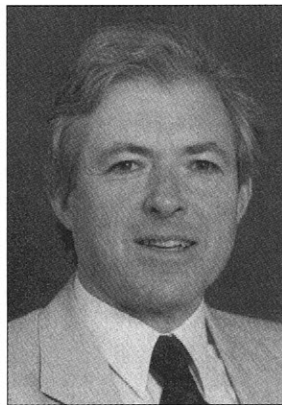


Land Tax and Social Reform in Scotland

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The great Scottish classical political economist Adam Smith approved of taxes on ground rent of built property and on the rental value of agricultural land, as these could be organised, under certain conditions, to fulfil his four general canons of taxation, namely¹:

- 1 Citizens should contribute to State revenues “in proportion to the revenue which they respectively enjoy under the protection of the state”.
- 2 Taxes should be certain and known in advance.
- 3 Taxes should be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay them.
- 4 Costs of administration and collection should be minimised.

In addition, since “both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own”² provided that they do not discourage “any sort of industry” they “are ... perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them”.

At the time Smith was writing, there was indeed a land tax in Great Britain, but since it was based on a historic and unrevised valuation, Smith held that it conformed to three of his “maxims”, but not to the first. Even so, land tax produced about 20% (and never more than 30%) of central public revenues, or around £2 million after the Union³.

Since the rental value of lands rose by around 30 times between 1802 and 1858 we can guess that this would have been worth around £60 million by the middle of the 19th Century.

Land taxation was even more important for local revenues – up to 80% in some cases. And local revenues were at that time the main – often the only – source of investment in infrastructure like roads and new initiatives like textiles.

Smith, and later Ricardo⁴, therefore provided an enduring logical foundation for the taxing of land rent and especially that part of it which Ricardo later referred to as arising from “the original and indestructible powers of the soil” or what Smith called “unimproved land”. Much the same argument was also made later by John Stuart Mill (1848)⁵, who argued that since landlords received an “unearned increment” from general economic progress this should be appropriated by the State⁶.

However, as we have seen, this idea had already been raised by Smith.

This idea of an unearned increment was advanced further by Henry George (1883)⁷, who also argued that rent should be confiscated, and that this could be the sole or “single” tax allowing all others to be

abolished. In effect, as most in this audience will know, George was advocating a 100% tax on the rental value of unimproved land.

Just as taxes on rent would fall on landowners, and not enter into the cost of production of commodities, subsidies on the produce of land would also ultimately benefit landowners. This was recognised by Astor and Rowntree in 1939⁸. In the post-war period, the need to increase food production dominated rural land policy, and led, as we know, to massive increases in agricultural support. Even now, when the priorities have changed to controlling surpluses and encouraging environmentally friendly practices, the main instruments are subsidies and quotas, both of which create additional rents which benefit landowners. Moreover, planning legislation has effectively nationalised development rights, but left the associated rents or unearned increments arising more or less untouched after various attempts at partial taxation of these, mainly in the post-war period following the Uthwatt Committee report⁹.

Far from taxing land rent, then, the State has subsidised it in numerous ways.

Some politicians and academics preferred nationalisation of land to taxation. Neither Smith nor Mill thought this a good idea, mainly on the grounds that it would be inefficient while Henry George did not think it was necessary in the event that rents were appropriated by the State¹⁰. Astor and Rowntree, however, supported nationalisation of agricultural land on the grounds that unless it was so, all agricultural subsidies would end up in landowners pockets. Bateman, much more recently, argued that the strongly political nature of land nationalisation proposals may now be inappropriate. He argues that the "residual power" of land should be nationalised, meaning that "all rights belong to the state except those specifically excluded (rather than the other way round)"¹¹.

We can see that there is rather weighty intellectual support from Adam Smith up to the recent past for treating land tenure and taxation issues as central to the question of overall economic development. This remains the case even when the most obvious products of land, agriculture and forestry, become but a minor proportion of GNP. There is a very important principle involved concerning the taxation of rents including "unearned increments" associated with land. This principal is particularly important in countries, like Scotland, with extremely unequal distribution of land ownership, since the failure to tax back unearned increments in land value arising from what Mill called "general progress" and other public investments or subsidies or regulation (granting of planning permission) adds further to an already

unacceptable mal-distribution of income and wealth. So my challenge to our politicians is this: why is this vital principal not being fought for in the Scottish parliament and in the party manifestos?

Notes

- 1 Smith, Adam (1776), *Wealth of Nations*, Book ii, p.307-309, London: J. M. Dent & Sons, 1910, Everyman Edition.
- 2 *Ibid.*, p.325-6.
- 3 *Ibid.*, p.304.
- 4 Ricardo, David (1817), *The Principles of Political Economy and Taxation*, London: Pelican, 1971 edition.
- 5 Mill, John Stuart (1848), *Principles of Political Economy*, London: Longmans Green.
- 6 Bateman, D.I., (1989). "Heroes for Present Purposes? – A Look at the Changing Idea of Communal Land Ownership in Britain", *Journal of Agricultural Economics*, Vol. 40, No 3, September 1989, pp.269-289.
- 7 George, Henry (1883), *Progress and Poverty*, London: Paul Trench.
- 8 Astor, Viscount and Rowntree, B. Seebohm (1938), *British Agriculture: Principles for Future Policy*, London: Longmans Green.
- 9 Uthhwatt Committee (1942) *Report of the Expert Committee on Compensation and Betterment*, Cmnd 6386, London: HMSO.
- 10 George, 1883, Cited in Bateman, *op cit.*, p.279.
- 11 *Ibid.* p.288.

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