and economic growth is lower, but the costs are spread around in such a way that they are rarely so obvious as in the case of Terminal 5.

### **The System and Premium Seeking**

In an earlier section of this paper we showed that the constraints on the availability of land for development mean that there can be a large difference between the price of a piece of land with planning permission and its price without planning permission. Since this means that obtaining planning permission can substantially increase the value of the land it becomes worth while expending large resources in order to try to obtain it.

Some years ago Anne Krueger (1974) coined the term 'rent seeking expenditure' to describe this kind of expense. She first used it in the context of international trade to describe the behaviour of people and firms competing to obtain import licenses in, specifically, India and Turkey. Since the total imports would be the same, she argued, whoever obtained the licenses, since this was the aim of imposing the control, the resources expended by those competing for them were, from anything other than an individual point of view, a dead weight loss. The net economic gain to the world as a whole resulting from this expenditure was zero.

It is evident that the same argument can be applied to seeking to obtain planning permission. I prefer, however, to use the term 'premium seeking' rather than 'rent seeking' in this context. While professional economists may be aware that the rents which are described as being sought are 'economic rents', the unwary student or non-economist tends to think that one is referring to land rents or property rents. If, then, it is decided by central or local government that, say, a thousand houses needed to be built in a particular area and the owners of land in the area then competed to try to ensure that the development, or most of it, took place on their land, most, if not all, of their expenditure would be premium seeking. After all, the development will take place somewhere in the area, on one site or another, whatever they spend. Therefore there is little net benefit from it – it is a dead weight loss.

There is, however, a difference between this case and the import licenses example used by Krueger. Whilst it is clear in the latter case there is no benefit from expenditure to try to obtain licenses, there may be some benefit from expenditure to try to obtain planning permission. The arguments used by

the landowners will be in the form of trying to demonstrate the advantages of their sites. Thus the decision when it is made will be better informed and it could be argued that the decision will therefore be better. The resulting pattern of land use will be better.

Whilst this cannot be denied, it is still evident that most of the expenditure will nevertheless be a dead weight loss. In the first place the expenditure by landowners will be positively correlated with the value of obtaining planning permission. It will not be correlated with, say, the site's environmental attributes. This means that more will be spent trying to obtain permission at enquiries in southern England than in northern England because planning permission is worth more in the former than the latter. Secondly, the waste is increased by the fact that local planning authorities will also have to spend money and resources combatting the arguments of land owners and developers. This is most obvious true of planning appeals and inquiries where the presentations made by developers and land owners have to be matched by presentations made by the l.p.a.s. This involves putting up barristers, juniors, and solicitors, and planning, transport, environmental, economic and other consultants to deal with the arguments put forward by the other side. Thus the planning inquiry into Terminal 5, as well as delaying its construction by many years also imposed a further drag on the economy through the £83m which it was estimated to have cost, resources which were used there but might have been used more usefully elsewhere.

### **The System and Planning Obligations**

The second kind of distortion induced by the value of planning permission is almost certainly of considerably less importance than premium seeking expenditure. This distortion has arisen as local authorities have come to realise that when they give planning permission for a development they often are, in effect, giving away something of considerable value. Realising this they have sought to obtain some benefit in exchange. This benefit came to be called planning gain, or, more recently, planning obligations. It is in effect a sort of negotiated tax and, as such, it could be a net benefit to the economy. Instead of a tax on development gains being levied, as one was between 1974 and 1986, the l.p.a. can negotiate with the would be developer and try to ensure that some of the profit is spent on improvements which can benefit the community. This should have no dead weight costs, and would not, if it were not for the fact that the legal requirements have been progressively tightened to try to ensure that the improvements are related to the proposed development.

From an economic point of view this distorts the pattern of investment. Improvements occur where new development is taking place and not where the improvements might be most needed. The improvements will, as with premium seeking expenditure, tend to be greater in southern England than in northern England because the value of planning permission is greater in the south, and may merely be obtained because they can be rather than because there is any need for them. To give an example, near where I live in suburban London two houses have been demolished and a small block of flats is being put up. The site is about half way along a long suburban road which to

prevent it being used by heavy traffic has a physical restrictions on its use. Where the development is taking place the tarmac road has been dug up and the physical restrictions are being rebuilt while the road is expensively resurfaced with engineering bricks. The work has so far taken three months during which time traffic has been restricted to one way working with 'temporary' traffic lights. There is no reason at all why this section of road should be of such a high grade. The only reason why the work is done is that the l.p.a. thought that they could get someone else to pay for it. It is being done so slowly because the firm which is doing it gets no benefit from it. Thus the net social benefit of the 'improvement' is negative since the private and social costs exceed the private and social benefits.

The pattern of distortion is also evident in the only instance where planning obligations have become institutionalised and sanctified by central government. When planning permission is given for new housing l.p.a.s may require that a proportion of the housing, usually about twenty or twenty five per cent, is 'affordable'. Developers can, however, in many cases, instead make a contribution towards the cost of providing 'affordable' housing elsewhere in the area of the local authority. From an economic point of view, whilst there would seem to be no reason why development gains should not be taxed, it seems odd that only the gains from building new housing should be taxed in this way, not the gains from commercial or industrial development, and even odder that the tax should be hypothecated, that is tied to a specific objective, something which the UK Treasury has always opposed. The economic cost, of course, arise from the distortion that the hypothecation can cause. There seems little reason to suppose that the need for 'affordable' housing occurs in the areas where the rich live and new housing construction is most profitable. Social mix is, from an economic point of view, not necessarily desirable. Nor would it seem that the provision of affordable housing is most necessary in the south rather than the north. The only way in which it might appear to be necessary is because the constraints on new housing development are greater in the south. The main argument for the 'tax' would seem therefore to be one that is in conflict with the land use planning system and an attempt to undermine, or at least a failure to understand, the system of constraint.

### **The McKinsey Report**

As I noted out in the introduction to this paper the report by the McKinsey Global Institute 'Driving Productivity Growth in the UK economy, when it was published in October 1998, marked the first occasion when mainstream economists had pointed to the land use planning system as a factor slowing the rate of economic growth in the UK. Indeed not only was it regarded as a factor, but as one of the two main factors. The Report stated that 'the most pervasive explanation [for the failure to adopt global best practices] lies in the effect of regulations governing product markets and land use on competitive behaviour, investment and pricing' (Introduction p 2).

The format of the Report involved a number of studies of particular industries - food processing, telecommunications, food retailing, hotels, and software. It was the last three of these which were noted as being particularly affected by

land use regulation, though in different ways. These were, in effect, the protection or creation of local monopolies in the case of food retailing, the difficulty of constructing new facilities in the case of the second, and the difficulty of obtaining economies of scale through agglomeration in the case of the third. None of these were which have yet been discussed in this paper, just as the factors which have been discussed were not explicitly mentioned.

With respect to food retailing it was argued that 'the complex, locally driven planning regime ... made it difficult, time consuming and expensive for food retailers to find new sites and expand' (Food Retailing, p 2). They also commented that the 'recent tightening of UK planning regulations has essentially frozen the evolution of the industry, locking retailers into their current format and size mix and denying them the flexibility to evolve'. The response of the then President of the Royal Town Planning Institute to the Report to the report is worth noting because it relates to this point. He said that the criticisms levelled at the system could be ignored because it was generally supported by industry. What this response revealed was a failure to understand the argument. What he was saying was that industry, in this case retailers were, in his view, happy with a system which restricted competition. For example having gained planning permission for an out of town superstore Sainsbury, Tesco, or any other supermarket chain, could then relax safe in the knowledge that no other competitor would be able to enter the local market. Put at its worst, a period of price cutting to drive the local small shops out of business can then be followed by higher prices which its local monopoly allows.

This entrenchment of local monopoly can be seen elsewhere in the operation of the system. For example the developers appearing at an Enquiry in Public into a local development plan may want their land designated as suitable for development for housing, but that does not mean that they want every other developer's land so designated. Theirs but no other would be the answer to their silent prayer. The less of everybody else's land that is designated the higher will be their profits. This entrenchment of local monopoly also occurs with respect to the current system of 'sequential' development'. The brown field sites nearer the centre of the town are supposed to be built on before development is allowed further out, thus of course allowing the owners of those preferred sites to charge more for their land.

The President of the RTPI also responded that similar criticisms had been made before, at the end of the eighties. The implication was that they had been made, but had then been answered and refuted. In fact, as I should know, since I presume that he was referring to my monograph 'No Room! No Room!' which was published in 1988, the criticisms then had not been made in such detail. And they had not been answered or refuted, just ignored. And it was evident at the time that the more trenchant criticisms in the McKinsey Report would also be ignored.

With respect to the hotel industry the report points out that planning and listing regulations 'impose higher cost design and construction methods. In some cases planning restrictions actually prevent new hotels being built ...

Depending on the specific situation, experts indicate that planning and listing regulations account for between 15 and 50 per cent of the difference between UK and US construction costs' (Hotels, p 7). They specifically draw attention to one apparent consequence. In the UK seventy five per cent of the stock of hotel rooms is over forty years old and nearly half are over a hundred years old. For comparison the proportions in France are thirty five per cent and fourteen per cent.

Thus the constraints on the availability of land and on construction mean that hotel rooms are more expensive in the UK than elsewhere, and the limitations on competitive entry mean that that the standard of service can be worse with little reason to fear competition.

The third industry which the Institute regarded as affected by the land use planning system was the software industry. The report draws attention to the benefits in terms of economic development when 'a critical mass of successful companies are located together', and noted that 'the most successful clusters form naturally through market forces' (Software, p 11) but pointed out that 'planning regulations, particularly in the Cambridge area, have restricted the expansion of high tech clusters' (p 14). A similar argument has also been heard recently, also with respect to the Cambridge area, regarding clustering in the biotech industry.

The land use planning problem can be exemplified by the exception which proves the rule, the building of a new head office for Vodafone. A major player at a world level in the mobile phone industry Vodafone's rapid growth in the eighties and nineties was not and could not have been foreseen. Its head offices are located in the small town of Newbury located in southern England about half way between London and Bristol. Vodafone's rapid expansion meant that its head office functions became spread throughout the town and it applied to build a new head office just outside the town. The proposal was rejected by the local authority's Planning Committee. It was argued that the proposed development was not provided for in Newbury's five year plan and that it should therefore go elsewhere, to some location where new office space was provided for. Since Vodafone was, and is, by far the largest employer in the town this would have meant that most of the employees would lose their jobs or have to commute substantial distances. It was argued, however, on the other side, that new firms would move in to fill the vacated space and so new jobs would soon be found.

It is, as we have already said, difficult to see how Vodafone's rapid growth could have been foreseen and therefore difficult to see how a five year plan could have allowed for it. But that is the point of course. Does the plan adapt to the market or does the market adjust to the plan? In the event common sense prevailed and the proposal was approved by the full Council with 26 votes for and 18 votes against.

The relevance of this case to the argument regarding clustering is this. The proposal was approved because it related to a single development by single large firm wishing to bring its cluster of head office functions together in one

place. The effects of refusal were obvious, but the proposal was nearly rejected. But suppose the mobile phone industry in Newbury had not been represented by a single large firm but by a cluster of firms, each gaining agglomeration economies from its proximity to the others. In this situation it is evident that proposals to allow development to take place would not have been permitted because each of the small firms would have had less political clout, and because the costs of refusal would not have been so obvious. So the agglomeration economies would have been dissipated as firms were forced to locate further afield, or prevented from expanding, or prevented from coming into existence in the first place.

The final, general, point that the report makes with respect to the UK planning system is one that has been made by others, in particular by Pennington (2000). The way in which the system operates means that economic growth comes low in the order of priorities. This is because, firstly, strategic planning and building consent decisions are made at the lowest level of local government. Secondly, although routine decisions may be made by planning officers, that is by professional planners, any decisions which are in any way controversial will be made by locally elected politicians. As the public choice approach to policy making takes as its basic assumption, politicians wish to be re-elected and will therefore be responsive to the wishes of those who have elected them. Thus they will tend to give more weight to the, usually negative, views of local residents rather than taking any national viewpoint. In areas of unemployment these residents may favour development which might bring jobs, but in areas of full employment the residents will see no reason why new development should spoil their local environment. And thirdly, the UK system of financing local government gives little or no incentive to a local authority to allow development. In the case of a new commercial or industrial development the property tax paid goes to central government. In the case of new housing the property taxes are paid to local government but are then netted off against the grant received from central government.

The local planning authorities, the report concludes are therefore more likely to see their role as that of 'environmental and heritage protection', where the local community 'see little direct benefit from economic development' (Box 2). The Report does not make the point that this is much more true of southern England than in areas of the UK where unemployment is higher. But as I indicated earlier, the south is where the demand is, and, therefore, where development is constrained and prevented.

### **Reforming the System?**

Given the criticisms of British land use planning in the McKinsey Report, it might be no surprise to learn that the government has recently published a Green Paper outlining ways in which the system might, or will, be changed. On the other hand it might also be no surprise to learn that little of the criticism in that report is addressed. As with the criticisms made of the system in the 1980s it has been simply ignored. The main stress is on reducing the extent to which the system delays development, a factor not mentioned by McKinsey, but the stress is not surprising. Indeed the Green Paper was published only a month or so after the Terminal 5 decision was announced and so must have

been in preparation during the eleven month period during which the government was considering its response to the T5 inquiry. There is some stress in the Green Paper on making the system more business friendly, but then, as we indicated in the previous section, being business friendly is not the same as encouraging competition and economic development. Indeed, so far as I can see, the word 'economic' does not seem to appear in the Green Paper.

The paragraphs which outline the changes read as follows:

5.4 We need to look at the system afresh. We want a fundamental change in performance, as system that:

- is responsive to the needs of all its customers and offers a new culture of customer service;
- delivers decisions quickly in a predictable and transparent way;
- produces quality development; and
- genuinely involves the community.

5.5 Our proposals to meet these objectives are set out below. We propose to:

- introduce a planning checklist so that people know how to submit a good quality planning application;
- tighten targets for determining planning applications and deal with the delays caused by statutory consultees;
- encourage masterplanning to improve the quality of development;
- promote better community involvement by offering community groups advice on planning;
- introduce delivery contracts for planning for major developments;
- introduce new 'business zones' where no planning permission is required for certain forms of development; and
- seek better and tougher enforcement against those who evade planning requirements. (pp 29 – 30)

It is evident from this outline of the objectives and the proposals that, apart from trying to speed things up, the changes are unlikely to aid economic growth. Indeed the stress on community involvement suggests that possibly the reverse will be true.

Thus we will be left with a land use planning system which is little changed except that everyone is supposed to know how to play their respective parts better. It is a planning system in which the professional planners aim to produce what they regard as the best land use plan, even if people are left worse off. And a system in which local politicians and local communities will try to ensure that whatever development occurs serves local interests, if necessary at the expense of the national interest. In other words questions of economic growth and development are scarcely considered. What is stressed is sustainability, implicitly the ways in which Britain could contribute to global sustainability, in particular through saving land and minimising the use of cars.

As an economist, of course, I see no reason why planning should not be used to deal with global externalities. Though the question does arise as to why Britain should be handicapping its economy in ways that few, if any, other countries seem to be. (And with respect to global warming and the use of carbon fuels it does seem strange that Britain should be throwing itself out of the lifeboat to keep it afloat whilst the fattest man in the boat is stuffing himself with food and saying there is really no problem.)

But of course, as I have argued elsewhere (Evans, 1998), sustainability is frequently mentioned in British land use planning as a justification, but what is being justified are policies which were in existence before sustainability could be used as a justification. Which is why my earlier paper was paper called Dr Pangloss Finds His Profession, for Dr Pangloss, you will remember, believed that everything was for the best in the best of all possible worlds, and so that everything existed for a reason, even if the reason had yet to be found. So sustainability is rarely used as a justification for changing policies, only for retaining those already in existence. So even though it is obvious that green belt policy results in longer journeys to work and increased fuel consumption these policies will not actually changed. The arguments from sustainability are thus largely a sham, and result, at best, from a failure to think through the way in which policies interact, a mode of thought which economic analysis encourages but which is, as we have demonstrated, largely neglected in British planning.

Nevertheless the system that we have is politically popular. This popular popularity arises for odd reasons. For example the claim is frequently made and is the belief of most of the population, that the UK is one of the most densely populated countries in the world and so is desperately short of land to build on. This despite the fact that only eleven per cent of the UK is urbanised as against, say, thirteen per cent of Germany of the Netherlands. It is felt that development should be discouraged in the south and encouraged in the north even though the North West is the most heavily urbanised region, and East Anglia and the South West are two of the most sparsely populated. The redevelopment of sites which have been previously developed is thought to be a good idea, on the grounds of preserving the countryside, even when, as it may, doing so involves digging out a quarry in the country to fill up the holes in the site in the town. That these brown field sites in urban areas might better be left made green is not thought of and not discussed. The result is high density development with very definite edges, and with less green space that there might have been. Still, as Stephen Inwood remarks in his discussion of the effects of green belt policy in London, 'the child playing on the streets of London must have consoled itself by the knowledge that tenor fifteen miles away there were fields which he would not be allowed to spoil'

But how might the system be changed to be more economically efficient? As it happens a clue to one possibility is given in a section of the Rogers Report. It is argued there that the cost of the environmental impact of development should be calculated, and Environmental Impact Fees reflecting these costs should be charged. As the Report states 'there is a series of wider environmental impacts which are not currently taken into account within the

existing system of planning obligations and planning gain' and which should be passed on as a cost of development. The scheme suggested in the Report is flawed in two ways, however, both in the way that the fees or costs are supposed to be determined, and in the way that they suppose that such a scheme should be integrated with the current system. To take these two points in order. As regards the first the Report indicates that these environmental costs include:

- increased air pollution caused by increased road traffic use;
- increases in energy consumption and greenhouse gas emissions;
- loss of countryside and landscape;
- damage to biodiversity;
- impacts on historic and cultural resources;
- soil erosion and loss;
- pressures on waste and water management systems (p 222).

The problem is that these costs are of two different types. The first type is represented by the last five listed above which represent one-off costs of development which might be costed into an Environmental Impact Fee. But the second type, represented by the first two on the list, are ongoing costs which arise from the use of the development, not from the fact of development. If we are trying to ensure economic efficiency then it would be best to tax the air pollution, road traffic, energy consumption, and/or gas emissions as they occur. Charging a one-off tax based on possible use is clearly not the most efficient method. The costs are difficult to predict and liable to change. Indeed a reason for imposing some kind of ongoing tax is that the tax is intended to cause change. A once-off lump sum tax does not have that effect. And as the Report itself points out it would be difficult to calculate whether, say, energy consumption would be higher if the development were allowed when compared with what it would be if it were not allowed.

If these one-off costs were calculated then the Environmental Impact Fee could also be calculated and could be charged. The problem here is that the Report seems to regard them as both an addition to charges for planning obligations, which they would be, but also to be imposed as an addition to the existing system of planning constraints. In other words it seems to regard these environmental impacts as not taken into account by the current system whilst, it is obvious that it is precisely these kind of environmental impacts which the current system of planning constraints are attempting to contain. The logical position is in fact that the impact fees should replace the constraints. And if the cost of the environmental impact is covered by the Fee then there is no economic reason why development should not be allowed.

It is also evident that it would be best if planning gain and planning obligations were standardised into a fee, rather than negotiated in respect of each individual planning application. This too would help to reduce delays. I have known it to take a further eight months after planning permission had been given to agree the legal contract incorporating the planning obligations.

Obviously the effect of imposing fees of this kind would be to increase the direct cost of development. That is the idea. The amount that developers would be willing to pay for sites would therefore fall. But if the price of land for development is still greater than the price of agricultural land then development will still be profitable, but we would know that the social benefits of the new development would outweigh the social costs.

Given the economic naivety of the Rogers Report it will be no surprise that their assumption is that once these costs are taken into account the result 'would help tilt the balance of development activity towards urban regeneration schemes' (p 223). There is, however, no immediate reason to suppose that in southern England, at least, green field site development would no longer be profitable. If it is still profitable then, given that the social benefits would outweigh the social costs there is then no reason why it should not be permitted. The calculation of such fees would thus considerably clarify the situation. If there were still objections to development it would be clearer that the objections arose from the pursuit of special interests, and their protection. Precisely because of this it is in fact unlikely that such a scheme would be implemented.

What such a scheme would also reveal would be, I suspect, that the Fees would be more or less the same throughout the country. At least I see no reason why the environmental impact should vary significantly from area to area. The result would be that in southern England more development would have to be allowed and the initial problem would be dealing with the rush for development, and with the disruption to house prices the housing market which would result. But it is entirely possible that in northern England it will be found that the Fee would discourage the development of green field sites, so that there would be considerable development in the south and virtually none in the north. But if this were seen to be likely it would make clear the fact that land use planning is currently being used as an instrument of regional policy, in part deliberately, in part unconsciously.

And what this would make clear would be that it is regional policy which has to be thought through and set out on an economically efficient basis, not just land use planning. The regional policy which resulted, in order to mimic what land use planning currently does, would either impose specific taxes on new development in the south, or give subsidies to development in the north. The first would not be popular and the second would probably fall foul of European Union Rules. But then regional policy is not the concern of this paper.