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CABINET.

TOWN AND COUNTRY PLANNING LEGISLATION.

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER.

THE paper by the Lord President of the Council (C.P. (45) 275) sets out the points at issue between me and the other members of the Ministerial Committee on Compensation and Betterment. It gives the arguments in detail. A statement of my views, on a broader basis than is contained in the report of the officials, may help discussion in Cabinet.

1. We have in our programme for the life of the present Parliament a number of important projects involving very large financial operations. At the same time, we shall have for some years an economic situation which will require careful handling by reason of inflationary dangers and other elements of instability. We shall only be able to make a practical success of our programme if at all stages we show proper prudence in finance. Yet on the present proposals (one of the biggest measures we have in prospect) we should have to say, when putting our schemes to Parliament, that we did not know, within a margin of error of some hundreds of millions of pounds, what the outlay to which we were irrevocably committing the country was likely to be. I feel that this would be an impossible situation.

2. The Barlow Report guessed £400 million as the value of development rights in undeveloped land in 1938. No estimate has been given by anyone, to my knowledge, of redevelopment rights in developed land. I fear it may be very large indeed. Payment of compensation of 50 per cent. or 40 per cent. of sums of this magnitude over a very short period of years would be a serious and most unwelcome addition to the large payments and issues we shall have to make for other purposes in the next few years. The creation of so great a quantity of new Government securities—quite apart from the interest charge on the taxpayer—will make it very problematical whether I can hold the policy of cheap money which I am now pursuing. If I fail, this will prevent me from making the reduction I am hoping for in housing costs, &c., as well as in the debt charge in the Budget.

3. Moreover, there is a real budgetary difficulty in that interest on the compensation will be a heavy charge to the taxpayer which revenue from betterment will do very little to offset for years to come. On the other socialisation schemes, the taxpayer will have the earnings of the socialised industry to set against the service of the loans. Here he will have little or nothing for a long time.

4. But vast as the outlay will be, this scheme rests upon such scanty factual information that we should be at one and the same time probably paying in total far too much and yet open to a charge, which we should find it impossible to rebut, that in many cases our scheme was confiscatory.

5. I must here stress a point not mentioned in the official report. Many of the developments whose prospective value is reflected in the value of land at any particular date will never in fact be realised, apart altogether from planning interference. I appreciate that this point is looked after globally by fixing compensation at a percentage of value, but it is, to my mind, wrong to pay compensation for a value which is purely speculative with no certainty that it will ever materialise.

6. I note the argument of my colleagues that uncertainty on the amount to be paid is politically objectionable. But we must remember that for some years the volume of arrears of development urgently required in the public interest is bound to require the retention of close controls. This renders uncertainty less undesirable than it would be if we were looking to unrestrained activity on a wide scale. I also note the argument that an attempt to confine compensation to refusals of *bona fide* ripe proposals for development would clog the planning machine without successfully achieving its object. But I do not accept this argument. It is at best one of degree. Administrative arrangements should be made to avoid paying compensation (except in such cases as green belts) where there is no *bona fide* proposal for development, and in these arrangements the planning machine must, if necessary, play its part. I can appreciate the desire of the Minister of Town and Country Planning that the planning scheme should operate in complete freedom from financial cares, but this is a freedom which we cannot afford to concede where the sums involved are of this magnitude. Several of my colleagues would appreciate a similar freedom! But it would bust the Treasury and wreck the Government!

7. My view, therefore, is that we must know what we have to pay before we are irrevocably committed to pay it, and that we should only pay compensation in cases where the event shows that the theoretical "development value" would turn into real value, as a result of actual development.

Treasury Chambers, S.W. 1,
9th November, 1945.



