

# The best laid plans

How planning prevents economic growth

Alan W. Evans and Oliver Marc Hartwich



Think Tank of the Year 2006/2007

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Alan W. Evans and Oliver Marc Hartwich have co-authored three previous publications for Policy Exchange: *Unaffordable Housing: Fables and Myths* (2005), *Bigger Better Faster More: Why some countries plan better than others* (2005), and *Better Homes, Greener Cities* (2006).

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## Contents

	Acknowledgements	4
	Foreword <i>by Simon Wolfson</i>	5
	Executive Summary	7
1	Introduction	9
2	Control and constraint	12
3	Economic growth, delay and the level of detail	30
4	The effect of planning on interest rates	40
5	The Barker Review of Land Use Planning	42
6	Conclusions and recommendations	47

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## Foreword

Political debate around planning is dominated by the myth that land in the UK is a scarce resource. The result is a system that strictly rations a commodity in bountiful supply. In an earlier report Alan W. Evans and Oliver Marc Hartwich brilliantly exposed both this myth and the forces that keep it alive, not least the contribution that urban densification has made to perpetuate the misconception of an overcrowded island.

The effect of this artificial rationing on our economy cannot be overestimated. If wealth creation is about making things of value, and for most people their homes are their most valuable possession, then a system that rigorously prevents the construction of better homes must inhibit wealth creation.

So far, the impact of land rationing is too indirect on people's everyday lives to create the required political pressure to force change. The connection between soaring house prices and restricted supply is little understood. Government has even attempted to engineer affordable housing through further restrictions to development – with the ironic but inevitable effect of increasing house prices! Even less understood is the effect that our restricted housing market has on interest rates. Limited supply of housing means that economic growth in the UK tends to create disproportionate increase in house prices. In turn, this inflationary pressure contributes towards a need for higher interest rates.

The argument in favour of quicker, simpler and less restrictive planning will be hard to win. Those sympathetic to house building are caricatured as wanting to “concrete over” the whole country. In fact using less than one percent of rural land would be sufficient to increase land available for housing by more than ten percent! This equates to less land than is currently designated as agricultural set-aside. The

battle can only be won through the slow process of breaking down prejudice using persistent and rational argument. To this end the Evans and Hartwich series on planning has made significant headway by providing a clearly researched and well argued case in favour of a different approach to planning.

“ There is even a danger that we get so used to the delays and inconsistencies of our planners that we cease to see it as a problem”

This report takes the argument one step further by demonstrating how the UK's restrictive planning regime undermines the competitiveness of our economy by increasing costs, reducing choice and inhibiting flexibility. To many of us involved in commerce, frustration with the planning system is an accepted fact of life. There is even a danger that we get so used to the delays and inconsistencies of our planners that we cease to see it as a problem. My own place of work has been forced to build a multi-storey car park (at huge expense), while un-farmed scrubland, complete with electricity pylon and motorway view, is “conserved” right next door!

Even when the answer is favourable, the time taken to make planning decisions in itself slows down our economy. A shop opened six months late as a result of a planning enquiry is six months lost profit. In the time it took Hong Kong to build a new airport the UK could not decide whether to build an extra runway at Heathrow! The time value of planning delays is never quantified but must undermine our ability to compete in a global market.

The more I think about it the more I believe that the debate about planning is really a debate between optimists and pes-

simists. The optimists believe individuals and businesses can develop the country responsibly with relatively light regulation. We believe that there need not be a conflict between environment and prosperity, if we manage the process of development properly. In fact, given space, we can develop greener towns and cities that are safer, cleaner, more comfortable, and designed to

be more environmentally friendly. The pessimists mistrust development. Of course we must value and preserve our heritage but if our love of the past is stronger than our hope for the future then we will condemn our nation to slow decline.

SIMON WOLFSON  
Chief Executive, NEXT plc

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## Executive Summary

In three previous publications (*Unaffordable Housing: Fables and Myths*, *Bigger Better Faster More: Why some countries plan better than others*, and *Better Homes, Greener Cities*) we have shown that most of the problems with the housing market – low supply, high prices, overcrowding – can be attributed to the planning system. A policy constraining land supply had led to the population being housed in homes that are on average smaller, older and more expensive than houses in other developed nations. In this report, we turn our attention to the effects of the planning system on the UK economy.

While the basic justification for planning is the coordination of development, we found that, first implicitly and later explicitly, the main objective of planning has been to limit the spatial extent of cities. This artificial reduction of land supply has had – and continues to have – severe consequences for society, the environment and the economy:

- **Planning and high land prices have become one of the main obstacles to social mobility in the UK.** Rising land prices in the UK have benefited some but harmed most. They have favoured land and property owners while others have had to pay the price through higher rents and higher retail prices. They have favoured wealth over wealth creation, property over enterprise, old over young.
- **The UK has lost out on numerous economic opportunities because of high land prices.** Manufacturing has declined much more rapidly than in other developed nations as land-intensive industries have been rendered uncompetitive. Jobs that could have been created here have gone elsewhere, while the North especially suffers from a lack of economic development.
- **The planning system reduces consumer choice and leads to higher prices.** It has also been responsible for a high degree of market concentration in the retail sector where new entrants can be blocked through the planning system. Consumers have to pay the price for this through a lack of choice in “clone town Britain” and much higher retail prices than in other European countries.
- **The quality of life has suffered in British cities** as they could not grow outwards due to containment policies, but have had to accommodate more and more people in existing spaces. This has led to the ‘greying’ of cities as well as overcrowding in housing, services and transport.
- **Restrictive planning has led to higher interest rates, punishing those with mortgages.** Rapidly rising land and house prices had to be controlled through higher interest rates, and again the price of this policy was paid by those struggling to pay their mortgage rates, while those with money to invest benefited.

“ It is high time for a reform of the planning system if we do not want to harm the social and economic aspirations of large parts of the population ”

These severe economic, social and environmental distortions are the result of a planning system that favours the rich at the expense of the poor. It is high time for a reform of the planning system if we do not want to harm the social and economic aspirations of large parts of the population, especially the young generation. Such a



reform of the planning system has to deal with many issues at once:

- **Development must be incentivised at the local level.** We suggest the introduction of a Social Cost Tariff (SCT) to compensate local communities for the social cost of development. This SCT would be worth a maximum of £500,000 per hectare, but variable downwards. The SCT would replace all existing charges associated with development, such as Section 106 agreements, and would go entirely to local councils.
  - **The national green belt policy should be abolished** and replaced by local communities making their own decisions about their environment.
  - **Projects of national importance should be decided by an Act of Parliament.** We recognise that there are limits to local decision-making, and this applies particularly to projects of national significance.
- Using Parliament's power would speed up the development of vital infrastructure, such as new airports, power stations and high speed rail routes.
- **The reintroduction of simplified planning zones to reduce delay and speed up the planning system, a system that had been experimented with in the 1980s.** In such a zoning system planning proposals would only have to be given in outline, thereby reducing the level of detail that planning authorities are currently dealing with.
  - **Finally, we argue for a general reduction of complexity in the planning system.** Over the past decades, the planning system has been used and abused to deal with numerous issues from environmental sustainability to regional policy. We believe that it is time that the system is stripped from this ballast so that it can deal with what it was actually meant to achieve: the coordination of development.

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# 1

## Introduction

In the last two years Policy Exchange has put out three publications which looked at the impact of planning on the housing market. The first, *Unaffordable Housing: Fables and Myths*, showed that the UK planning system, and its policy of constraint, had resulted in new housing in the UK being expensive, small and poky. In other developed countries with comparable income levels, new housing was cheaper, larger, and more spacious.

The second, *Bigger Better Faster More*, looked at the way in which things were done in four other countries: Germany, Switzerland, Australia and Ireland. The third, *Better Homes, Greener Cities*, looked again at the UK system and proposed changes to the way it operated. These changes were necessary, it was argued, to allow more and better homes to be built, homes of a kind that people would want, homes they would prefer, as opposed to those that politicians and planners thought would be good for them.

Housing is only one kind of land use although, in terms of area, by far the most important urban land use. But urban land is also used for commercial activities – factories, warehouses, shops, offices, hotels, restaurants, banks, and so on. It is also used for various public sector uses – schools, central and local government, universities, churches, uses which are to a greater or lesser part not governed by the rules of the market. These ‘non-domestic’ uses account for about seven percent of the urbanised area of England, more than 90 per cent is used for housing, roads, paths, etc.<sup>1</sup> In

this report we will look at the use of land for commercial activities.

“Increasing development and growth, on the other hand, would be profoundly progressive because it would disproportionately improve the lives of the worst-off in society – the poor and the young”

Discussion of the impact of planning on commercial activities in the UK tends to concentrate on the system and the way it is operated. Permission has to be obtained for any building, or for most changes in the use of existing buildings. The system is seen as overly concerned with matters of detail, to the extent that the discussion of detail of the operation of the planning system, as well as of matters of principle, results in delay. Our main thesis, on the other hand, will be a continuation of the theme of the three previous publications: we will concentrate on the malign effects of the policy of constraint, which has come to be the main thrust of the UK system of land use planning. This policy sees development as a problem to be prevented, if at all possible, rather than encouraged as an engine of growth and wealth creation. We believe this to be a regressive policy, one which protects the interests of the propertied and well-off. Increasing development and growth, on the other hand, would be profoundly progressive because it would disproportionately improve the lives of the worst-off in society – the poor and the young.

1. Kate Barker, *Review of Land Use Planning - Interim Report*, 2006

After this brief introduction, we go on, in the next chapter, to look at the way in which the policy of constraint came into being, at first unacknowledged, then as an accepted but implicit policy, more recently, since 1997, an explicit and formally acknowledged policy of containing the area of urban land. We also outline its economic effects. We show that the result has been a general increase in the price of land for all uses. We go on to demonstrate that as the economy grows and land prices rise this results in a bias against ‘land extensive’ uses such as manufacturing industry, and that this bias is magnified by the current government’s policy of encouraging residential development on land in other uses, so-called ‘brown field sites’.

“ The system, by giving priority to land use decisions over economic ones, protected the growth of local monopolies by restricting competition ”

In the second half of this chapter we look at the arguments which have been put forward to justify the policy of constraint and high land costs, and set out the less obvious costs of the policy. We produce a substantial amount of evidence to demonstrate that London is probably the most expensive city in the world, and that, perhaps more surprisingly, the other major UK cities are also amongst the most expensive, certainly in terms of the cost of office space and the cost of industrial floor space.

In the third chapter we turn to the implications of the current land use planning system for the economic growth of the UK economy. A major problem is its complexity. The system is complex and legalistic and results in delay. This delay means that investment takes place later than it should (if it has not been abandoned), with a consequent loss of efficiency. Associated with the delays built into the

system is the level of detail which the British planning system tries to control, a factor which, of itself, builds in delays. We then look at the relationship between land use planning, economic growth and competitiveness. This was first investigated by the McKinsey Global Institute, which found that the planning system was one of the main features of the UK economy which inhibited economic growth. It does this in three ways. First, the system, by giving priority to land use decisions over economic ones, protected the growth of local monopolies by restricting competition. Secondly, the level of regulation was excessive and hindered development. Thirdly, the policy of constraint discouraged the growth of clusters of firms in the same or similar industries which might derive synergies from spatial proximity. To function effectively, urban areas must be allowed to be dynamic, with the capacity to meet ever changing needs.

In the fourth, and briefest, chapter we set out the macroeconomic impacts of the policy of constraint as, by making the housing market more price volatile, it leads to interest rates being more volatile, and higher, in the UK than in other competitive economies. In the fifth chapter we review Kate Barker’s recent report on the land-use planning system, where we are generally supportive of its analysis but criticise its recommendations as being too timid.

Finally, in chapter six, we summarise our conclusions and set out our recommendations. In the main, perhaps unsurprisingly, these are similar to our recommendations when we considered the impact of planning on the housing market in *Better Homes, Greener Cities*. In the first place the policy of constraint has to be put on an economically rational basis; it must not be subservient to the views of vocal pressure groups, whether local or national, since these are usually the views of the ‘haves’ trying to protect their interests from the

'have-nots'. We argue that a Social Cost Tariff (SCT) should be paid when green field sites are used, but this SCT should be based on the actual social cost of the use of this land, rather than on the exaggerated social costs implicit in the current price of urban land.

We go on to argue that the British system of local government finance should be restructured so that some incentive is given to local government to allow development, rather than, as now, if anything, a disincentive.

We also add three further proposals. The first is that, generally, the level of detail which the system should have to deal with should be reduced. If the level of detail with which the system has to concern itself could be reduced then it could operate more transparently and more quickly.

We make a further recommendation that proposals which are of national or regional importance should be dealt with at the proper, i.e. national or regional, level. They should not be bogged down in lengthy planning inquiries. There should certainly be some facility for resolving questions of local importance, but if the previous proposal was accepted, then these questions of detail would be fewer.

There has been a tendency over the years to complicate the system, to try to get it to deal with wider and wider problems, and to include within it both consultation at the local level and policy as laid down by central government. Public choice theorists will recognise the tendency. It is a way of trying to keep everybody happy. But the result is an overcomplicated system which few really understand and which is sup-

posed to deal with problems which it was not designed to deal with, like global warming or regional economic development. We therefore conclude by arguing that the system has to be made simpler; that it should be a system designed to provide a frame for development rather than, as it has become, a system apparently intended to control every aspect of development and to fit it into a centrally planned mould.

In 2005 the economist Kate Barker was asked by the Chancellor and the Deputy Prime Minister to review the working of the planning system. Her interim report appeared in July 2006 and her final report in December 2006. We are indebted to her for these reports, which present evidence which tends to confirm our analysis of the economic impact of planning, both on the supply of housing and on commerce and industry. We critically discuss her recommendations in chapter five, but one piece of evidence cited in her final report we would wish to quote here. In our earlier reports we suggested that the British have an exaggerated view of the degree of urbanisation of their country. A survey was carried out on behalf of the Barker Review which completely confirms this suggestion. This survey showed that the majority of the population of England believe over half the country to be urbanised, where the true figure is around ten per cent. In reading the report which follows it is worth bearing in mind that political support for the policy of constraint by the population is based on a comprehensive misunderstanding of the situation and a lack of knowledge of the true facts.

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# 2

## Control and constraint

The causes and consequences  
of increasing land prices

### Summary

In this chapter, we look at the way in which the policy of constraint came into being, at first unacknowledged, later as an implicit policy. Most recently, in the years since 1997, it has become an explicit policy of containing the spatial extent of the urban area. We show that the result has been a general increase in the price of land for all uses, whether residential, commercial and industrial. We show that as the economy has grown and land prices have risen this has resulted in a bias against 'land extensive' uses such as manufacturing industry, and that this bias is magnified by the current government's policy of encouraging residential development on land in other uses, so-called 'brown field sites'.

In the second half of this chapter we criticise the arguments which have been put forward to justify the policy of constraint and high land costs, such as that it is a kind of regional policy or that it is intended to promote sustainability. In the course of the chapter we produce a substantial amount of evidence to demonstrate that London is probably the most expensive city in the world, and that, perhaps more surprisingly, the other major UK cities are also amongst the most expensive, certainly in terms of the cost of office space and the cost of industrial floor space.

into force with the Town and Country Planning Act 1947. The object of the system was to bring order. Development before the war had been largely uncontrolled, and even though, in southern England at least, new factories had been built and a growing population accommodated in better housing, this 'unplanned' development was seen as a symptom of disorder.<sup>2</sup> Within towns bomb damage was extensive, particularly so in the big cities where the older industrial areas, notably the East End of London, had been the main targets.

Under the new system development would be ordered and controlled, in short, *planned*. This was in accord with the dominant political philosophy of the time. The post-war Labour government had gained a landslide victory and was committed to the nationalisation of the means of production, distribution and exchange. The UK had anyway been centrally planned for five years, possibly more centrally controlled than Italy and Germany.<sup>3</sup> It was anticipated that the bomb damaged areas in the cities could be cleared and rebuilt at lower densities. New towns would be built to accommodate firms and their workers who would move out of the big cities into decent, uncrowded, accommodation. The outer boundaries of the built up areas of the major cities would be defined by the inner edges of green belts. Within these built up areas, together with the new

2. See, for example, Colin Buchanan, *Mixed Blessing*, 1958

3. Alan Taylor, *English History 1914-1945*, 1965

The origins of the planning system  
The UK land use planning system came

towns, it was estimated that there would be enough land for the projected industrial, commercial and residential uses. It was expected that regional policies would effectively deter too much development occurring in the South, diverting manufacturing industry to the areas where unemployment had been so high in the 1930s. With the new towns and some expansion of existing urban areas, it was anticipated, and therefore planned, that there would be no need for any other development in rural areas.<sup>4</sup> Farmers could therefore be left free of regulation to grow food, an essential priority at the time; they were freed of planning controls in a way that no other industry was. They were indeed to be the custodians of the countryside.

It is reported that Harold Macmillan was once asked what, as Prime Minister, did he have most to worry about. ‘Events, dear boy, events’, he is said to have replied; and so it has been with British planning. In the course of time conditions changed, but plans did not. Perhaps the changes might have been foreseen, and, if foreseen, planned for, but they were not, and even when these changes were occurring the plans changed little and slowly. Incomes increased, as they had not before the war, in a long relatively unbroken period of stable prosperity. The population increased, as it had not done between the wars. Households became smaller. Car ownership increased.<sup>5</sup> Regional policies were relatively ineffective in diverting demand northwards, and, in any event, manufacturing industry, mining and agriculture declined in relative economic importance. Services and office employment increased.<sup>6</sup> Maybe the demographic changes might have been anticipated. But it is doubtful that the changes in economic structure could have been planned for. It is in the nature of economic change that it results from innovation, and innovation is, by definition, difficult to predict. Plans cannot be made for the unpredicted.

The result of the demographic changes was an increase in the demand for dwellings in terms of the number of homes. The result of the economic changes was an increased demand for larger homes with more space. The various structural changes accentuated a change which had begun between the two world wars – an increase in the economic importance of the South against the North, reversing a shift in their relative importance which had begun with the industrial revolution and dominated the 19th century.

“ An implicit policy of constraint came into being, constraint which was more evident where demand was high, in the South, than where it was low, in the North ”

Since these changes were not anticipated, and therefore not planned for, the increase in the demand for land was not met by a similar increase in the amount of land allocated in plans. So, unacknowledged by any government, Labour or Conservative, an implicit policy of constraint came into being, constraint which was more evident where demand was high, in the South, than where it was low, in the North.

The first acknowledgement of this phenomenon in academic work was in the extensive study *The Containment of Urban England* by Peter Hall and a team of geographers, published in 1973.<sup>7</sup> But the policy of containment had economic consequences, as well as a geographical impact. The increase in demand and the limitation of supply resulted in land prices steadily increasing at a rate faster than the general rate of price inflation.<sup>8</sup> So by the 1970s, in most parts of the country, the price of land with planning permission for development was greater, often substantially greater, than the price

4. Barry Cullingworth, ‘British land use planning’, *Urban Studies*, 1997

5. Ibid

6. Peter Hall, *Urban and Regional Planning*, 1980

7. Peter Hall, H. Gracey, R. Drewett, & R. Thomas, *The Containment of Urban England*, 1973

8. Kate Barker, *Review of Housing Supply: Interim Report - Analysis*, Chapter 1, 2003

of the same land without planning permission.

Prices continued to rise in the 1980s as the accidental and implicit policy of containment was continued. But, when concern began to be expressed, any connection between a restriction on the supply of land and its price was denied. Only in 1992 did the then Department of the Environment commission a report on the possible connection, and in consequence was forced to accept the conclusion, that restrictions on the supply of land could and did result in higher land prices.<sup>9</sup>

This belated commitment by government to an understanding of economic theory was, however, only a symbolic victory. Symbolic alone because the policy of constraint had been reinforced in the Planning and Compensation Act of 1991 by a requirement that development should not be permitted which was not in accord with central government approved plans.

In the late 1990s, the policy of constraint ceased to be implicit, and became, very definitely, explicit. The new Labour government made it a matter of policy that a high proportion of any new housing should be built on land which had

been previously developed, so called 'brown field sites', with a target of at least 60 per cent.<sup>10</sup> Nevertheless the fact that this policy depended on, and resulted in, both high house prices and higher land prices for all uses has never been acknowledged. Indeed, we are told that the view at the former Office of the Deputy Prime Minister (ODPM) was that somehow these brown field sites were equivalent to green field sites. So although the implication that these policies would result in higher land and house prices as well as commercial rents might be obvious to those interested in housing and with some acquaintance with the laws of supply and demand, it went unrecognised in the UK's central government until the advent of the 21st century. Some connection between housing land supply and house prices was only accepted in central government with Kate Barker's two reports on the supply of housing in 2003 and 2004. The impetus for these reports, however, came from the Treasury rather than the ODPM. Albeit reluctantly and with little sense of error, one has to say, since little has in fact changed in the past few years.

9. Gerald Eve, with Department of Land Economy, Cambridge, *The Relationship between House Prices and Land Supply*, 1992

10. DETR, *Planning Policy Guidance Note 3: Housing*, 2000

11. Kate Barker, *Review of Land Use Planning: Interim Report - Analysis*, Chapter 1, p.151, 2003 (data from the Property Market Report 2006 of the Valuation Office Agency)

**Table 1: Land value for different uses in the regions<sup>11</sup>**

Region	Mixed agricultural land, £/ha	Land for residential use, £/ha	Industrial and warehousing, £/ha	Business Class B1, £/ha
North East	6,701	2,210,000	167,000	235,000
North West	9,633	2,740,000	425,000	583,000
Yorkshire/Humberside	9,159	2,330,000	522,000	557,000
East Midlands	7,595	2,060,000	438,000	500,000
West Midlands	11,945	2,200,000	525,000	639,000
Eastern	7,739	3,615,000	1,038,000	1,269,000
South East	11,787	3,240,000	1,393,000	1,672,000
South West	10,416	2,340,000	662,000	760,000
Wales	9,774	2,270,000	223,000	266,000
England & Wales excl. London	10,023	2,600,000	660,000	779,000
London	n/a	7,625,000	1,767,000	2,138,000

### The price of land

If the price of land for housing is high does this impact on other commercial uses, activities that are our concern in this publication? The answer is that it may but that this depends on the operation of the policy of constraint, and the extent to which different degrees of constraint are applied to different land uses. Table 1 shows the price of land in different uses and different regions. It can be seen that there are large differences between regions and larger differences between uses, with land for housing being everywhere the most expensive.

This has not always been true. Up to the 1980s there was a view, often not expressed explicitly, that industry was productive but that other commercial uses such as offices and retailing were not. Although it is difficult to comprehend today this attitude can be traced back to Marx, maybe even further. Nevertheless, one can understand this way of thinking at that time, after the war, when manufacturing industry, and its exports, were seen as of crucial importance to the economic survival of the nation, whereas offices and shops simply provided services to local inhabitants. This attitude meant that the degree of constraint on the availability of land for manufacturing industry was low, but that the constraint on the availability of land for retailing and offices was high. Unfortunately, detailed data is scarce and often dated, but a study carried out in Reading in 1984 suggested that the price of agricultural land was about £2,500 per hectare but that the price of land for housing land at the edge of the urban area was about £500,000 per hectare. The value of land for industry was about £1 million per hectare, and the value of land for other commercial uses still higher, at least £1.25 million for offices and over £6 million for retail. At the same time the authors carried out a comparative study of Darlington, in North East England,

where they found the value of land for industry to be about £50,000 per hectare, somewhat less than the figure for residential use, while the price of land for retail use was over £2.5 million per hectare. (There were no instances of land sold for offices.)<sup>12</sup>

While the price of industrial land in Darlington in North England was lower than the price of land for residential use; the price of industrial land was much greater in South East England where, indeed, it was higher than the price of land for housing. The lower price in the northern region is evidence both of lower demand, and of the fact that, because of that lower demand and hence higher unemployment, there was in effect little constraint on the development of land for industry.<sup>13</sup> Firms could quickly move into new factories so that, it was hoped, employment in the area could be increased and unemployment reduced. The price of industrial land could therefore be taken as the cost of 'raw' agricultural land plus the cost of putting in infrastructure, roads, and other community services. Certainly other evidence suggests that the cost of providing soft and hard infrastructure may account for as much as 90 per cent of an industrial plot when land is supplied at agricultural use price.<sup>14</sup> But since the price of industrial land in Darlington represents a kind of base price, the data also tell us that the prices of land in other uses, prices which were higher both in the North and in the South, were higher because of the operation of the policies of constraint, which reduces the supply of land, and higher again in the South where demand is higher.

The late 1980s and early 1990s represented a period of turbulence in the property market. Most noticeably there was a boom followed by a bust. This can be seen in Figure 1 which shows residential and industrial land values in the West Midlands.

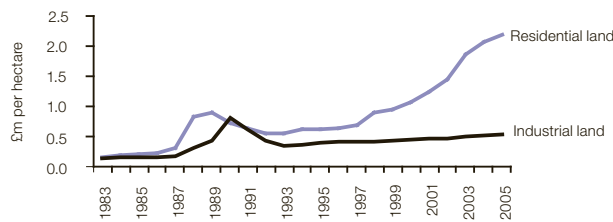
12. Paul Cheshire, Stephen Sheppard, and Alan Hooper, *The Economic Consequences of the British Planning System*, Department of Economics, University of Reading, 1985

13. *Ibid*

14. Alan W. Evans, *Economics, Real Estate and the Supply of Land*, p.215, 2004



**Figure 1: Residential and Industrial Land Values in West Midlands 1983-2005 (£m per hectare, nominal values)<sup>15</sup>**



The boom was not only a price boom but also, to some extent, a building boom. At the time, a number of changes in the relative degrees of constraint took place. First, in the process of the changeover from Domestic Rates to the Community Charge and then to the Council Tax the taxation of residential properties was substantially reduced, largely to make the two changes politically acceptable. The level of taxation of commercial properties was not reduced, however, though its level became centrally rather than locally controlled. One would have expected residential land values to have risen relative to commercial land values and that is what appears to have happened.

Secondly, in the late 1980s it was recognised that new 'high tech' firms were coming into existence. It was unclear whether a software firm, for example, was office or manufacturing or, indeed, research. To allow for this a new use class, B1, was created which covered Business, that is both office and light industry.<sup>16</sup> (Use Classes B2-7 covered General Industry and Special Industrial Groups.) This had the effect that the price of land for office space tended to converge with the price of land for industrial use.

Besides, the position with respect to retailing also changed. On the supply side permission was given for a large number of new out of town supermarkets, so the supply of retail space increased. The position changed with the issue of new Planning

Policy Guidance in the early 1990s, and this flow of new development ceased around 1996.<sup>17</sup> On the demand side the law changed. Whereas the hours at which British supermarkets could open had been limited, now they were almost unrestricted. So customers were not forced to shop during 'normal' working hours. Shops and supermarkets could remain open late, and some began to stay open for twenty-four hours. Almost the only remaining restriction was that larger stores could only open for six hours on Sunday. The change in the law meant the demand was spread over a longer time, and this demand could therefore be met with less space. The combined effect of the increase in supply and the changes on the demand side was that the price of retail space did not rise as fast and tended to be closer to the price of industrial land. Of course the price of land for any business use remains, as Table 1 shows, many times higher than the price of raw agricultural land.

The current position is, as shown in the Table 1, that the price of land for commercial uses, industrial and B1 at least, differs between regions but relatively little within the regions. The price of land for housing is now far higher, in all regions, than the price of land for industry or commerce. Nevertheless, with the possible exception of North East England, the price of land for commercial and industrial uses is still itself far higher than the price of agricultural land, even if one assumes that the cost of infrastructure provision is included in the cost of land. In the South of England it is far, far higher. What are the consequences of this? Is the policy of constraining the availability of land for commerce and industry good or bad for the nation?

A brief excursion into economic theory For over two hundred years economists have tried to explain the reasons for international and interregional trade. The

15. Valuation Office Agency, *Property Market Report*, 2006

16. *Town and Country Planning (Use Classes) Order 1987 (England and Wales)*

17. Valuation Office, *Property Market Reports, Spring and Autumn*, passim

received theory, due to the economist (and stockbroker) David Ricardo, was that nations, and regions within nations, had ‘comparative advantages’ in the production of some goods and services, but not in others.<sup>18</sup> But in what did these comparative advantages lie? One of the basic theories of international trade argues that the advantages arise from the differing distribution of the factors of production – land, labour and capital. A country which had a small population relative to its land area, i.e. a relative surplus of land, would export goods which required a lot of land for their production, and import goods and services which were mainly a product of labour. Conversely an area with a higher ratio of labour to land would export goods which required relatively labour intensive production, and import goods where production required relatively more land.<sup>19</sup>

This pattern of trade would occur because the price of land would be relatively high where it was in short supply, while the price of labour would be relatively high where it was the factor in short supply. Because of trade, however, as the pattern of production adapted to the pattern of trade, the factor prices would tend, in the very long run, to equalise. This is because activities which used a lot of land would be driven out of business where land was expensive and in short supply. These activities would transfer abroad to where land was cheaper. On the other hand, activities which used a lot of labour would transfer out of areas where labour was in short supply and expensive, and move to where labour was cheaper. In economics this is called ‘factor price equalisation’. The non-economist should note that in practice there will only be a tendency towards equalisation, not actual equalisation. Economists tend to overuse the term ‘in the long run’, a tendency famously debunked by one of the most distinguished members of the profession, John Maynard Keynes, who pointed out that ‘In the long run we are all dead’. In

the world of economic policy rather than economic theory it is the short and medium run we are really concerned with. Besides, economics, properly understood, is dealing with processes, not hypothetical end-states.

#### A policy of distortion

The implications for the operation of the UK planning system will certainly have been realised by the reader but, for the sake of clarity, we will spell them out. The UK policy of constraint ensures that urban land is in short supply, in short supply that is relative to other countries which do not have similar constraints on urban development, whether man made or natural. Germany, for example, has a comparable population density, but uses a higher percentage of land for development than the UK.<sup>20</sup> As we have shown, the price of land, in any urban use, is therefore high across almost the whole country. Where the constraint is tightest and the demand is highest – with land for residential use – the prices are highest. Of course, since the constraint is man made rather than natural, the degree of constraint can be varied. It can differ between areas, and it can be different for different uses in the same area. We saw that this was particularly evident in North East England, where the constraint on land for manufacturing has been low. On the other hand, the evidence shows that the constraint on land for commercial uses has always been high in the South – and that is even though the proportion of the land area of England which is urbanised is only about 10 per cent; indeed, even including London – some 87 per cent of which is in urban usage<sup>21</sup> – less than a fifth of the South East of England is urbanised, and the proportion of southern England which is urbanised is still lower since the South West and East Anglia are two of the least urbanised areas of the country.

18. David Ricardo, *Principles of Economics*, 1815

19. The theory is due to the Scandinavian economists, Heckscher and Ohlin. See, for example, Ronald Findlay, *Trade and Specialisation*, 1970

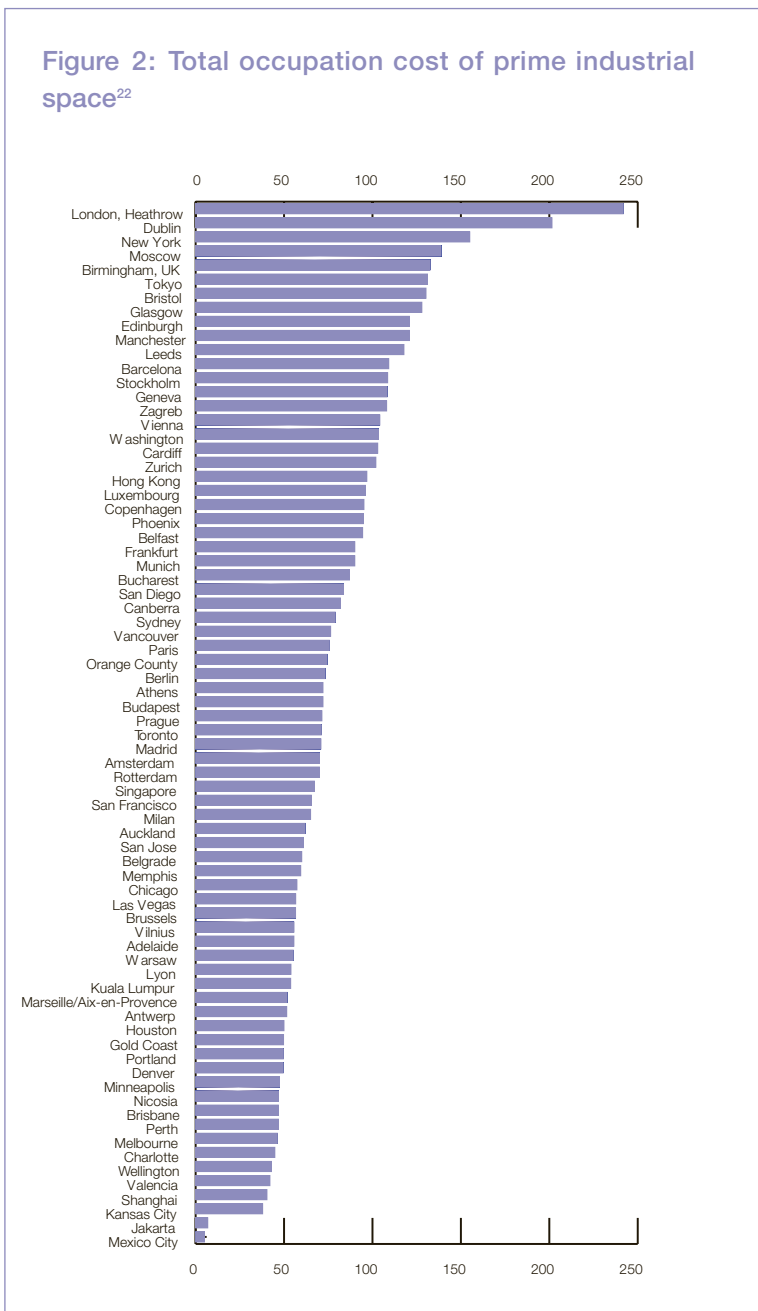
20. Alan W. Evans & Oliver Marc Hartwich, *Bigger Better Faster More - Why some countries plan better than others*, Policy Exchange, London 2005

21. [www.sustainable-development.gov.uk/regional/documents/london\\_factsheet.pdf](http://www.sustainable-development.gov.uk/regional/documents/london_factsheet.pdf)

Clearly, in areas where unemployment has been high, there has always been political pressure to permit industrial development on the grounds that it would create jobs. But in areas of more or less continuous full employment in southern England no such pressure has existed. Furthermore, unlike countries with a strong element of local business taxation like Germany or Switzerland, there are not enough fiscal incentives for local planners and politicians to engage in a pro-development policy.

22. [www.kingsturge.com/resources/library/0/research/2006/01Aug/160820063317\\_.pdf](http://www.kingsturge.com/resources/library/0/research/2006/01Aug/160820063317_.pdf)

Figure 2: Total occupation cost of prime industrial space<sup>22</sup>



The result has been, if the price of land is used as evidence, that in the South there has been a high level of constraint for all uses, although the level has varied between the uses over the years. Only in the last few years has the constraint on housing land become significantly greater than the constraint on land for other uses.

The economic consequences of this continuing policy of constraint are implicit in the economic theory of trade we set out earlier. Activities which use land extensively will become uneconomic and unable to compete with similar activities based elsewhere where land is cheaper. If labour is also cheaper there the economic pressure to relocate activities is doubled. Most obviously, single storey factories on large sites are the most likely to be driven out. Office blocks become the most economic commercial use of the land which is available.

With an explicit policy that as much housing as possible should be put on brown field sites the bias against manufacturing is reinforced. After all, if a factory is closed down, then the site becomes a brown field site occupied by a derelict factory, perceived in current policy terms as eminently suitable for redevelopment for housing. So while a reluctance, in the past, to allow such redevelopment might discourage owners from closing down a factory, current policies of encouraging the redevelopment of 'brown field sites' for housing also positively and explicitly encourage such behaviour. Furthermore, local authorities are encouraged to use this land due to government targets for brown field development.

Thus the planning system and its policy of constraint distorts the development of the economy, biasing it against manufacturing and other extensive uses, and in favour of land intensive uses such as offices and high density housing. What appears to be a benign policy based on re-using existing derelict sites becomes a malign policy encouraging the closure of factories to

make a profit selling the land for housing. At the same time the production is moved elsewhere, sometimes directly, by the company itself, more usually by the cessation of production in the UK being covered by imports from abroad. All this is based on the myth of scarce land which, as we have seen, is simply not true.

This of course can be seen to be happening in the UK, where manufacturing has declined at an alarming rate and faster than in many other developed countries.<sup>23</sup>

Why this would occur is evidenced Figure 2. This shows the occupation cost of industrial floor space in a number of cities across the world. That London is top of the list is perhaps less surprising than the fact that the other major provincial cities in the UK are placed high in the list so that, for example, the cost of space in almost all British cities is higher than in Paris. Clearly the high cost of industrial floor space puts the UK at a disadvantage; other things being equal it is cheaper to locate production elsewhere.

The structure of the UK economy, which is indicated in Table 2, shows the character of the exports of the UK, France, and Germany. Income from investments abroad is much higher for the UK, but leaving that aside, the value of UK exports of services is just over half the value of manufacturing exports, while for the other two countries service exports are a small fraction of the value of goods exported,

one sixth in the case of Germany. Moreover, this trend continues. Recent data indicates that industrial production in the European Union increased by 9 per cent between 2000 and 2005. In the same period, in the UK, it dropped by nearly 5 per cent.<sup>25</sup> While the growth in the rest of Europe might be because of improving economic conditions, the fall in production in the UK occurs at time of apparent economic prosperity. But then, as Ivor Tiefenbrun recently commented in the *Journal of the Royal Society of Arts*, “the sad truth is that nobody in Britain has built a major manufacturing company from scratch since the time of the Attlee government of 1945. . . No other country has such a pathetic track record of manufacturing business creation. All our major manufacturers pre-date the Second World War”.<sup>26</sup> Or, as he might have put it, pre-date the Town and Country Planning Act of 1947.

While it is of course possible that other factors such as a potential lack of skills contributed to this lack of development, it is reasonable to expect that high land prices have much to do with this phenomenon. Take Germany as an example: The average price of building land there (residential and industrial) is about £400,000 per hectare<sup>27</sup> – far below English land prices (see Table 1). For a company that considers building a new large factory, such huge differences in land prices may be an impor-

23. Dirk Pilat, Agnès Cimper, Karsten Olsen & Colin Webb, 'The changing nature of manufacturing in OECD countries', STI working paper, OECD, Paris 2006, p.6.

24. *United Kingdom Balance of Payments: The Pink Book 2005*, www.statistics.gov.uk; *Germany: German Balance of Payments in 2004 and Balance of Payments by Region*, Deutsche Bundesbank, August 2005, www.bundesbank.de; 2004 *Rapport Annuel, La Balance des Paiements et la Position Extérieure de la France*, www.banque-france.fr

25. Eurostat, *Industrial Production Index*, 2006

26. Ivor Tiefenbrun, *RSA Journal*, August 2006, www.rsa.org.uk/journal

27. [http://www.statistik.baden-wuerttemberg.de/Statistik-Portal/en/en\\_jb21\\_jahrtabp1.asp](http://www.statistik.baden-wuerttemberg.de/Statistik-Portal/en/en_jb21_jahrtabp1.asp)

Table 2: Composition of exports in European economies<sup>24</sup>

	UK		Germany		France	
	€bn	%	€bn	%	€bn	%
Goods	281	43	732	76	339	63
Services	146	22	114	12	89	17
Receipts of Income	205	32	107	11	87	16
Transfers	19	3	16	1	21	4
Totals	650	100	969	100	536	100

tant factor to consider. Apart from the mere land price difference, the attitude of planners and local communities is different. As they can feel the effects of a successful pro-development policy in their pockets (through a higher degree of local taxation), they are much more likely to support companies wishing to locate in their areas.

*A reader interrupts!*

*If I can get a word in. You go on and on about 'the reader will realise', 'the reader will have seen' and so on. This reader wishes to point out that you cannot just look at things at the national level.*

*Planning policy is also a regional policy. That's why the price of land is high in the South and low in the North. We want the jobs to move north.*

A regional policy?

Thank you for your contribution. As you have realised, we do like to keep the reader's ideas to the fore. Certainly the idea that planning constraint in the South was a regional policy to help the North was a view held at the highest level of government as land and house prices rose in the

1980s. Nicholas Ridley, then Secretary of State for the Environment, wrote in March 1987 that "because we and local planning authorities are maintaining tighter planning controls in the South East . . . development land prices in the South East have risen to very high levels. Industry and commerce not only face high prices if they want to build and develop on land; they also face high prices and a shortage of labour as housing costs are high and housing is in short supply. So there is already a strong cost incentive for businesses to look outside the prosperous points of the South East to locate elsewhere".<sup>30</sup> A few months later, the Prime Minister, Mrs Thatcher said in a television interview "you will find differences in house prices between North and South will be the thing which persuades more companies to move North".<sup>31</sup>

Whatever may have been said earlier, however, in November 1987 the then Secretary of State for Trade and Industry, Lord Young, denied there was any such policy. Since then, to the best of our knowledge, no government spokesman, whether Labour or Conservative, has argued that tight planning controls in

28. Kate Barker, *Review of Land Use Planning - Interim Report*, footnote, p.152, 2006

29. Harrow Council, Development Control Committee Agenda, 5 October 2006

30. *The Guardian*, 20 March 1987

31. BBC, 24 July 1987

"Currently in London and to some extent the South East, developers are tending to buy up old houses, factories or disused warehouses, paying the market price for the buildings, and secure change of use to develop new houses".<sup>28</sup> Office blocks too may be redeveloped for housing. To cite an example, planning permission was recently given to redevelop Raebarn House, a seven storey office block on a main road in South Harrow, and replace it with an eight storey block with 150 dwellings of which 41 are 'affordable', plus 834 square metres of commercial floor space on the ground and first floors. The 'applicant statement' which accompanied the application argued that much of the property was vacant and that offices in South Harrow were difficult to let. This economic argument that the loss of the office space did not matter was accepted by London Borough of Harrow.<sup>29</sup>

From a wider economic view point, of course, one might note that the office space could have been filled more easily if lower rents had been asked. Also that demolishing the building displaces office uses into other properties and this helps to maintain and raise office rents elsewhere.

The conversion of offices also occurs, even on the fringe of London's central area where rents are considerably higher than in Harrow. Thus in the Pimlico area it is now economically profitable to convert smaller, older office properties into housing, often 'period' properties which had been converted from housing in the past. Because these are small properties there is no planning requirement to provide 'affordable' housing. It is less profitable to convert larger office blocks because of the requirement that a high proportion of new flats should be 'affordable'. (So the requirement that affordable homes should be built means that neither affordable nor any other homes get built. So house prices stay higher but, the other side of the coin, office rents remain lower.)

southern England are an instrument of regional policy. What economic advice might have been tendered within government which led to the idea of planning controls being used to forward regional policy airbrushed out of history, we do not know. After all, if such a policy never existed, there is no reason why any government spokesman should put forward any reasons why it ceased to exist!

Nevertheless, one may guess as to the arguments which might have been put to ministers. One we have already mentioned. At that time it was believed within the Department of the Environment (DoE) that constraints on the availability of land did not affect land prices. So Ridley's statement that land prices had risen in the South East because of the tight planning controls did not coincide with the departmental line. Only some years later, in 1992, did the DoE change this view. But even if it is accepted that tight planning controls cause land prices to be higher, there is still one very important reason why the policy, as a regional policy, should be disowned. There is, after all, no reason to presume that economic activity diverted from southern England by high land and house prices would go to areas of high unemployment and low land prices elsewhere in the United Kingdom. The UK was then, in 1987, a part of a European Community in which barriers to the movement of capital and labour, goods and services, were as a matter of policy, being reduced to the lowest level possible. Twenty years later the arguments are still stronger. What was a Community of fifteen nations is now a Union of twenty five. Furthermore, in the era of globalisation the barriers to trade are even lower than they were then. Activities diverted from southern England by higher land prices may move across the English Channel or the Irish Sea, indeed across the world, to any number of other locations where land, and labour, will be

cheaper, and economic development will be welcomed.

No doubt other politicians, since 1992, have thought of advancing the argument that planning policy is a kind of regional policy, and no doubt the economic advisers at the Treasury and elsewhere in government persuaded them, as Lord Young was presumably persuaded, that as a policy it is economically flawed.

*A reader interjects*

*Maybe I should not have mentioned jobs. You do take things so literally. What I meant to say is that all the development was taking place in the South. What is needed is 'urban regeneration'. It's about getting these old and derelict sites redeveloped. Creating towns and cities people want to live in. You economists do not think about things like that.*

Urban regeneration

Well some economists do not, we agree, but it is difficult to be an urban economist without caring about cities. But caring about cities is not everything. What all economists do is try and work out the consequences and the hidden costs of actions. But in this case the question is whether the costs exceed the benefits.

The problem is that the policies of urban regeneration are, in many respects, a kind of regional policy even if they are not described as such. Such a regional policy is implicit in the policies with respect to the primacy of the development of brown field sites put forward in the Rogers Report and subsequently accepted by the government.

Thus Lord Rogers and his team argued, as we have said, that a high proportion of new housing should be built on brown field sites. What was not spelled out was the spatial mismatch, i.e. that the demand for housing was highest in the South

while the majority of the existing brown field sites were in areas of low demand in North England and elsewhere. By ignoring the location factor, the report assumed an indifference to where the new housing was to be provided. By this indifference they ignored the economic mechanisms, the market forces, which might lead to new housing being built on these brown field sites.

For, if this were to occur without any other form of government intervention, the price of land and the price of housing would have to rise in the South to a level at which migration from North to South was curtailed, if not reversed, so that demand was diverted to the regions where there were existing brown field sites. As prices rose outside the South it would become economically feasible to redevelop these sites, and an urban renaissance could then be proclaimed.

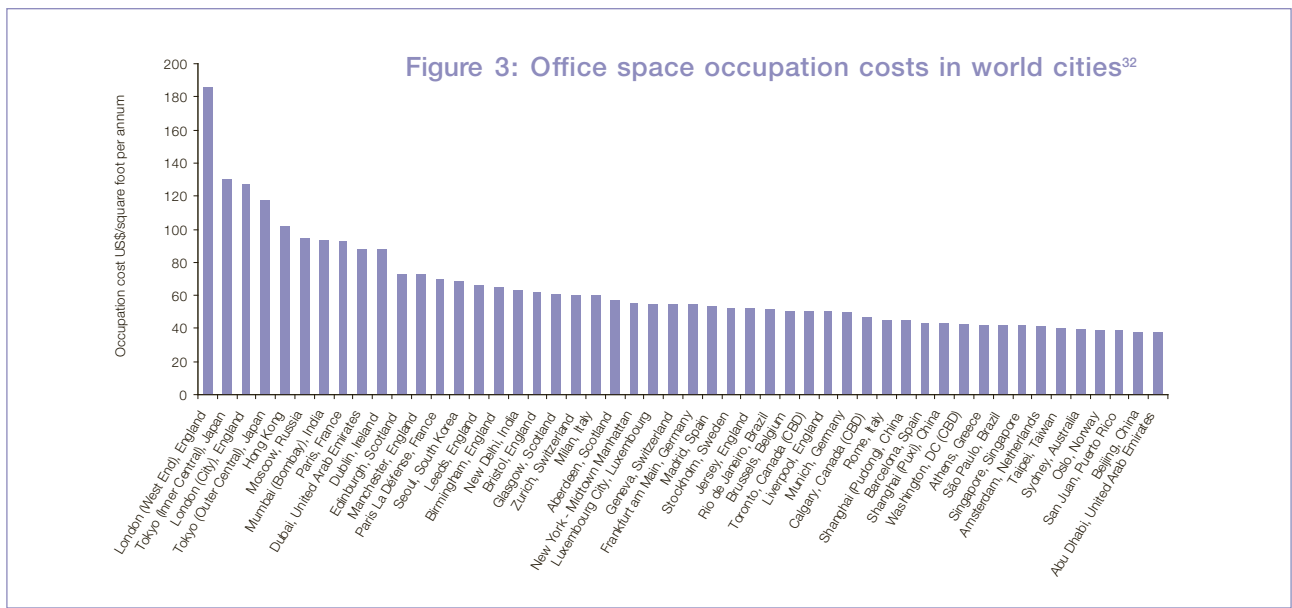
The same arguments apply to such an urban policy as to the same ideas put forward as a regional policy, as well as some other arguments. It is a policy of restricting supply. It involves high house and land prices everywhere to ensure that it is profitable to develop every existing brown field site. Let us reiterate for clarity. The ‘brown fields first’ policy is only feasible

when land prices are extremely high, and the effects of such a policy – for first-time buyers and for the economy as a whole – are profoundly negative. The demand for space which is choked off can and does result in the diversion of activities elsewhere in the world. It is fortunate that it has been applied during a long period of sustained growth. Of course it has one major advantage as far as the government is concerned. It apparently costs nothing to the Exchequer. There are no subsidies to pay out to encourage redevelopment. From the point of view of the whole economy of course the costs are high, but they are borne by the population as a whole.

*A reader asks*

*Well, what are these costs? The only things you've mentioned so far are that the manufacturing industry may be driven out, activities move abroad, and firms, and people, face higher land and house prices. But manufacturing would have declined anyway, we've had pretty near full employment for many years, and the economy has been growing steadily for the last fourteen or fifteen years.*

32. CB Richard Ellis, *Global Market Rents*, May 2006, [www.cbre.com/USA/Research/Market+Reports/Global+Market+Rents/](http://www.cbre.com/USA/Research/Market+Reports/Global+Market+Rents/)



### The 'hidden' economic costs

That may be true, but the rate of economic growth over the past fifty years has been slow relative to countries at a similar level of development, such as Germany, France, or Italy.<sup>33</sup> The one thing that distinguishes the UK from the others is the tight control of the planning system. Given that the system is explicitly meant to control and limit physical development, might it not also limit and restrict economic development? Might the light control exercised over economic development in Italy be related to what Italians call 'Il Sorpasso', the overtaking of the British economy by the Italian economy? There are costs, apart from the ones, we have talked about, and if you will allow we will set them out in three basic groups.

### High land prices and costs

If the cost of land is high then the cost of using the space built on that land will also be high. That is the rent of space for offices and shops and other uses. All the evidence confirms that the cost of occupying space is high in the UK. Figure 3, for example, indicates the total occupation costs in US\$ per square foot per annum for a number of cities in the UK, Europe and elsewhere in the world.

It can be seen that to some extent the cost is related to size. One would expect this. Urban size brings benefits in terms of what urban economists call 'agglomeration economies', the sheer size of the market allows for economies of scale in the division of labour, so that services of various kinds are available at a lower cost than in other, smaller, cities, if indeed they are available at all in these smaller cities. But increased size also brings costs. The sheer physical size of the larger city means that high rents have to be paid for a location at or near the centre where travel costs are minimised and the availability of these services maximised.

So, in principle, the cost of space will be correlated with size which will in turn be correlated with the available agglomeration economies. But what is evident from the figure is the cost of operating in British cities is higher than one would expect, given their size. Most noticeably the occupation costs of space in central London are at least as high as in Tokyo, and about 50 per cent higher than in Paris, while the occupation costs of space in Paris are not that much higher than the cost of space in Edinburgh or Manchester. What this means is that economic activities located in British cities are paying a higher price for the available economies than they would have to do elsewhere in the world. In an era of globalisation it is, in our view, questionable as to how long this can continue. Presumably the UK currently must have some sort of comparative advantage (language, historical connections) which justifies these rents. If it did not more companies would have moved abroad and rents would have fallen. Perhaps UK plc is trading off the huge advantages wrought by the Big Bang on the competitiveness of the City of London, which has established itself as the global centre for financial services. But can we take this comparative advantage for granted, and what happens if it disappears?

Commenting on a draft of this report, Hugh Pavletich, co-author of the Demographia International Housing Affordability Survey, asked how long this "premium" for British space had gone on and whether it had increased markedly recently. He argued that bearing in mind that "lags" can be expected in market responses, but once the response occurs and the momentum gets underway, such a development could be "lethal" and extremely difficult to reverse. We would agree that Britain is running a huge risk, especially considering that services are even easier to relocate than manufacturing.

The high cost of space affects not only office space. It also affects other commercial activities. Hotels and restaurants are both in

33. McKinsey Global Institute, *Driving Productivity Growth in the UK Economy*, 'Chapter 2: The Productivity Problem', 1998



the business of temporarily leasing space to customers. Both these activities are expensive in the UK compared to elsewhere. In a comparative study of the cost of a weekend in a number of cities around the world, in checking costs of hotels, eating, etc., London came out as the most expensive.<sup>34</sup> But anyone who has travelled both abroad and in the UK will know for themselves that the cost of hotels and restaurants is higher in the UK than in other parts of the world.

### High land prices and crowding

An activity such as a shop, which has to pay a higher rent than a shop somewhere else, can attain the higher income necessary to pay this higher rent in different ways. As we have just said, one way is to charge higher prices. But it can also achieve this higher turnover by serving more customers, by using the space more intensively. The restaurant or hotel in the UK can both charge higher prices than elsewhere but also has to

34. UBS, Prices and Earnings Survey, 2006

### London: The Most Expensive City in the World

Every few years UBS carries out a standardised Prices and Earnings Survey. The most recent survey was conducted between February and July 2006, in 71 cities throughout the world. Because of the wide geographical spread only the statistics on prices and earnings for one British city, London, are collected, but these are revealing.

A number of price comparisons are made – food, services, and so on – but, from our point of view, one of the most interesting comparisons made is of the price of a city break. The researchers put together a basket of ten goods and services comprising an overnight stay for two in a first class hotel, two dinners with a bottle of the house red wine, one taxi ride, a 100 kilometres in a rental car, two outings to the theatre by public transport, and various small expenditures such as a paperback novel or a phone call. The package is most expensive in London, where the total cost is estimated as being \$1180 (£672).

The figures for the ten cities where the cost of a two day break are highest are shown below:

	US\$
London	1,180
Tokyo	1,090
Geneva	940
New York	920
Oslo	920
Zurich	900
Helsinki	870
Paris	870
Milan	860
Copenhagen	850

Of course in large part this is because the high cost of space is an important determinant of the cost of a hotel room and a hotel meal. Since UBS separately costed out the price of a restaurant meal and of stays in a four star and three star hotel, it is no surprise to discover most of the same cities in the list of the most expensive. The table below lists the ten cities where eating out costs the most, together with the hotel prices for those cities.

	Restaurant	4*	3*
Tokyo	77	510	270
London	64	500	190
Oslo	54	340	200
Dublin	53	350	170
Copenhagen	51	280	150
Helsinki	51	320	150
Milan	50	450	190
New York	50	450	250
Sydney	48	310	110
Zurich	47	390	170

Although space is an important factor affecting the cost of restaurants and hotels, it affects the cost of other goods and services. The UBS researchers calculated ‘the cost of a weighted basket of goods geared to Western European consumer habits, containing 122 goods and services’. The figures are given in the form of an index where New York is the base 100. They are also given in two forms, one including rent, the other excluding rent. When rent is excluded London is the second most expensive city, when housing costs are included it causes no surprise to find that London is the most expensive city in the world.

<b>Living Cost Price Index</b>	(inc rent)	(exc rent)	
London	105.5	110.6	Here the first column gives wage levels gross, and the second column gives wage levels net of taxes and social security. The next calculation which is possible is, given the wage and price levels, to calculate from these figures an estimate of the domestic purchasing power of the salaries and wages paid. UBS give these figures for gross pay, for hourly net pay and annual net income, but using an index of prices which excludes rents. On these calculations London ranks 23rd , (in terms of the purchasing power of gross hourly pay), 20th (net hourly pay), and 17th (annual net income). Unfortunately UBS do not make similar calculations using an index of prices which includes rents. Given that London housing costs are substantially higher than in almost all other cities, it is clear that in any such calculation London would drop substantially still lower in the rankings, to 30th or 40th, well down the list, and probably near the bottom of the list of cities in developed countries.
New York	100.0	100.0	
Oslo	94.6	121.5	
Tokyo	93.4	106.8	
Zurich	87.3	107.4	
Copenhagen	86.3	109.2	
Geneva	85.8	102.9	
Dublin	84.3	98.3	
Chicago	82.2	92.2	
Of course if living in London is expensive then high salaries and wages have to be paid to compensate, so it is also no surprise to find that London wage levels are also high, but London wage levels rank somewhat lower than London price levels. Once again these are given as an index where New York is the base.			
<b>Wage level indices</b>	(gross)	(net)	
Copenhagen	118.2	95.7	Two conclusions can be drawn. One, which is not our concern in this report, is that Londoners who rent or have only recently bought their homes are much worse off than they might be in almost any city in any developed economy, especially given the nature of the London property market with high levels of renting.. The second, which is our concern here, is that London employers have to pay wages which are high relative to the rest of the world because of the high cost of living, a high cost in large part because of the constraints on land supply imposed by the UK land use planning system. Thus the cost is high to employers but the benefit to employees is low – the worst of outcomes. Indeed, given the lopsided nature of London's economy and it's over-reliance on financial services – which offer very high wages to a relatively small number of workers – the real situation for the average London worker is likely to be even worse, with the miserable combination of high costs and low wages leading to a low quality of life.
Oslo	117.0	110.8	
Zurich	115.1	124.2	
Geneva	111.0	115.4	
New York	100.0	100.0	
London	89.2	96.0	
Chicago	88.3	94.7	
Dublin	88.3	104.6	
Frankfurt	87.6	85.5	
Brussels	86.8	78.2	

operate closer to full capacity. Sometimes this 'crowding' may be relatively unimportant. There may be fewer petrol stations available than there might be in other countries, but provided you do not run out of petrol, then the fact that the number of cars passing through is high is unimportant to the consumer. In other cases it matters. Shops and other facilities are more crowded. A case in point is the attempt by many, if not most, London restaurants to try to achieve two, if not more sittings, in an evening. The cost of the meal appears in the National Income Statistics. The fact that one may be required to arrive earlier or later than one would wish, and to vacate the table within

two hours does not. It is 'just an externality'. But it is still a cost, the kind of thing which makes people think of emigrating, one of those things that affects the quality of life.

#### Lack of choice

As the high cost of space impacts on the consumer in the form of higher prices and more crowded facilities, so it also has an impact in influencing what it is profitable to supply. To achieve a high turnover it may also be profitable to limit what is supplied. So a shop limits the range of choice in its stock. Stocking a large number of products occupies space and space is valu-

### More Britons consider move abroad

**More British people than ever before want to turn dreams of a foreign life into reality, a poll for the BBC suggests.**

About 1,000 people were questioned for the survey and a majority said they had considered emigrating, little change from a similar 2003 poll.

However, the number hoping to move in the near future has almost doubled.

The BBC is appealing for information on Britons abroad as part of a major project to count expats accurately.

According to the national poll, more than half of British people have considered emigrating in their life time.

But when asked about whether they would actually ever go, 13% said they were hoping to in the near future, almost twice the number asked the question in 2003.

Young people were the most likely to want to leave, with a quarter saying they were hoping to live abroad.

When asked why they would go, the most important reasons were a better quality of life, better weather and a feeling that the UK is too expensive.<sup>35</sup>

able. Lines which are sold less frequently are therefore not stocked. The range of products may be deliberately limited to those which it is known will sell well. In this way the space occupied by the stock can be kept low relative to turnover.

This has a number of consequences. It certainly encourages the existence of chains of stores which, through advertising their brands and keeping a tight control on product range, can achieve a high turnover with a limited range of products. Thus the range of

35. <http://news.bbc.co.uk/1/hi/uk/523723.stm>, 2 August 2006

### IKEA – Product pricing round the world

The Swedish firm IKEA sells its products round Europe, indeed throughout the world. The products are standardised, as are the stores, and as are the catalogues, which can be viewed online. Given this standardisation of product we thought that it might be of interest to find out whether IKEA's prices were higher in the UK than elsewhere. An initial search for the prices of three items (Poang armchair, Tylosand sofa, and Sultan bed) in IKEA's catalogues confirmed that all three were more expensive in the UK than in the rest of Europe. However, there was otherwise no clear ordering of prices by country. We encouraged our research assistant to add another three items to the list, and to search on a world wide basis. He added a Varde sideboard, a Leksvik wardrobe, and a Forsby table to the list. The table below gives the total cost of the six items for the pre-enlargement European Union countries where all six were available (which curiously includes Denmark but not Sweden). It can be seen that the UK still heads the list of European countries, though the items added to the list were cheaper in some other countries than in the UK.

We limited the list to these countries because differences in tax rates and tax policies can make comparisons difficult. For example the US would be cheapest of all, with a total cost of

£1144, but this would ignore the fact that the European countries charge VAT, which is not charged in the US. On the other hand, as every visitor to the US knows, a sales tax is levied at the time of purchase but not included in the quoted price, and this tax varies from state to state.

Of course, the rates of VAT also vary between European countries. It is worth noting that the UK's rate of 17.5 per cent is in fact lower than that of the two next most expensive countries, France (19.6 per cent) and Italy (20 per cent).

	£
UK	1483
France	1453
Italy	1450
Norway	1380
Spain/Portugal	1358
Austria	1338
Finland	1328
Denmark	1316
Belgium	1290
Holland	1249
Germany	1229

products available to the consumer is limited but through 'mass marketing' rather than 'mass production'. It also encourages a trend towards what has been called the 'clone city' where the shops and stores are the same in each town, stock the same products, and sell the same services.<sup>36</sup> It also discourages the small entrepreneur, in two ways. First, the initial investment in an activity is high because a high rent has to be paid. Second, a high turnover has to be achieved quickly in order to pay this rent.

Obviously these features will be evident in any large city anywhere in the world, because the cost of space is higher in every large city. But commercial rents in British cities are high relative to their size. So the 'clone city' phenomenon is more widespread in the UK than it is likely to be in other countries with lower rents and looser planning controls.

*A reader intervenes*

*Well, I've listened to what you have to say about these costs – I hear what you say. But what you have not mentioned is the most important reason for these controls. The fact is they are necessary to ensure the survival of the planet. We have to save land and try to make sure that cities are as dense as possible so that people do not have to travel far so that we use as little fossil fuel as possible. We have to do our bit to save the planet from global warming.*

### Sustainability

We take your point, and we would wish that the planning policies being pursued actually did help to do this. But it is extremely doubtful that they actually do, and quite probable that they make things worse.

For example, the argument that higher density development results in less carbon fuel being used is fairly thoroughly dealt with in Kate Barker's Interim Report on the planning system.<sup>37</sup> It does not seem as if there is any relationship between the density of dif-

ferent cities and fuel use in those cities once differences in the price of fuel are taken into account. From this one has to conclude that if you want to reduce the use of fuel then raise its price, through taxation if necessary, to what is regarded as the optimal level and then let urban densities adjust to that. There is, indeed, some evidence from Holland and Norway that at high densities people wish to get away at weekends so that whatever savings there might be from higher densities are wiped out as by people driving or flying to second homes or weekend breaks.<sup>38</sup>

Leaving aside the question of fuel use, the other problem with the idea that higher densities are necessary to save the planet is that higher densities cost more to build; they may save land but they use more of other resources. The evidence on office blocks suggests that the construction cost per square metre of a high rise office block is between 20% and 35% higher than for a medium height block. Because more space is taken by the structure the high rise building is about 10% less efficient.<sup>39</sup> Higher density buildings can also cost more to run. For example, any two storey building open to the public, will, since the Disability Discrimination Act, have to have a lift. Lifts are expensive, and they have to be maintained and run. Besides, some manufacturing activities are uneconomical other than in a single storey building. So manufacturing may simply be driven elsewhere, with, of course, an increased cost of transporting the goods produced to the British consumer or producer.

A senior planner once remarked that he was entirely in favour of multi-storey car parks because they saved land. But in the case of car parks it is even more evident that saving land does not necessarily save the planet. The cost of providing parking spaces on the ground is about £1,000 per space, while the cost of providing parking spaces in a multi-storey car park many times higher.<sup>40</sup> Land may be saved, but steel, concrete, and fuel are used to provide substitute space in the air. Sustainability is reduced by multi-storey car

36. New Economics Foundation, *Clone Town Britain: The loss of local identity on the nation's high streets*, 2004

37. Kate Barker, *Review of Land Use Planning - Interim Report*, pp.156-9, 2006

38. Erling Holden and Ingrid Norland, 'Three Challenges for the Compact City as a Sustainable Urban Form', *Urban Studies*, November 2005

39. Kate Barker, *Review of Land Use Planning - Interim Report*, 2006, p.162

40. See, for example, Gardiner & Theobald, *Office Business Parks - A benchmarking analysis*, June 2001, which estimates that decked parking will cost between £3,200 and £10,000 per space - the more storeys, the more expensive (<http://www.construction-cost-consultancy.com/Economics/images/OfficeBusParks.pdf>).

parks, but this is not evident if the only measure of sustainability is saving land.

Besides, it is not at all clear why it should be that saving land should have priority. After all, the land saved is apparently not needed for agriculture. About 10 per cent of the land which could be used for agriculture in South East England has been 'set aside' because the Common Agricultural Policy encourages overproduction.<sup>41</sup> The resulting surpluses then have to be sold outside the European Union. This is detrimental to, some would say 'wrecks', the agricultural systems of many developing countries, and also prevents them from exporting to the EU to pay for other goods and services.

Nor is it evident that other countries view saving land as an important policy objective. If no other country is taking 'saving land' as seriously as the absolute and overriding policy objective does in the UK, then maybe the British view is wrong and saving land is not important. It also follows from this that the UK's contribution to global sustainability through land saving is of negligible importance, at best. That is if it is not actually counter-productive, since it results in other resources are used up in the attempt to use as intensively as possible the land where development is actually permitted. One also should not forget that that is less than 10 per cent of the land area of the UK, 90 per cent of which remains undeveloped.

*A Reader Confesses*

*I'm afraid that when it comes down to it there's nothing you can say which would persuade me. The fact is I just do not like the countryside being built over. I pay my dues to the Campaign to Protect Rural England (CPRE) and I support their aim, to stop, or at worst, minimise building on green field sites. Frankly I live just outside a large town, and I do not want my view spoilt and I do not want anything built near my home.*

41. *The Guardian*, 'The EU common agricultural policy', 26 June 2003, <http://www.guardian.co.uk/theissues/article/0,,975350,00.html>

## Incomes and Redistribution

Well, as you say, there is nothing which would persuade you to change your views. But as economists we have to point out the costs of saving land. You are very aware of the benefits to you, and what we are trying to do is to indicate the costs, particularly the costs which may be borne by those who do not benefit in the same way as you do. These costs may not be as obvious as a building spoiling the view but they should be taken into account in making policy.

There is also the interrelated question of the distribution of those costs and benefits. It is obvious that when house prices rise one group is made better off, that is most existing home owners, but another group is made worse off, would-be future home owners and those existing home owners who will want, in the future, to move into larger properties. The same redistribution occurs when industrial and commercial land increases in price. Property prices and rents rise. Products and services cost more. There is more crowding and congestion. The whole population is made worse off. But of course the owners of commercial land and property gain. The rents which can be charged are higher, and the properties they own are worth more.

Thus the operation of the planning system redistributes wealth, and it redistributes it in favour of property owners. To state it clearly: our planning system is a system that works against the poor and the young while it serves the land and property owners. Of course, some of this property is owned by the firms which use and occupy it. But while this was the general pattern up to the second half of the 20th century, it has become much rarer since then. As the value of commercial land increased in the 1950s, as the implicit policy of constraint started to bite, many retail and manufacturing firms failed to notice and react to the increase in the value of their properties. A number of firms were taken over, broken up, and 'asset stripped'.

When commercial firms realised this danger they also realised that one way of avoiding the danger was to lease their properties rather than own them. Many such companies therefore sold the properties they then occupied and leased them back. The result is that in the UK most commercial property is owned by financial institutions of one kind or another. Some may be property companies, some may be in life assurance, and much is in the hands of pension funds. Of course, some may be in private hands, as with the Grosvenor Estate which manages the properties in Belgravia and Mayfair owned by the Duke of Westminster. As a matter of fact, directly or indirectly a proportion is foreign owned. For example, the recent takeover of BAA plc means that the most important UK airports are now owned by a Spanish company, Ferrovial, and the takeover of P&O means that a number of British ports are owned by a company based in Dubai.

So working out exactly who owns and who loses is difficult, though it is certain that the overall effect is regressive, that the

policy of constraint favours the better off. It also favours those in possession of land, while the cost of starting a business is raised. Thus it favours wealth rather than enterprise. So that any relaxation in the policy of constraint would be more welcome to the less well off and the young, the two being often synonymous!

However, one conclusion may need to be restated to make the position clear. Because some people lose and some people gain from rising land and property prices, the net effect on the UK's national income is less than it might appear. Certainly less than it might be perceived by, say, a young couple renting their home, without investments and without any significant accrued pension contributions. What they face are the increases in the cost of living without compensating increases in their wealth. Nevertheless, there is an efficiency effect, quite apart from the distributional effect. The British economy is less efficient than it might be because a productive asset, land, is deliberately, as a matter of policy, left idle.

### Coventry Airport Terminal

In 2003 Coventry Airport was bought by TUI AG, a German company which owns Monarch Airline, Thompson Travel and Thomsonfly. Thomsonfly began flights out of Coventry in March 2004. The airport is actually located a few miles south of Coventry so that Warwick District Council is its local planning authority.

In 2003 an interim flight terminal was built and there followed an argument between Warwick DC and TUI as to whether planning permission should have been obtained to build it. The Council took TUI to court to get the building demolished but the case was thrown out in June 2004. The judge described the Council's action as "draconian", an "abuse" of the court process, and "wholly inappropriate". The cost to the Council of the court action was £300,000. The Council then issued an enforcement order to get the building demolished on the grounds that it did not have planning permission. Unsurprisingly, TUI appealed against the order and an inquiry was held which lasted nearly six months, the longest such inquiry on record, from February to July 2005. The inspector reported to the Secretary of State who upheld the appeal, some eight months later in April 2006.

All this was for an interim building which will exist for only a few years before it is replaced by a permanent building. TUI put in an application for this permanent building in October 2004. They appealed a year later, in September 2005, because the Council had not made a decision, one way or the other. The appeal was held between January and July 2006. The inspector will deliver his report and recommendation to the Secretaries of State in early 2007, a decision from them is expected by the autumn, nearly three years after the original application for the permanent building.

It is said that TUI regrets having bought the airport. We are not surprised. In Germany an airport improvement would be regarded with favour by any local authority, not, as would seem to be the case here, something to be fought against tooth and nail.

Sources; [www.warwickdc.gov.uk](http://www.warwickdc.gov.uk), [www.leamingtonspatoday.co.uk](http://www.leamingtonspatoday.co.uk), [www.newsvote.bbc.co.uk](http://www.newsvote.bbc.co.uk)

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# 3

## Economic growth, delay and the level of detail

### Summary

The efficiency of the British economy is reduced by the planning system in other ways. We have concentrated on the effects of constraint because these effects seemed to us to be important, but less obvious than other factors. In this chapter we turn from the economic impact of the policy of constraint to look at the implications of the planning system itself for the economic growth of the UK economy. The other main problem is the system's complexity. It is complex, legalistic and results in delay. This delay means that investment takes place later than it should, with a consequent loss of efficiency. A further problem is the level of detail which the British planning system tries to control, a factor which, of itself, builds in delays. In a final section we note the findings of the McKinsey Report on the British economy which indicated that the planning system could protect local monopolies, hinder development, and prevent clusters of firms growing up to take advantage of the economies resulting from spatial proximity.

### Delay and inefficiency

The problem of delay is the most obvious systemic problem, a problem recently analysed in Barker's Interim Report on the planning system. Some years ago it was argued that it was possible that the delays inherent in the British planning system might, in fact, impose small social costs,

but with the caveat, provided the system were economically rational.<sup>42</sup> If it were rational, then the assessment of whether or not a proposed development should be permitted involved a balancing of the social benefits and social costs. Where the costs greatly exceeded the benefits, or the benefits greatly exceeded the cost, the decision would be obvious and could be made quickly. Only where the costs and benefits were closely balanced would the decision be more difficult to make, and the process would take longer. But then if the costs and benefits were closely balanced the social cost of delay would be small because the net benefit of the development would be small.

The trouble is that this argument depends on an acceptance of the idea that the UK planning system is economically rational. Yet there is very little reason to suppose that it is. After all, the attitude of planners to economics and economists has been generally hostile. The founding father of planning Abercrombie described an economist as "A muddler talking about the liberty of the individual and the laws of supply and demand".<sup>43</sup> In the 1970s an inquiry into the Greater London Development Plan remarked that the real income of the people of London was not their concern – in other words they were concerned only with land use, not with anything else.<sup>44</sup> Similar views were expressed only recently in a survey of local authority planners, namely that it was up

42. Alan W. Evans & Geoffrey Keogh, 'The private and social costs of planning delay', *Urban Studies*, June 1992

43. Sir Patrick Abercrombie, *Town and Country Planning*, ed. Rigby Childs, 1959

44. Chris Foster & Christine Whitehead, 'The Layfield Report on the Greater London Development Plan', *Economica*, 1973

to the planners to plan and the market to adjust to the plan.<sup>45</sup> Comments such as these do not suggest that the process of decision-making is based on a balancing of social costs and social benefits. Instead the system seems to be based on the views of planners as to the best pattern of land use, even though the best land use plan might make people worse off, on balance, than a plan which was better for the whole population but resulted in a land use pattern which was not perceived to be as good. Indeed this presumption is at the core of the argument regarding the policy of constraint which we have set out earlier. No one seeks to deny that people prefer development not to take place on green field sites. But few people realise that basing a policy on this preference makes them worse off in other ways.

The fact that the people responsible for the system are, if not planners, politicians, means that there is built in to the system a responsiveness to the most vocal, to those who shout loudest and longest. Part of this responsiveness is to ensure that if a decision has to be taken then the objectors should be given every opportunity to have their say. In this way the politicians can then say to the objectors that their views have been heard and where possible taken into account. Objectors can feel that they have, at least, delayed the development. Thus delay is, for political reasons, built into the system.

At the very lowest level we know of cases where planning committees have required two site visits before deciding fairly simple applications, in one case a small rear extension. In each of these cases there has been intense vocal opposition from one objector. Although the eventual decision was obvious from the start, the operation of the system resulted in delays ranging from a few months to over a year.

At the other extreme, of course, we have the example of Terminal 5 at Heathrow Airport. That alone should be enough to

persuade anyone that the system is not economically rational. It should not take eighteen years for a decision to be made as to the construction of a building, particularly when it was accepted years before that a fifth terminal was necessary. To rub salt in to the wound, during the period the British were coming to a decision, in Hong Kong an entire new airport had been built on a newly created artificial island.

“ The amount of time, effort and other resources which can be put into making planning decisions is extraordinary when compared to the time, effort and resources put into making other government decisions ”

The amount of time, effort and other resources which can be put into making planning decisions is extraordinary when compared to the time, effort and resources put into making other government decisions. In all other areas of the economy decisions are generally made quickly, after a brief review of the evidence. Indeed decisions as to possible changes in the planning system itself are taken with less input than might go into a planning inquiry into the construction of a single building. For example, the inquiry in 2005 into the interim terminal at Coventry Airport cost Warwick District Council some £300,000, and the formal inquiry alone took 322 hours.<sup>46</sup> On the other hand Kate Barker's Review of the planning system, which has just reported, will have taken less than a year from the date of its announcement to the publication of its report, and will have cost considerably less. So a report on the system can be carried out far more quickly and informally than an inquiry within the system. Ms Barker's inquiry has not required barristers and lawyers and the formal examination of witnesses. Laws and taxes can be changed with a similar lack of formal inquiry. Only permission for the

45. Helen Jarvis & Wendy Russell, *The use of prices in planning for housing*, Department of Land Economy, University of Cambridge, 1999

46. [www.learningtonspatoday.co.uk](http://www.learningtonspatoday.co.uk)



construction of a building apparently warrants such a degree of inquiry and investigation.

This problem of delay is a sore point with some of us regional scientists. It may be a few years ago now, but we remember an international conference and the derision with which the Dutch regional scientists regarded the Terminal 5 imbroglio; Amsterdam's Schiphol, London's rival as a European hub, having been extended while the British Terminal 5 inquiry ground lethargically towards its inevitable conclusion. It is not just that Heathrow is falling behind its European competitors because of its antiquated and over-crowded terminals. While other major European airports have now built or are building new runways, it is not clear if and when Heathrow will eventually get its third runway, which is needed to increase its capacity and the number of destinations (Table 3). This means that Heathrow will slip down European airport rankings. Clearly, in terms of routes and passenger comfort Frankfurt, Paris and Amsterdam are already playing in a different league. Britain – in fact London – lost its status as Europe's shipping hub to Rotterdam as a result of the kind of delays and political indecision that characterise our current attitude towards major infrastructure projects. Heathrow's pre-eminence as Europe's

air hub should be taken for granted at our peril.

Certainly since then steps have been taken to try to speed things up. But systems of regulation have their own dynamic; regulation becomes an activity for its own sake. Politicians are always unwilling to take decisions which might result in lost votes. So a proposal that major applications such as Terminal 5 might be dealt with in the same way as was the Channel Tunnel, through an approval in principle in Parliament, did not find favour with MPs and was dropped. But the process can and must be speeded up, after all the French high speed rail link was completed by the time the tunnel was opened, while the British link is only just reaching completion. One wonders what the British railway promoters of the early 19th century would have been able to achieve in similar circumstances. But no doubt the British planning system would have ensured that the Industrial Revolution would have occurred elsewhere. Clearly delays of this magnitude have a significant economic cost, reduce economic efficiency, and make almost everyone worse off.

Efficiency and the regulation of detail  
One of the things that the McKinsey report on the competitiveness of the UK

47. Future Heathrow press releases, 5 February 2006 and 20 March 2006, [www.future-heathrow.org](http://www.future-heathrow.org)

Table 3: Major European airports<sup>47</sup>

	Runways	Scheduled non-stop routes			Max flights per hr
		(March 06)	(August 06)	Growth (%)	
Frankfurt	3*	233	262	13	100/120
Paris CDG	4	220	223	25	120
Amsterdam	5	203	222	8	120
Munich	2**	179	204	52	n/a
Heathrow	2	178	180	3	85

\* excludes new runway due by 2009, \*\* excludes new runway due by 2010

### Bekonscot - Believe it or not!

Bekonscot model village, in Beaconsfield, Bucks, is the world's oldest model village. It was started in 1929 as the hobby of one man, Richard Callingham, and has developed since then into a one and a half acre miniature landscape of villages, castles, railways, churches and lakes. All profits go to charity. The models and the landscape are intended to represent the England of the 1930s. There is one aspect of the landscape which is not of the period, however. In the 1930s you did not require planning permission to put up a house. Yet in 21st century England a planning application has to be made before any new model building can be constructed, even though it may be a one-fifteenth scale model! The application is duly considered by the local authority for six to eight weeks, and then approved. So far as anyone can remember no application has ever been refused, and it is difficult, if not impossible, to see on what grounds permission might be refused. Visitors walking round the village do sometimes see an area boarded up with a notice saying that planning permission has been applied for, and they tend to assume that this is part of the make-believe, a joke. It is not. This is pre-war England transported into a post-war world.<sup>48</sup>



economy noted as a negative factor was the level of regulation. This regulation, it was argued, descended to a level of detail which was not evident elsewhere. In the case with which they were most concerned, the hotel industry, the degree of regulation largely derived from building regulation rather than town planning controls, with sometimes a difficulty in deciding which is which. It was a planning regulation, we believe, which used to require that there should always be two doors between toilet facilities and a dining area. So that when one of the authors built an extension the builder advised him to put the second door in the plan, and then remove it after the building had been inspected. It is UK building regulations that require that ordinary light switches are not permitted in bath rooms. Nor are ordinary power sockets. Yet travelling round the world we note that the UK seems to be unique in this. If other countries find that a bathroom is the best location for a washing machine and that such a location carries little risk why should the UK maintain such a regulation?

The truth is that the British are used to a level of regulation which is greater, and concerned with a greater level of detail, than is true elsewhere. For example, French, Italian, or American planning systems require only that the proposed building conform to certain requirements – in

general provided what is proposed is in line with what the zoning ordinance for the area then it is permitted. But the British system requires that a detailed planning application be submitted for which permission be given. Sometimes the process can be nonsensical. A former colleague at Reading drew our attention to a proposal for a factory in Reading which was to be blue in colour and on these grounds the application was refused. But if the factory had been built in any other colour it could, without permission being required, be painted blue.

In part, of course, this level of regulation is one of the factors leading to delays. In the case above a factory was, of course, built, but somewhat later, since a new application had to be submitted and approved. From our own experience we know of a student dormitory building which was delayed for a year in order to allow the local residents to vote on the kind of brick that they would prefer. In another case a building was delayed in order that a tree could be moved at the optimal time – November – only to find out later that the tree, on removal, could not be replanted so that the delay was pointless.

It is a problem with any discussion of the regulation of detail that the examples which have to be given are so, well,

48. Alan W. Evans, visit to Bekonscot

detailed. But that is the point of the argument. Because the level of control deals with such matters of detail it is possible to refuse applications on matters of detail. Even though it must be quite clear to an unbiased observer that the delay outweighs any possible gain from the small alteration in the overall plan which will occur. Moreover the degree of control can be, indeed almost certainly is, counter productive. The planning officers and the politicians on the development control committee have to approve the architectural design of the proposed building. Something which is too different may cause refusal, leading to increased costs and delay. It is safer to go for the anodyne, for uniformity and blandness - unless, of course, an 'architectural' name can be brought in. No committee likes to be seen as philistine, so a

Foster or a Rogers building may get approved. But someone unknown at the beginning of their career may have much greater difficulty.

#### Planning and economic growth: the McKinsey Report

Over the past forty or fifty years a favoured topic of research and comment by British, and other, economists has been the reasons for the slow rate of growth of the British economy relative to the rate of growth of other industrialised countries. The usual suspects have been paraded – obstructive trade unions, inferior management, lack of investment, inadequate training and education, failure to follow up innovations, perverse macroeconomic policies, and so on. Only recently has

#### Growth Italian Style

Over the past twenty-five years, in most years, one of the authors has spent his summer holidays in a small Italian town on the Adriatic coast in a region called the Abruzzo. Planning controls in the area are fairly light and of course in Italy these controls are widely ignored. It is estimated that 30 per cent of the dwellings built over the last thirty years or so are abusivi, that is, built without planning permission. The lightness of the degree of control can be seen in the building, which has occurred, houses on the hills, factories in the valleys. From a British planner's point of view all this scattered development is disgraceful, the countryside should be kept neat and tidy. Yet the British do not seem to mind, those that come to Italy on holiday or to buy a second home in Tuscany or Umbria, or, now, in the Marche, and the Abruzzo. Maybe this development is not so bad after all.

Or maybe it is also that the cost of flats and houses is not that high, so that the amount of development is seen as a visual price worth paying for the fact that a second home is affordable, hotels are not that expensive, and a very good meal can be had at a very reasonable price.

Clearly the local view is that development is to be encouraged. The Abruzzo is in the Mezzogiorno, the poorer, southern, part of Italy. But it has also been, over the past thirty years, the fastest growing region of Italy. One factor that has assisted this

growth is precisely the lack of controls so that economic development occurs in a way that could not be permitted in the UK. The 1989 guide to the Abruzzo (English Edition – Novara: Istituto Geografico de Agostini, p.202) notes that the town of "Sant'Egidio alla Vibrata is the 'capital' of the provinces' treasure chest [the Valley of the Vibrata] which led The Times newspaper to write: "Could not some of the more isolated English villages or those in the grip of the coal mining crisis take example from this little known valley in Central Italy?" But as the guide continues "It is a pleasure to surprise the English; but here no one is surprised any more because everyone knows what happened and how. Here, as in [the other towns in the Valley], every house has turned into a factory and the motto 'small is beautiful' has made them big!"

But of course it would be impossible to turn "every house into a factory" with the British planning system, and, it also has to be said, with the British as neighbours. The Italian view would seem to be that what your neighbours do is their business, not yours. You certainly do not report them to the authorities, and then they will not report you. Whereas in the UK even having an office in your home is likely to have the neighbours protesting, and the first attempt to turn your home into a factory would be stopped. Development such as occurred in the Val Vibrata and elsewhere would be impossible in the UK. The first shoots would be treated as weeds, to be pulled out.

town planning been added to the list of suspects, in the McKinsey Report of 1998.<sup>49</sup> It might be thought that this neglect would indicate that it has not been seen as a prime suspect, but this may say more about the detectives than it does about the crime or the criminal. The studies have been written by ‘mainstream’ economists, and, particularly in the UK, such economists are trained to regard national economies as aspatial points, and to ignore space, distance, location and land as unimportant.

For this neglect is otherwise inexplicable. After all, concern over the slow rate of growth of the UK economy only began to be expressed after the planning system had been put in place, in the 1947 Act. Moreover, while other suspects would deny any intention of slowing economic growth, the planning system in the UK has been intended to constrain and restrict physical development. At the same time planners, as we have said earlier, have declared themselves uninterested in economics and in economic welfare. Indeed, it is sometimes made explicit that the constraint of physical development may restrict economic development. The revised Oxfordshire Structure Plan of the early 1990s states that they “do not intend to restrain unduly” the growth of firms in Oxfordshire. But, translated out of Orwellian Newspeak, what this actually means is that they do intend to restrain the growth of firms in Oxfordshire, but “not unduly”. But how much is unduly? One percentage point? Two? But if the system reduced the rate of growth to 2.5 per cent when it might have been three or more this would entirely explain the UK’s slow rate of growth.

The neglect by the economics profession of the planning system as a possible culprit over the years is, in these terms, extraordinary. It is as though they ignored the figure in the shadows with the smoking gun muttering ‘I didn’t mean to do it’

because they were looking, like the drunk who had lost his keys, over where the light was better! Fortunately this neglect, following the McKinsey Report and the Barker Review, is now at an end. Though most mainstream economists may continue to look where, for them, the light is better, town planning has at last been dragged into the policy limelight. Indeed the McKinsey Report did not merely regard the planning system as a possible factor slowing economic growth but 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). In recent years, the OECD has also highlighted planning as one of the obstacles to economic growth in the UK.<sup>50</sup>

But in what ways may it be responsible? Some we have already discussed. The economy has been slowed by the policy of constraint. This policy has led to a bias against economic activities which use land extensively, and in favour of activities which use land intensively. This leads to more congested facilities of every kind, and to higher prices for many goods and services which could be obtained more cheaply abroad.

Rather than looking at these general influences, as we have done, the format of the McKinsey Report involved a number of studies of particular industries – food processing, telecommunications, food retailing, hotels, and software. They found that the last three of these were 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 hotels, and the difficulty of obtaining economies of scale through agglomeration in the case of software.

49. McKinsey Global Institute, *Driving Productivity and Growth in the British Economy*, 1998

50. OECD, *Economic Survey of the United Kingdom 2005*, [http://www.oecd.org/document/43/0,2340,en\\_2649\\_34569\\_35456619\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/43/0,2340,en_2649_34569_35456619_1_1_1_1,00.html)

### Local monopolies

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). Bluntly, 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. Indeed the system may be manipulated by obtaining permission for other sites, but then not carrying out the development. Local planning committees will then be even more reluctant to grant permission for another, competing, store. Put at its worst, a monopoly position means that 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, safe in the knowledge that the planning system will ensure that no competing supermarket would be permitted. Industrial economics makes much of the concept of ‘contestability’— a monopoly has to bear in mind that a market may be contested by a new entrant. The harder it is for a new competitor to enter the market, the greater the monopoly power which can be exercised by the monopolist. Clearly the planning system makes local markets harder to enter for larger retailers but especially for smaller, independent ones.

The then President of the Royal Town Planning Institute responded that the criticisms levelled at the planning system could be ignored because the system 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,

51. *Financial Times*, ‘Rivals call for brakes on Tesco juggernaut’, 21 October 2006

52. *Daily Telegraph*, ‘Supermarkets feel a nip of nostalgia in the air’, 13 February 2006, [www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/02/13/cnshop13.xml&menuId=242&sSheet=/portal/2006/02/13/ixportal.html](http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/02/13/cnshop13.xml&menuId=242&sSheet=/portal/2006/02/13/ixportal.html)

The Competition Commission is currently carrying out an inquiry into the grocery market. The submissions by the supermarkets can be read on the Commission’s website. Tesco, the dominant chain, argues that the planning regime does not significantly affect the growth opportunities of retail businesses or deter entry. The other major chains take a different view. ASDA argues that the current planning regime is anti-competitive, and both Morrisons and Sainsbury’s take a similar stance. Four planning tests apply to new stores outside town centres:

- 1 Quantitative need: the proposed shop must be judged to help meet a shortfall in existing capacity.
- 2 Qualitative need: takes into account questions such as whether existing shops have problems with long queues, car park congestion, old facilities and so on.
- 3 The sequential test: according to which it has to be shown that the proposed store could not be located in or nearer to the town centre.
- 4 A retail impact assessment: which analyses the impact of the proposed shop on existing town centre stores.<sup>51</sup>

Whatever may be the view of the Commission, it is evident that these tests put town planners and councillors into the position

of assessing the viability of commercial activity, that is trying to second guess the market. Clearly the aim is to limit competition by controlling entry.

We would not wish to forecast the Commission’s findings. We merely note, without comment, that we observed that in the 2006 Party Conference season Tesco organised joint fringe events with the Campaign for the Protection of Rural England. We also note that, in the USA, where Tesco is expanding, it has praised the absence of planning regulations which hamper development.<sup>52</sup> This apparent contradiction illustrates the planning paradox perfectly. In the UK market, where it is the dominant ‘insider’, it makes sense for Tesco to favour a policy that keeps out the competition where possible. In the US, where it is an ‘outsider’, trying to gain a foothold in a new market dominated by larger established players, it will obviously favour a planning policy that allows it a foothold. To highlight this paradox is not to condemn Tesco’s behaviour or suggest it alone acts like this. It makes perfect commercial sense for companies in such a position to behave in this way. But the key point is that the planning system should not be there to protect existing dominant industries, but should aim to drive competition and economic growth while taking account of social and environmental factors. The UK planning system fails spectacularly in this regard

were, in his view, happy with a system which restricted competition. We have found a similar response in our own inquiries. Those firms and developers already operating in the market are happy with it because their interests are protected. This is in line with what is called the ‘capture theory of regulation’. In the end, it is argued, regulators and regulatory systems are ‘captured’ by those who are supposed to be being regulated because they have more of an interest in what happens than anyone else. The regulation then is done in their interest rather than anyone else’s. 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. Their land but no other developer’s land 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 1980s. The implication was that they had been made, but then answered and refuted. But in the Institute of Economic Affairs report, *No Room! No Room!*,<sup>53</sup> to which he was presumably referring, the criticisms were not made in such detail and they were neither answered nor refuted, just ignored, as the more trenchant criticisms in the McKinsey Report were also ignored at the time.

## Regulation

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 drew attention to one apparent consequence. In the UK 75 per cent of the stock of hotel rooms was over forty years old and nearly half were over a hundred years old. For comparison the proportions in France were 35 per cent and 14 per cent.<sup>54</sup> Thus the constraints on the availability of land and on construction mean that hotel rooms are more expensive in the UK than elsewhere.

## Constraint

The third industry which the Institute regarded as affected by the land use planning system was the software industry. The report drew 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 1980s and 1990s was not and could not have been foreseen. Its head offices are located in the

53. Alan W. Evans, *No Room! No Room!*, Institute of Economic Affairs, 1988

54. McKinsey Global Institute, *Driving Productivity and Growth in the British Economy, Hotels*, p.7, 1998

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 move elsewhere. 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.

“ The way in which the system operates means that economic growth comes low in the order of priorities ”

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.

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 proxim-

ity 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. But large companies are also affected. For example, it recently became known publicly that Pfizer decided to locate its European headquarters in Germany and not in the UK, and the main reason for this was the UK planning system.<sup>55</sup>

The final, general, point that the report makes with respect to the UK planning system is one that has been made by others, including ourselves in our earlier discussion of housing.<sup>56</sup> The way in which the system operates means that economic growth comes low in the order of priorities. This is because, first, strategic planning and building consent decisions are made at the lowest level of local government. Second, 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. The public choice approach to policy making takes as its basic assumption that politicians wish to be re-elected and will therefore respond to the wishes of those who have elected them. Thus they will tend to give more weight to the views, usually negative, 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 high employment the residents will see no reason why new development should spoil their local environment. Third, 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

55. *The Observer*, 'Pfizer shuns UK for Germany to escape planning shambles', 25 June 2006, <http://observer.guardian.co.uk/business/story/0,,1805084,00.html>

56. Alan W. Evans & Oliver Marc Hartwich, *Better Homes, Greener Cities*, 2005

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". 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 we indicated earlier, the South is where the demand is and, therefore, where development is constrained and prevented.



# 4

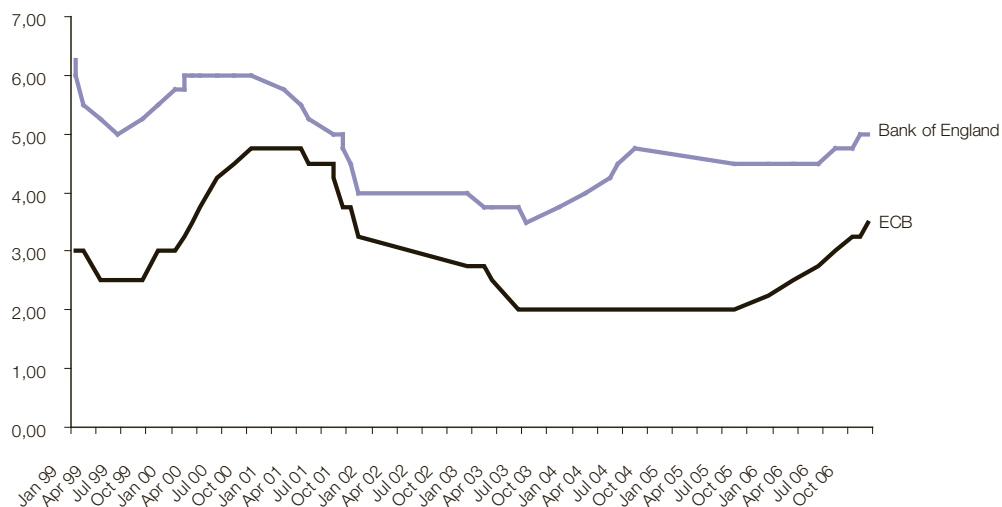
## The effect of planning on interest rates

The connection between the planning system and economic stability is less direct than that between planning and economic growth, or the lack of it, but it exists nevertheless. As we pointed out in our earlier publications for Policy Exchange, the UK system of planning for the provision of housing is a Soviet style system of central planning. Targets (production norms) are set for the local authority areas. There is no political or financial incentive for a local authority to allow more to be built. The result is that the supply of housing is very unresponsive to changes in house prices. The price elasticity of housing supply in the UK is not that much above zero whereas it is above one in the US, Germany, and

France.<sup>57</sup> That is, a 1 per cent increase in house prices is associated with a 1 per cent increase in housing construction in the latter countries, but with hardly any increase in housing supply in the UK. The economic effect 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, and more steeply than they would in other countries. The rise is not damped down after a year or so by an increase in the number of new homes being built. Conversely price falls are 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.

57. Kate Barker, *Review of Housing Supply: Interim Report - Analysis*, 2003

Figure 4: Central bank discount rates in England and Euroland



The potentially 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 on the interest rate decisions of the Monetary Policy Committee of the Bank of England tends to be concerned with two things. Beforehand, will the Committee have to increase interest rates because it is felt that house prices are rising too fast or reduce them because prices are starting to fall? After any change, what will the effect of the change be on the housing market? When interest rates are raised to choke off demand for housing in one part of the country because of its perceived inflationary impact, then there is likely to be critical comment as to the negative impact of the change, on employment and industry, in other parts of the country where house prices are not rising at the same rate. The UK currently finds itself in such a position with rampant house price inflation in the South East and London driving higher interest rates, despite the negative economic effects for other regions.

Because of the latent inflationary pressure from rising house prices in the UK, interest rates in the UK tend to be higher than in the Euro zone (see Figure 4). Indeed, an argument which has been used for joining is that the cost of borrowing would be lower. However, in joining the Euro we would be more than likely to find ourselves in Ireland's situation, where low interest rates and housing supply that is not meeting needs have led to relatively high levels of inflation. But the main reason why UK interest rates are high, despite the low overall rate of inflation in the UK, is the wish not to add fuel to the inflationary flames by stimulating the demand for housing, an increased demand which cannot be met by an increased supply with the current planning system, and which will therefore result in higher prices.

This interaction between the housing market and interest rates was a major factor leading to Kate Barker, a member of the Bank of England's Monetary Policy Committee, being invited to review the supply of housing, and then, given the perceived effect of the planning system on its supply, the later invitation to her to review the planning system itself, as it affected other activities.

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# 5

## The Barker Review of Land Use Planning

In 2005 Kate Barker, a member of the Monetary Policy Committee of the Bank of England was commissioned by the Chancellor and the Deputy Prime Minister to review the economic effects of the land use planning system. Her first report, an analysis of the situation, was published in July 2006. Her second report, which included her recommendations, was published in December 2006. Both she and her research team must be congratulated on the evidence which is put together and analysed in the two reports. Some of it we have used in this report, since it serves to demonstrate the effects of the planning system on commerce and industry, the subject of our publication. Kate Barker had a wider brief, however, in that she was concerned with the planning system as a whole, taking into account its impact on both commerce and on housing. Indeed the stimulus for these reports on the planning system arose out of her earlier reports on the supply of housing, where she found that the main reason for the shortage of housing was the planning system.

An admirable analysis ...

Drawn together the evidence demonstrates the nature of the problem which has to be dealt with. The first aspect is one we mentioned in the introduction to this publication - the British believe that their country is far more urbanised than it actually is. While only about ten per cent of the land in England is developed, few people

believe this. The vast majority, more than seventy per cent, believe more than a quarter of the land area to be urban; one in ten believes that more than three quarters of the land area is built up.<sup>58</sup>

The second aspect is one that we have dealt with extensively in this and our earlier publications, namely that the price of land is too high and becoming higher, and that this has consequences for the housing industry and for the structure of commerce and industry in this country. Third, she alludes to the argument that the main reason for constraining the use of land is to increase density and so further global sustainability. But she also draws attention to the flaws in this argument, that high buildings in themselves are less efficient than lower buildings, and that constraining cities leads to excessive commuting as people travel daily from places they can afford to live in to cities where there are well paying jobs. We have considerable admiration for the effort which has been put into this analysis. Our problem lies with the recommendations, which are milder than we believe is justified by the analysis.

... but timid recommendations.

Nevertheless we understand the nature of her problem. After all, much of the media reaction to Barker's recommendations suggested that she had proposed a complete shake-up of the planning system, the abolition of green belts and a full, unplanned concreting over of England. Indeed in one

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58. HM Treasury, *Barker Review of Land Use Planning, Final Report - Recommendations*, p. 44, December 2006

paper she was described as the most evil woman in England.

But such a title is thoroughly unjustified. Her recommendations are very circumspect and she clearly seeks to create the minimum of confrontational argument. Imagine what she might have been called if she had sought a more radical approach, indeed the sort of approach which we have sought in this and our previous publications!

#### Plan-led development

We argue that development should no longer be plan led. But she argues that the system should be retained. She writes: “While it might be thought that a system based on a presumption in favour of development would support economic growth better than one based on plans, this plan-led development is to be supported as it provides an effective balance between certainty and flexibility”.<sup>59</sup> Plan-led, according to Barker, means “effective place-shaping”, development in a “co-ordinated manner” and “efficiency” in planning as fundamental decisions are made once and for all without having to be done anew for every single planning application.<sup>60</sup>

But at some level she is in agreement with the criticisms which we and others have made. She acknowledges that ‘plan-led’ can mean that plans become a tight corset, binding planners and developers to plans which should have become obsolete in the light of economic and social development. It is also possible that larger companies are able to influence plan-making in their favour to a much greater extent than their smaller competitors. And she accepts that the introduction of plan-led development has not significantly reduced the number of planning applications that go to appeal. This could be interpreted as an indication that plan-led does not actually improve certainty, one of the main arguments used to justify its

introduction. Last but not least, Barker is also sceptical about the possibility of keeping plans up-to-date, which would be vital if they were not meant to block economic development.<sup>61</sup>

But then she goes on to say that “there is, however, a real issue about whether within the plan-led system there can be greater certainty in those instances when the plan is not up-to-date or determinate. It is clearly right that where the development plan is up-to-date and the relevant policies point in the same direction that this should provide a strong basis for decision-making. In this context it would be useful if it were made more explicit that where an application for development is in accordance with the relevant up-to-date development plan it should be approved unless material considerations indicate otherwise. But in many instances planning policies may pull in different directions (and in theory in some cases the plan could be silent). There may also be instances when the plans are not up-to-date, despite the recent reforms.”<sup>62</sup>

And this leads her to recommend that “where development plan provisions are indeterminate or where they are not up-to-date, the application should be approved unless there is a significant probability that the likely environmental, social and economic costs of the development will outweigh the respective benefits.”<sup>63</sup>

But since plans can always be argued, within a few months of their coming into force, to be out of date it follows that the way would be open for developers, most of the time, to be able to appeal on the grounds that the plan was out of date.

#### Town centres first

A similar criticism can be made of the way in which Barker deals with the town centres first policy, which she thinks is important to “promote the vitality and viability

59. *Ibid.*, p.18

60. *Ibid.*, p.18

61. *Ibid.*, p.19

62. *Ibid.*, p.19

63. *Ibid.*, p.20

of town centres”.<sup>64</sup> It is difficult to disagree, for who would argue for town centres to decay? But while vital town centres may indeed be desirable, the town centre first approach may not always have the intended effects. On the contrary, we have observed in recent years a wave of concentration in the British retail sector, something which others have summed up by the phrase “clone town Britain”.<sup>65</sup> The real reason behind the clone town phenomenon, we believe, can be found in high land prices due to restricted land supply. This makes it very expensive for entrepreneurs to open shops, favours big retail chains with good access to capital and works towards a standardised range of products, as we have explained earlier in this report. Therefore a policy focus on town centres combined with high land prices will only exacerbate the town cloning process.

#### Green belts

We have argued in this and our earlier publications that the main problem is the policy of constraint. Barker’s analysis in her first report on the planning system goes some way to demonstrate the way in which the system sends the wrong price signals, something we have tried to analyse further in this publication. But the sole recommendation which relates directly to the policy of constraint is that relating to green belts

“ When it comes to solutions and recommendations, the impression one gets is that she shies away from spelling out what would logically follow from her own arguments ”

effects. We would agree with this analysis. Higher occupation costs for offices, raising the costs of entry for new firms, reducing labour mobility and hampering the development of innovation clusters can all be logically linked to an often clumsy, centralistic and national green belt policy. Kate Barker’s analysis correctly highlights these problems.

But again, when it comes to solutions and recommendations, the impression one gets is that she shies away from spelling out what would logically follow from her own arguments. While she makes clear that demographic pressures, especially the expected formation of some four million new households over the next twenty years, make it unavoidable to discuss the issue of land supply seriously – and this includes discussing the status of designated areas such as green belts – she does not spell out that this is incompatible with sticking to the current national policy. Thus her recommendation does not go nearly far enough. She states that “regional planning bodies and local planning authorities should review green belt boundaries as part of their Regional Spatial Strategy/Local Development Framework processes to ensure that they remain relevant and appropriate, given the need to ensure that any planned development takes place in the most sustainable location”.<sup>66</sup>

But experience of politics and politicians’ caving in to pressure from local home owners, the Campaign to Protect Rural England, and others suggests that in most cases the various authorities will review the boundaries and find that they need, if any, little adjustment.

Given that any recommendation is likely to be treated as an opening gambit in a bargaining session, it would have been better to state clearly that the national green belt policy should be abolished and decisions over the use of current green belt land should be handed down to local authorities. Possibly it should have been

Kate Barker sums up nicely the major arguments for and against green belts. In particular, she mentions that a green belt policy comes at the cost of undesirable environmental, social and economic side

64. Ibid, p.29

65. New Economics Foundation, *Clone Town Britain*, 2005

66. HM Treasury, *Barker Review of Land Use Planning, Final Report - Recommendations*, p. 67, December 2006

made more explicit that this would not mean at all that much of the green belt would need to be developed, but maybe only a small fraction of it. After all, and according to Barker's own figures, green belts currently account for thirteen per cent of all land in England – an area larger than that used for urban development.<sup>67</sup> The additional housing needs of the population could therefore be satisfied by only giving up a tiny share of this, and maybe even that would be unnecessary if one first used the land that was set aside under agricultural policies (around 5 per cent of the total land). Certainly we would have wished that Barker had been more forceful. But we can also sympathise with her position – the public reaction to her very circumspect recommendation would seem to have held her back from an even more outspoken recommendation concerning this issue.

#### Local authorities and development

In the chapter on creating incentives for local authorities to permit development her reasons for holding back are even more transparent. Here again, we welcome her basic analysis which coincides with our previous research on this subject. She recognises that in order to lead local decision makers to a more pro-development approach, incentives have to play a key role. At the moment the system of local government finance effectively punishes local communities for allowing development. Not only do they have to provide additional infrastructure, but there is also a lack of extra revenue from such growth. She also points to the fact that this can lead to a situation in which the long-term economic prospects of a community are neglected because of a lack of current incentives.

The problem here is that at the same time that Barker was preparing her review, a separate review into local government

finance under Sir Michael Lyons was carried out, but publication of this report became delayed and is now expected no sooner than February 2007. And so Barker's recommendation goes no further than suggesting that "the Government considers, in the context of the Lyons Inquiry into Local Government, further fiscal options to ensure that local authorities have the right fiscal incentives to promote local economic growth."<sup>68</sup>

We agree, but we would have wished a clearer indication as to what Barker would consider appropriate in this context. For example, it would have been helpful to explore in greater detail how the Planning Gain Supplement, a tax to capture some portion of the land value uplift when planning permission is granted, could be linked directly to local communities. While we have argued for a somewhat similar Social Cost Tariff, there is a decisive difference: under our scheme, all revenue of this tariff would go to local government. The Planning Gain Supplement, on the other hand, will as it seems only go the Treasury and therefore its incentive quality for local communities will be significantly diminished.

#### Dissenting from Barker

There are two areas, in which we are hesitant to follow Barker's arguments and even more hesitant to accept her conclusions. The first relates to design. She recommends that "decision makers should give a high priority to ensuring that new development has high design standards" and that local authorities "should be encouraged to turn down poorly designed proposals".<sup>69</sup> There are a couple of problems with this recommendation. The first is that people are liable to disagree as to what is regarded as good design: *de gustibus non disputandum est*. And committees are certainly not to be trusted as arbiters of good design; as the saying goes, 'a camel is a horse designed

67. *Ibid.*, p.185

68. *Ibid.*, p.154

69. *Ibid.*, p.134

by a committee'. The second is that, precisely because good design is difficult to define, it is likely that 'poor design' will be cited as a reason for rejection where there vociferous objectors, but no other justifiable reason. Certainly we know of examples of this even under the current regime. Thus the proposal, if accepted, is likely to lead to delays and appeals. Its effect would be precisely the opposite of our recommendation that less detail should be considered in planning applications.

The second concerns her proposal for the creation of an Independent Planning Commission.<sup>70</sup> We can understand why she should propose this: in the past, large infrastructure and energy projects have often been delayed due to the planning system. Making the planning process faster is thus something that we would also like to see. But we have doubts about Kate Barker's proposed solution, which would involve a further centralisation of planning. In our previous publications we have stressed that we would like to bring about a better planning system by taking a different route. We think that what we need is more localised and incentivised planning, which is just about the opposite of what a national Independent Planning Commission would stand for.

We believe that local communities are able to make their own choices about large projects, too, provided that they are confronted with the full costs and benefits of

their planning decisions. Besides, it is local communities that have the local knowledge necessary to decide in an informed way. This kind of local knowledge cannot be replicated in a centralised planning commission. So for these reasons, we are critical of the idea of a planning commission. It would basically stand for more of the present system when a departure from it is actually needed.

But there is another problem with an Independent Planning Commission. It could lead to some bizarre situations whereby large and important development projects such as nuclear power stations and airports would be decided by unelected commissioners, while smaller, yet still significant projects such as large housing developments or out-of-town shopping centres would still be within the competence of the elected Secretary of State.

We await with interest the government's response to the Report and its recommendations over the next few years. But do not expect that it will have any effect in the near future. And this is unfortunate. The one recommendation which might release more land for development, that green belt boundaries should be reviewed, even if accepted is likely to be so long in the review that by the time any land might be released either land prices will have gone through the roof or the economy will have collapsed, and quite possibly both.

70. *Ibid.*, p.76

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# 6

## Conclusions and recommendations

What we have tried to show in this publication is the way in which the operation of the planning system in the United Kingdom serves to constrain and distort the growth of the economy. Planning can no longer be viewed, as it has been for fifty years, as a government activity which affects only the physical environment and has no impact on the wider economy. The interactions and interrelationships exist and must be understood in order that the negative impacts can be ameliorated.

The most obvious effect derives from the policy of constraint which has existed, first implicitly, then explicitly, for fifty years or so. The result of this policy is that in the UK land for industry and commerce is more expensive than it is in other countries. If one of the three factors of production – land, labour, and capital – is more costly than elsewhere then, in order to compete with other countries where land is cheaper, the returns to labour and capital must be less. Since in the world of today capital is more mobile than ever, then the return to labour must be less. Either that or the labour force of the UK must have some extra skills not transferable abroad. The UK economy's effectiveness is, in simple terms, based on the relatively low wages it pays and on our linguistic advantage. The latter is temporary, and a combination of lower future immigration and our generous welfare system makes lower wages unsustainable too. This is the sand on which the edifice is built.

“ Young people seeking to buy their first house, and then to pay off the mortgage, are the ones who lose out ”

What we have tried to show is that one way in which the return to labour is reduced is that prices tend to be high in the UK, something which is certainly perceived by most visitors to the country. There is also a significant difference between the positions of different age groups. As we showed in our previous publications on the housing market older households who own their houses have gained as land owners what they would have lost to landlords as renters. Young people seeking to buy their first house, and then to pay off the mortgage, are the ones who lose out. The older households will also have gained from the increase in property values because they will be the beneficiaries of pension funds and may own shares in property companies. The young have not yet built up savings sufficient to benefit from any such investments. Thus the analysis of the way in which planning affects industry and commerce reinforces the conclusions which we drew from the analysis in the previous reports – politically it is the younger households and renters who would have most to gain from any relaxation of the system. It is the older, owner occupying households who are most likely to wish to prevent any such relaxation. It is, of course, the young who are



the future and the old who are the past. For the sake of the future of this country we hope that it is the voices of the future which will be heard.<sup>71</sup>

What then can be done? It has to be said that our study of planning as it affects industry and commerce has not caused us to vary the conclusions we reached in studying planning as it affects housing, and hence our recommendations for change largely remain the same.

An important reason for this is that our firm belief is that planning needs to be flexible. Any planning system needs to take into account the fact that conditions change and that they change in ways which are difficult to foresee. Earlier in this report we quoted Harold Macmillan, the former British Prime Minister, on the unpredictability of events. The US President at that time, Dwight Eisenhower, was equally forthright on the same theme, “In preparing for battle I have always found that plans are useless, but planning is indispensable”. Put another way, an inflexible plan is useless, what you have to do is plan for the possible eventualities. But the UK’s planning system has steadily become less and less flexible, reaching the point in 1991 that what was enacted was an inflexible, Soviet style, central planning system of so called ‘plan led’ development – any development which was not in the five year plan could be refused permission on those grounds alone. Certainly one would have thought that an inflexible system, operating according to norms laid down by central government should be easily perceived as obsolescent fifteen years after the fall of the Berlin Wall and the collapse of the Soviet Union, and in an age when such plans have even been abandoned by nominally Communist China.

Once such central control is abandoned, as it should be, then the system must be flexible to changing circumstances. Any decision as to the award of planning permission should be based on an evaluation

of the net benefit to society of what is proposed. For this to be possible there has to be some presumption in favour of development, a presumption which existed before the 1991 Act. After that date, since everything had to be in accordance with the plan, as approved by central government, the presumption was dropped.

But in considering whether development should be permitted, and allowing for a relaxation of the policy of constraint, how do we take account of people’s wish that green fields should be preserved as far as possible? We put forward the proposal in *Better Homes Greener Cities* that undeveloped land should be subject to what we called a Social Cost Tariff (SCT). As we put it then “in our view the SCT should be paid as a rate based on the highest possible social cost of the use of the land, i.e. £500,000 per hectare for green field development. This would ensure an adequate payment for what is regarded as the social cost of development – the loss of the green field site – while ensuring that the development is not distorted. It would also be in line with the Rogers Report’s suggestion of an Environmental Impact Fee” (p. 45). We went on to state that the same system should be applied to commercial and industrial development, since it is the social cost of green field development which is at issue.

We would not wish to alter this view. Nevertheless, in discussing commercial and industrial land it is worth noting that, over most of the country, the value of commercial land is now lower, often substantially lower, than the value of land for housing. This would seem to be paradoxical because it implies that, at the margin, society prefers land to be used for commercial and industrial use rather than for housing. The financial barrier which has to be leaped is much lower. The implication is that there is a lower social cost with commercial uses than with housing. But while industry is less malodorous and environ-

71. David Willetts MP, 'Heirs to the Baby Boomers - Securing equity across generations', in Roger Gough (ed.), 2056 - *What future for Maggie's children?*, Policy Exchange, 2006

mentally displeasing than it was, still, it does seem difficult to argue that industrial and commercial uses of land are environmentally preferable, indeed substantially preferable, to the use of land for housing. The truth is of course that this is not so. It is just that the forces of supply and demand have ensured that prices are as they are.

There is, first, on the supply or planning side, a presumption that industry and commerce represents jobs and incomes and therefore should not be prevented, indeed in some areas may be encouraged by the construction of advance factories. This view has coexisted with a period when the demand for space for industry and commerce has not risen as fast as the demand for space for housing. Local planning authorities may feel that they have some responsibility to allow offices and factories to be built where local residents can find jobs, but do not feel themselves under the same pressure to provide land for housing which may only allow newcomers to move into the area to take these jobs.

Thus the paradoxical situation in which we find ourselves with regard to relative land values is the result of a mix of environmental, political, and economic pressures. Adjustment to a more rational relationship will take a considerable time. It has been put to us that the Social Cost Tariff for commercial development should be lower than it would be for residential development, on the grounds that the price of commercial land is now virtually everywhere lower than the price of residential land. But if the SCT truly measures the social cost of development on green field sites, and that is our intention, then there seems no reason for it to be lower for commercial development. It might be higher on the grounds that commercial development might be regarded as less environmentally pleasing, but that is all. Otherwise we would be conceding ground to precisely that mixture of contradictory

political forces which led to land prices being what they are now. However, we suggested in *Better Homes, Greener Cities* that the SCT could be variable downwards where authorities wanted to go for growth or – as in economically depressed areas – where the balance of the social costs to social benefits of extra development are lower. We believe that this principle applies as much to commercial as residential development

“ A system which ensures that all business rates and taxes are collected by central government gives no fiscal incentive to local authorities to allow commercial and industrial development ”

One change which we recommended in our earlier report, *Better Homes, Greener Cities*, related to the tax system. This would be a more radical solution than the SCT, but given the sensitivities of local government finance reform it would probably be much more difficult to implement. We argued there that the British system of local government finance strives to an excessive extent to maintain equity between local authorities; equity here meaning seeking to ensure that, as far as possible, each locality has sufficient funds to provide the local services that central government thought should be provided, no less, but also no more. But this striving for equity, we would maintain, is at the expense of efficiency. So, in the context of this report, a system which ensures that all business rates and taxes are collected by central government gives no fiscal incentive to local authorities to allow commercial and industrial development. Of course, a system which only returns a grant to local government which is perceived, by central government, as strictly that necessary for its needs, seems obsolescent. Indeed if the British planning system can

be described as Soviet style, the British system of local government finance seems to come from an even earlier Marxist period, indeed from Marx himself – ‘From each according to his abilities, to each according to his needs’.

“ The way in which, in this country, such proposals can get bogged down in inquiries for years on end makes the UK a laughing stock and damages the economy by delaying much-needed investment ”

Imagine a personal tax system which ensured that almost all income went to the State, and each household received a grant meant to be sufficient to ensure that everybody had exactly the same standard of living. In this case the effects of such a complete lack of any incentive are self evident. Only if motivated by external motives such as in wartime will households be willing to do more than the minimum. But the same lack of incentives affect local government. Some incentives for local government need to be restored. In the context of this report’s concern with industry and commerce it follows that the additional rateable income which is collected when new buildings are put up should go not to central government but to the local government, which has to provide the local services necessary for the firm’s efficient functioning. At the moment local authorities have no real incentive to assist local firms except to the extent that they employ local employees. This disconnection is wrong and should be corrected. If that means that some local authorities can provide more and better services than others so be it. It is clear that restoration to local government of a share in the income from the business rate would not only provide an incentive to local government to allow development. It would also create the basis for a better relationship between business and local gov-

ernment. Certainly this seems to be the factor which, if reports are correct, is pushing the Lyons review of local government finance towards making a similar recommendation.<sup>72</sup>

The core philosophy here would seem to be that a local authorities should be given greater independence from central government, a greater ability to control what goes on in its area, together with financial incentives to take responsibility for its actions. But this freedom has its limits, and it is here that we add two further recommendations to those we made in our earlier work.

The first additional proposal relates to major projects which have a national or regional impact. Usually these are concerned with what might be called ‘infrastructure’ – roads, railways, airports, etc. The way in which, in this country, such proposals can get bogged down in inquiries for years on end makes the UK a laughing stock and damages the economy by delaying much-needed investment. It appears to us that since such infrastructure is national in character it should be decided at a national level. The procedure adopted with regard to the Channel Tunnel was to deal with its approval by Act of Parliament. It would certainly seem that this would be the best way to deal with other proposals of a national rather than local character. Maybe the process of inquiry, if conducted within Parliament, would not be so extended nor so detailed. But then, as we have pointed out earlier, it is not at all evident why the process of inquiry into the construction of, say, an airport terminal, should take considerably longer and go into greater detail in consideration of the proposal than any consideration of a proposed Act of Parliament, including, indeed, an Act changing the whole planning system. A similar proposal was made in an earlier White Paper aimed at streamlining the system, but, for whatever reason, nothing seems to have come of it. Nevertheless, if local proposals should be dealt with at a local level because the effects of the development

72. *Daily Telegraph*, ‘Reform of rates is not the solution’, 19 September 2006 [www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/09/19/cbrates19.xml](http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2006/09/19/cbrates19.xml)

are felt locally, then, logically, national proposals should be dealt with at a national level.

The second further proposal we would wish to make with regard to the operation of the planning system relates to the level of detail which should be considered in a planning application. Planning proposals for buildings in the UK may be in 'outline', but any outline application must be followed up by a detailed application. It is our view that because planning applications are considered in such detail, this is a factor which leads to delay. To cite cases known to us, a building can be delayed for a year while discussion takes place over the colour of the bricks to be used, or whether the location of a building should be one metre further from another on the same site in the same ownership, or whether a gable on a rear extension should be hipped or not. At the extreme, of course, the *reductio ad absurdum*, there is the model village of Bekonscot where the local authority solemnly considers whether the proposed four foot high model of, say, a church should be permitted to be built, with the implication, indeed the presumption (in both senses), that they might think that some other model church might be better, if the local planning authority, in its omniscience, thought so.

Of course with some buildings and in some areas questions of detail can be important. This is certainly true of Listed Buildings and Conservation Areas. But in the case of other developments the consideration of detail leads to delay and would appear unnecessary. In most cases outline permission would appear to be sufficient, maybe what is now required for outline permission should include somewhat more detail, but something which is closer to a zoning system than currently exists would appear beneficial. So called Simplified Planning Zones were experimented with in the 1980s, but like the Enterprise Zones which were set up in the period they were primarily intended to encourage develop-

ment in areas where it was felt to be needed. We are arguing for a more wholesale adoption of the zoning model; after all most of the rest of the world requires far less detail to be considered in their planning controls. It is the UK which is out of step. Maybe there might be environmental gains. For example, maybe British architecture would be more interesting if it did not have to be made platitudinous and anodyne in order to make sure of its acceptability by local planners and councillors. Certainly delays would be reduced. It is said of taxes that a tax delayed is a tax unpaid. At present it would often seem that those opposed to a proposal argue over questions of detail as a way of delaying the development they do not want to see but regard as inevitable. For them an application delayed is a foundation stone not laid. The reduction in the level of detail would, however, be an improvement from a national point of view. From that viewpoint a building not delayed, less epigrammatically, is a more efficient building operating sooner than it might be.

The final proposal that we would wish to make is that the system should be made as simple as possible, and that it should not be used to try to deal with aspects of the economy for which it is not suited. For there is a sort of unholy alliance with regard to the planning system, an alliance between planners, who operate the system, and, for want of a better term, 'NIMBYists' (from the acronym NIMBY = "Not in my backyard"). The latter want to stop developments taking place, the former want as much control as possible of the development which might occur. The resulting alliance has a mutual interest in increasing the complexity of the system. Peacock pointed out in 1984 that the number of statutory regulatory instruments available to planners increased from 98 in 1958 to 386 in 1979.<sup>73</sup> More recently Mark Pennington, in his thorough analysis of the problem, noted that, for example, between 1962 and 1991 there was a sixfold 'real'

73. A. Peacock (ed.), *The Regulation Game*, 1984

increase in local authority expenditure on planning.<sup>74</sup> If the complexity increases then planners have more power and control bigger budgets while development is made more difficult. The result is an expansion in the powers of planners and the complexity of the system which easily survived the Thatcher era (probably because many Conservative voters were also 'NIMBYists'). The expansion in complexity occurs together with an expansion of planning powers into areas of the economy which the physical system is ill-suited to deal with. For example, the competition between supermarket chains in part occurs through attempts to manipulate the planning system. Whether or not the rival supermarkets are correct it is pertinent to note that Tesco's rivals perceive the system as non-neutral, and as being manipulated by Tesco to minimise competition. From an economist's point of view we note that the criteria which are used do not include whether a competitor would reduce prices and widen choice. Only whether the current situation is adequate and whether a new market might drive some smaller firms in town centres out of existence; that is, the competitive situation is not seen from the consumer's point of view.

Then there are the numerous pieces of guidance from central government as to how fuel consumption could be reduced through the planning system in order to

tackle global warming. This increase in complexity is pointless on two grounds. The first is that it is ineffective. For example, the amount of parking space associated with new housing is promoted as being as low as possible. But if some new dwellings are built without parking then the probability is that they will be occupied by people who do not own or want to own a car. Those that do will live in dwellings where there is parking. The effect on car ownership will be minimal. The second is that any effect the regulations might have will affect fuel consumption only in the long run. After all only about one per cent of the housing stock is built or replaced each year. But if one is serious about global warming then consumption has to be reduced within the next twenty years, at most. Thus virtually everything that is done through the planning system in this regard is worthless. It is complexity for the sake of complexity.

Thus we would argue that the system should be made less complex, that it should be stripped down, that the accretions of complexity and regulation which have been added, layer by layer, over the last fifty years should be removed. It has to be said that we make this recommendation without much hope that this will occur. We are too well aware that Byzantine systems of this nature fall only after revolutions, and we do not yet see such a revolution as occurring in the near future.

74. Mark Pennington, *Planning and the Political Market*, 2000

### The Channel Tunnel Rail Link

The Act which permitted the construction of the Channel Tunnel Rail Link (CTRL) was passed by Parliament in 1996. By this Act it was in effect given outline planning permission. The details at the local level, including construction arrangements, had to be settled by 'planning conditions' agreed by the various local authority. However, local authorities had to agree beforehand that they would act expeditiously and reasonably. Thus there was an agreed timetable, applications with respect to these planning conditions would be dealt with within eight weeks, and the planning inspectorate agreed to deal with appeals within three months. There were eleven hundred such planning conditions, few appeals occurred.

One way in which the Parliamentary Bill procedure could be speeded up would be by the House of Commons and the House of Lords acting in concert. In the case of the CTRL each House had its own separate committee to look into petitioner's concerns, hear witnesses, etc. The proceedings after such an Act is passed could be speeded up by reducing the level of detail for which permission is required could be reduced.

In three previous publications for Policy Exchange, Alan W. Evans and Oliver Marc Hartwich have shown that most of the problems with the housing market – low supply, high prices, overcrowding – can be attributed to the planning system. In this report the authors turn their attention to the effects of planning policy on the UK economy.

Writing in the foreword, the chief executive of NEXT plc, Simon Wolfson, states that “the UK’s restrictive planning regime undermines the competitiveness of our economy by increasing costs, reducing choice and inhibiting flexibility”.

Evans and Hartwich show what can be done to strip the planning system from over-regulation so that it can deal with what it was actually meant to achieve: the coordination of development.



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