

## LAND VALUE RATING: ITS JUSTICE AND ECONOMIC EFFECTS

*Paper presented by F. C. R. Douglas, M.A., L.C.C., M.P., to the Annual Conference of the Association of Irish Municipalities meeting at Dundalk, 10th-12th September, 1940*

It is remarkable that in many countries some form of tax on immovable property forms an essential part of the system of local taxation. This fact is, no doubt, connected with the circumstance that complete individual right to land was not recognized in primitive communities, and that those who held land were obliged to give to the community some payment for the privilege.

The development of this system in recent times has, however, given rise to certain inequalities and injustices which call for remedy. The reasons why this system of land revenue has in its modern form ceased to function satisfactorily seem to me to be two. One is that the burden has ceased to be imposed upon the owner of land but has been transferred to the occupier. The other is that no distinction has been made between the land itself and the buildings and improvements which have been made on the land.

In the beginnings when our institutions were taking shape it may be assumed that the buildings and other works on the land were insubstantial and of little value. It seems probable that no express account was taken of their value in assessing the owner's obligation to pay taxes. This is confirmed by such ancient documents as Domesday Book. In one case at least the practice of assessing land according to the productivity of the soil, and disregarding entirely the buildings and improvements, survived into the present century. That case was Denmark, and it is not unreasonable to deduce that the comparatively equal distribution of land and the prosperity of the agricultural population of that country was largely due to this system.

In other countries the distinction between the land and the things made by man and put upon the land became obscured, and the two were lumped together in the valuation. Thus men were required to pay taxation upon the results of their own efforts as well as upon the value of the natural resources which had been produced without man's exertion. Moreover, in the British Isles the system became still worsened by the shifting of the liability from the owner to the occupier who was frequently a mere tenant paying a rack rent for the land and buildings. As a result of the shifting of the liability to the occupier the doctrine grew up that unoccupied land should pay no rates, and thus considerable areas of valuable land were exempted from making contribution to the local revenue. The most glaring examples are to be found on the outskirts of towns where land with a high building value either escapes payment of rates completely or else is assessed upon an agricultural value. A further unfortunate development was the establishment of the doctrine that the value of the land must be estimated as if it was let on a yearly tenancy in its existing condition. This automatically precluded any consideration being given to its value if it were put to a better and more productive use. Thus the man who allowed land to be badly used was encouraged to do so by being given a low assessment.

On the other hand in countries such as Denmark where the primitive system persisted the valuation was based merely upon the fertility of the soil, and took no account of the additional values given by the making of roads and railways and access to markets and other factors which make land of equal fertility but in different situations to be of different values.

The first endeavour made by the Danish government to correct this anomaly was to substitute for the ancient system one in which a valuation was made of the selling value of the land including the value of the buildings and improvements.

Thus they first changed over to a system similar to that which used to exist in most of the British possessions and in the United States. The small farmers of Denmark speedily perceived that this change was not advantageous to them, and that for a simple reason. A small farm requires a house for the farmer and stables and barns just as does a large farm, but it requires more of these things in proportion to its size. A farmer with 300 acres does not usually have a house 30 times as large as the farmer with 10 acres, and so for the rest of the buildings and improvements. They discovered, therefore, that the small farmers were being compelled to pay a larger share of taxation because the value of the improvements on their land was a bigger part of the total value than in the case of the large farmers.

The small farmers of Denmark had a strong and well-directed organization which devoted itself to putting forward a remedy for this inequality. The remedy proposed was that only the value of the land itself should be assessed and that the value of the buildings and improvements should be disregarded. They asked for this reform not only for themselves but for the people of the towns as well. They pointed out that exactly the same argument applied in the case of the town dweller, and that by assessing him on the value of house and improvements as well as on the land the poorer man was obliged to pay more in proportion than the rich.

Eventually by the combined efforts of town and country workers legislation was passed by which the value of land in Denmark was assessed separately from the buildings and improvements, and a considerable portion of the local taxation was levied upon the land value. This new method of local rating has been in operation since 1926 and has given complete satisfaction. It has helped the small farmers—most of whom it should be observed, are freeholders—and it has also helped the urban workers by encouraging the use of land for building and by reducing rents.

I have mentioned this example at length because it relates to an old established and highly developed civilization, the economic circumstances of which are in many respects similar to those of Ireland. There is, however, a much more lengthy and complete experience in some of the British Dominions. In Queensland, for example, the system of rating land values was introduced more than fifty years ago, and in New South Wales more than thirty years ago, and in both of those states practically all local rates are raised from land values only. In New Zealand many cities, towns and counties obtain all their rates from land values. Other examples are to be found in South Africa and Western Canada.

Let us turn more closely to the arguments which justify this change. There is in every respect a fundamental difference between land and the buildings and other improvements fixed to it. The land itself is not the result of any human effort. Houses, stables, factories, barns, warehouses, and so on are the result of man's labour and require constant repair and attention in order to keep them in existence.

The value of land is due to its fertility, its situation, climate, density of population, combined with the intensity of demand for it. In particular the public services, roads, streets, railways, posts and means of communication, water, gas, electricity, and sewerage, public health services, and many other things provided by public funds are essential to civilized life, and are a reason why men are willing to pay a rent for land in a particular situation and enjoying the advantages of such services. Thus the value of land is not due to anything

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which the owner has done or could do ; it is due entirely to what the community does, and to the demand of people for the advantages attaching to any piece of land.

The value of buildings and other improvements is due to the individual expenditure of labour and materials in making them. Their value in the long run is regulated by cost of production, but land has no cost of production.

To impose rates on buildings and improvements is in effect to penalize the making of them. The heavier the rate is, the more inducement there is to save money on such things, because the better they are the more taxation has to be paid.

Thus a rate on buildings and improvements is uneconomic and anti-social. It discourages men from building and improving. It makes houses and other things dearer and poorer.

On the other hand a rate on the value of land alone has no such effect. It does not diminish the supply of land, because nothing can do that. It does not discourage men from using land, because the rate has to be paid whether the land is used or not. On the contrary it encourages men to use land because they do not have to pay more rates when they put up a better building ; and it discourages men from using land badly because they have to pay just as much if they do so as if they use it well.

By way of confirmation it may be well to quote the observations made by the Commissioner of Taxes in New Zealand in an official report after the system of local rating on land values had been in operation for some ten years. He said :—

"The object and tendency of this system of taxation is to compel land being put to its best use, so that the greatest amount of income may be derived from it, and rendering it unprofitable to hold land for prospective increment in value. It has been the direct cause of much valuable suburban land being cut up and placed on the market, and thus rendered more easily available for residential purposes, and of the subdivision of large estates in the country, resulting in closer settlement.

"The effect on urban and suburban land has been very marked. It has compelled owners of these to build or sell to those who would ; it has thus caused a great impetus to the building trade. . . . The tendency of this system is not to increase rent but, on the contrary, as the tax becomes heavier it tends to bring into beneficial occupation land not put to its best use and so reduces rent, the improvements being entirely free from all rates and taxes."

It may also be observed that the practical application of this reform is simple in its nature. All that is required is another column in the valuation rolls showing in respect of each plot of ground what its annual site value is, that is to say what yearly rent any one would be prepared to pay for it if there were no buildings and improvements upon it and if the occupier had security of tenure. At the same time the local authority should be empowered to levy such part of its rates as it thinks fit upon the annual site value and reduce correspondingly the rates which it levies upon the present basis.

The site value rate would naturally be imposed upon all land whether used or not, and whether occupied or not. In the case of unoccupied land the site value rate would be collected from the owner. In the case of other land it could be collected from the occupier, but if the occupier was not the owner he should be entitled to deduct from his rent the whole of the site value rate, if his rent was equal to or greater than the annual site value. (If his rent was less than the annual site value, he would only deduct a proportionate part from his rent, because it would not be fair for the lessor to bear a greater portion of the site value rate than he got in rent).

The system is, therefore, simple in principle and in application. The site value rate should be levied in respect of land of all kinds, including the sites of railways and public utility

undertakings of all kinds. It would be digressing too far from the main purpose of this paper to go into the details of railway assessment, but the application of the "profits principle", in England, as it has so far been interpreted by the Courts and the Authorities concerned, has resulted in valuations which seem to be far below the real value of the assets. It is true that railways have in recent times suffered from the competition of road transport to a degree which could not originally have been foreseen. Nevertheless, there is no reason why they should not be assessed upon the extensive and in many cases valuable sites which they occupy. If it be asked, how should the valuation be made, a simple answer is by comparison with the value of adjacent land used for other purposes.

In conclusion may I say that it is worth while for those who are concerned in the practical business of local administration to go to some trouble to get the rating system established upon a more rational and fair basis. Very large sums of money are taken from the pockets of the people every year in order to pay for the expenditure of local authorities. All the signs indicate that these demands upon the ratepayers will become greater rather than less. If some people are required to pay more than they should and others are allowed to pay less, then we are altering the distribution of wealth in a way which is prejudicial to the well being of society. If that method of raising local taxation has in addition the effect of discouraging the erection of buildings, the making of improvements and the best use of the land, then the public suffers an additional and a continuing injury the effects of which may be of very great magnitude. Reform of local taxation is, therefore, the foundation of sound local administration generally.

## THE WATER QUESTION IS THE LAND QUESTION

THE UTTOXETER Rural District is in need of water although there is plenty of it in the district, and required is some land for a reservoir to catch and hold it. The *Derbyshire Advertiser* of 23rd August, 1940, reported discussion in the Council on the matter. The Surveyor, Mr C. E. Ingham, reported that the cost exclusive of land and fencing of installing a service reservoir to hold 24,000 gallons, equivalent to three days' supply at Ellastone would be £660. A member, Mr J. V. Saunders said there was so much water running to waste in Ellastone that it would be possible to build a reservoir and have their own supply. They were being held up by three or four selfish people ; they had been trying to get a scheme for Ellastone for seven or eight years and they were being held up through private interests. The Clerk, Mr F. F. Hawthorn, did not know whether they could get an inquiry to-day. The Chairman, Mr G. Simpson, said if they were certain there was plenty of water at Ellastone they could make a scheme and fight it out as they had done at other places.

The Councillors, charged with the care of the commonweal and menaced and driven to the "fight it out" attitude, remind one of the mice who would bell the cat. The people want the water to drink that falls from the skies but for seven or eight years some privileged interest has denied them this gift of God. And this Council would have an inquiry, with some pundit from the Ministry of Health to help decide whether the scheme is desirable or practicable and to say whether the necessary land should be purchased. It is just one of the many incidents of the war on the home front, the war against the aggression of landlordism, the war to lift the blockade by which this country has been so long beleaguered ; councillors holding discussions and passing resolutions which are futile so long as they do not boldly challenge and show determination to remove the stranglehold of the land monopoly.