LAND & LIBERTY

Published by THE UNITED COMMITTEE FOR THE TAXATION OF LAND VALUES.

Thirty-fourth Year. Established June, 1894.

3d. Monthly. By Post 4s. per annum.

United States and Canada, 1 Dollar.

Editorial Offices:

11, TOTHILL STREET, LONDON, S.W.1.

All communications to be addressed to the Editor.

Telegrams: "Eulav, Parl., London." Telephone: Victoria 7323.

Postage on this issue is One Halfpenny.

THE BUDGET AND RATING REFORM

This House declines to assent to the Second Reading of a Bill which gives no relief in the heavy burden of taxation borne by the wage-earning class, imposes new indirect taxes and proposes to raise revenue from national taxation for the relief from local rates of a particular class irrespective of individual need, instead of promoting a fundamental reform of the rating system by levying rates upon site values, which are created by the industry and enterprise of the community.—*Labour Motion to reject the Finance Bill, submitted by Mr Snowden, Mr William Graham, Mr Dalton and others; House of Commons, 5th June.*

This House, whilst conscious of the urgent need to relieve both industries and areas, which are abnormally depressed owing to the heavy burden of rates, declines to give a Second Reading to a Bill which seeks to secure this end by methods which will give a greater measure of relief to flourishing industries, than to those which are depressed. It further declares that the revenue required to secure relief should be provided by national economies and reduction of unnecessary expenditure upon armaments, and the rating of land values created by the activities of the community.—*Liberal Motion to reject the Finance Bill, submitted by Mr Lloyd George, Sir John Simon, Mr Runciman, and others.*

The central feature of the Budget is the proposal for rating relief to be granted to special classes of ratepayers in the autumn of 1929 by means of the funds accumulated out of the petrol tax and other revenues during this and future years. A further step in the legislative development of this scheme has been taken in the introduction of the Rating and Valuation (Apportionment) Bill which provides part of the machinery for granting the relief. As this matter will be an active subject of discussion in Parliament and elsewhere, and as it is intrinsically so important, it may be well to consider it in some detail.

The Government's proposals are based upon the quite sound proposition that the present rating system is a burden and handicap to the industries of this country. It intends therefore to diminish that handicap by reducing the assessment of "productive industries" (to use the Chancellor of the Exchequer's phrase) to one-quarter of the normal rateable value, by reducing the assessment of railways in respect of freight transport, and by omitting agricultural land out of the assessment for rating entirely. Incidentally, woodland is now to be treated as agricultural land and therefore is also to be exempted altogether from rates. The deficiency will be paid to the local authorities by the Exchequer, in somewhat similar fashion as the loss of revenue due to the present method of rating agricultural land at one-quarter of the normal value is made good by the Exchequer. The proposal is at first glance attractive, and as a general election will intervene before it is put into operation, it is no doubt intended to be a powerful electioneering weapon in the hands of the Conservative Party.

Let us see then what is wrong with the present rating system. Its vice is twofold. On the one hand, in so far as it taxes improvements and is proportioned to the use made of land, it discourages the improvement of land, handicaps the expansion of industry and is an oncost in the process of production which has to be passed on in the end to the consumer. Its effect therefore is to restrict production and employment and to increase prices. The effect of the increase of prices is most obvious in the export market but is just as serious in the home market. This defect the Chancellor of the Exchequer elaborated in his Budget speech. On the other hand, the present rating system exempts from rates properties which ought to contribute. Being based upon the annual value of land in its existing condition, local taxation varies with the use which is made of land. If the land is unused it pays no rates; if it is badly used, it pays little rates, no matter how valuable it may be or how productive it could be made. This defect in the rating system is even more serious than the other. It encourages the holding of land out of use. It facilitates speculation in land values. It shortens the available supply of land on the market and increases the rent or price which must be paid for land generally. The householder has to pay more for his accommodation, and industry has to pay more for its sites and for its raw materials.

This aspect of the matter the Chancellor of the Exchequer, of course, did not advert to, nor do the Government offer any remedy for it. On the contrary, the reduction of three-quarters in the assessment of "industrial hereditaments," as they are called in the Rating and Valuation (Apportionment) Bill, will be given in those cases in which the site is grossly under-developed just as it is in those where the site is developed to its highest extent. The reduction is given in respect of the whole hereditament, land as well as improvements. Consequently, where there is a building of little value on highly valuable land, the major part of the relief will be in respect of the land value and not in respect of the improvement value.

The principle of the Rating and Valuation

(Apportionment) Bill is to take the present basis of assessment, to classify all the properties (hereditaments) comprised in it into (A) agricultural hereditaments, (B) industrial hereditaments, (C) freight-transport hereditaments and (D) the remainder. In many cases this will necessitate apportioning the rateable value of a single property between the various uses. Having made this classification the properties in class (A) will be entirely relieved of rates, the properties in class (B) will be relieved to the extent of three-fourths, the properties in class (C) will be relieved to an extent which is not quite clear, and the remainder (D) will be left as at present.

The whole plan (though it may be an excellent vote-catching dodge in the meantime) will in the long run prove abortive and probably worse. As far as the abolition of the remaining quarter of the rates on agricultural land is concerned, it is quite certain that the benefit will as soon as possible be swallowed up by an increase of rent. This proposition has been a commonplace of politico-economic thought ever since the first Agricultural Rates Act in 1896. A similar effect will tend to follow in the case of the industrial properties. The demand for such properties will no doubt be strengthened and the value of them will increase on that account, for the supply will not increase.

In any event the whole process is one of feeding the dog on his own tail. The vicious system of rating improvements is to be mitigated by reducing the rates and increasing the taxes on petrol and other commodities. The present rating system is, by Mr Churchill's own argument, a system of indirect taxation, for the rates are part of the cost of production and are thrown forward on to the consumer. In order to remedy it he throws burdens on to the consumers of petrol and road transport, the users of buttons, the consumers of silks, gloves, cutlery, matches and the various subjects of indirect taxation which the present Government has devised or extended. Surely no such financial jugglery is going to improve the economic condition of the country.

Another curious feature of the scheme is the distinction which is drawn between agriculture, industry and freight transport (*i.e.*, railways, canals and docks) and other economic activities. Properties used as dwelling houses, retail shops, storage, public supply undertakings and distributive wholesale business are excluded. The distributive side of industry is as important as the productive. The process of production is strictly not completed until the goods have reached the ultimate consumer. Coal left in the railway sidings or sugar at the dockside do not satisfy human wants, and that is the ultimate aim of economic life. The process of the division of labour, or the specialization of industry has placed part of the process in the hands of the manufacturer and part in the hands of the distributor, but their functions are both indispensable and correlated. If one should be relieved of rates to encourage his activities, why not the other?

In like manner if the levying of rates on industrial premises handicaps the manufacturer, is not the levying of rates on dwelling houses a burden upon the whole population and particularly upon the wage-earning classes who have to spend a relatively large proportion of their income on house rent? And does it not also discourage the building of houses?

The scheme for reducing rates on certain properties which we have dealt with above is the most novel part of the proposals. It may be as well to remember that a provision is foreshadowed for removing part of the burden of certain services to the Exchequer and for increasing the size of the area over which the rates for certain other services are levied, making it, for example, the county instead of the urban or rural district. The details of this are still to be published. Some argument can no doubt be made out for this. No doubt there are a few areas in which, owing to the enormous burden of unemployment, it appears to be difficult to find enough revenue locally to meet the expenditure of the local authorities. We venture to say, however, that if the rates were levied on the basis of land value that there are very few districts where the burden would even now be too oppressive, as householders and users of land generally would be relieved. In any case the real remedy is not to provide new methods of raising funds for the relief of the unemployed but to get rid of unemployment.

It is gratifying to observe that in the Second Reading debate on the Finance Bill on 5th June both the Labour and the Liberal Parties have put down motions for rejection as a protest against the Government's proposals, and as an alternative have definitely and emphatically advocated the rating of land values.

The real remedy is not to reduce arbitrarily the present basis of assessment in respect of selected properties, but to alter the whole basis of rating. It is not to raise fresh indirect national taxation of a vicious nature to relieve a vicious system of local rating, but to take the community created value of land for communal purposes. It is not to reduce the burden placed on the composite subject land and improvement together, but to separate these totally distinct things—land and improvements—reducing the rate levied on improvements and making land pay on its full value. It is important to encourage the application of capital to land, but it is still more important to prevent land being held out of use and so making it impossible to apply capital to it at all.

The livelihood of the people of Britain must be obtained from the land of Britain. The whole of the commodities which they require must be obtained either from the produce of their own land and labour or by exchanging the produce of their land and labour for that of other nations. The object of a genuine rating reform is to prevent land being held out of use, to collect the public value of land for public revenue and to relieve improvements from taxation. Judged by these tests the Government's scheme is condemned in every respect. Its effect can only be to entrench more firmly the land monopoly which is strangling the national life.

F. C. R. D.