

## THE RATING OF LAND VALUES

(Paper delivered at the Irish Municipal Conference by F. C. R. Douglas, M.A., L.C.C.)

ANY SYSTEM of rating or local taxation involves the determination of two things : (1) Who are the persons who shall contribute to local taxation ? and (2) what share shall be paid by each ?

In judging the wisdom or expediency of a system of rating, regard must be had to its justice as between the various members of the community, and attention must be given to its ultimate incidence and to its economic effects.

### THE PRESENT SYSTEM

The existing system, broadly speaking, lays the burden of taxation upon the occupiers of property, and it allocates the share which each should pay according to the rateable value of the property which he occupies. The rateable value corresponds, more or less, to the use which is made of the land, being assumed to represent what the land is worth if let for a year in its existing condition. Being a tax on the use of land, existing rates tend to fall ultimately upon occupiers, irrespective of whether they are collected in the first place from occupiers or from owners.

The economic effects of the present system of rating are as follows : (a) So far as it falls upon improvements, it imposes a penalty upon the use of land. (b) It discourages the making of improvements, and raises the cost of them to the occupier. (c) It encourages the holding of land out of use for speculative or other motives, because undeveloped or badly developed land is rated at little or nothing. (d) It tends to raise the rent or price of land.

It is sometimes said that land values are already rated, because the value of land enters into the rateable value. This is only partially and imperfectly true. Where the land is fully developed, rateable values may reflect a considerable portion of the land value ; but if the land is badly developed, the land value has only an insignificant effect on the rateable value. An example taken from official information of the Local Government Department will illustrate this. At Drumcondra and Glasnevin the rateable value of 129 acres was £299 for land and £70 for buildings, and the rates levied were altogether £145, or £1 2s. an acre. The property was acquired by compulsory purchase and the purchase price awarded for land and buildings was £37,398, being £290 an acre and equal to 101 times the rateable value. It is thus evident that much land value escapes rating at present. But even if land values were rated, that would not affect the argument that buildings and improvements should *not* be rated.

### THE RATING OF LAND VALUES

The rating of land values is a simple and practicable means of correcting the evils of the present system of rating. Its essential features are : (1) it imposes the burden of local taxation upon the owners of land ; and (2) it distributes the burden in proportion to the value of the land itself, excluding the buildings and other improvements.

A large body of practical experience has shown that this system is practicable and workable. It has been

in operation in Queensland for more than forty years, and in New South Wales for more than thirty years. In both of these countries all local rates, both in towns and in country districts, are raised by a rate on land values, with a few negligible exceptions. Other countries in which it has been adopted, in greater or less degree, are the other Australian States, New Zealand, South Africa and Denmark. There is ample evidence that the system not only works, but works well.

### ASSESSMENT AND COLLECTION

The machinery for putting the rating of land values into operation is essentially simple. In the first place, it is necessary to have a valuation made of each plot of land within the area of the local authority. This valuation would be of the land as a site, disregarding the value of any buildings or improvements on it. In considering the value of each site, the valuer would consider it alone to be unimproved, but that the adjoining sites with all the public services and other factors which give value to land remained in their existing condition.

The contention used to be heard, and still is sometimes, that the valuation of land, apart from improvements, is full of difficulties and uncertainties. Ample experience has shown that valuations of land value can be made with greater accuracy and fairness than valuations of the combined value of land and improvements. Indeed, in the United States, where taxation is imposed on the selling value of land and improvements combined, it is, nevertheless, the practice in New York and many other cities to value the land apart from the improvements, because of the greater ease and precision so obtained.

A rate on land values should be imposed upon those who enjoy the land value. This would automatically exclude all those who hold land on short tenancies—weekly, monthly or yearly. The rate should, therefore, be payable in the first place by those holding for longer terms, and they should be empowered to deduct a proportionate amount from the rent they pay, and so on, if there are a series of leases. Thus the rate would be shared by those sharing the land value.

It will thus be seen that an additional column would be required in the valuation lists, showing the value of each site. Some additional entries would, perhaps, be required in respect of vacant land not entered at present in the valuation roll. In those cases where the name of a ratepayer inserted in the present valuation lists was that of an occupier on a short tenancy, it would be necessary to insert the name of his lessor as the person to whom application for payment of the land-value rate should be made. The machinery required is, therefore, not at all complicated.

When the rating authority came to consider how much revenue it required to raise during the financial year, it should be empowered to say what part it wished to raise by means of the present system and how much by a rate on land values. It would then be able to say what rate in the pound was needed for the portion collected on the basis of present rateable values, and

what rate in the pound on site values was needed to raise the balance. In every year the local authority should be free to reconsider the position and raise if it chose a greater part, or if it pleased all, of the rates by a rate on land values.

### ECONOMIC EFFECTS

The economic effects of rating land values are exactly the opposite of those flowing from the rating of improvements. To the extent that buildings and improvements were exempted from rating the cost of occupation of them to the occupier would be reduced. This would be of special advantage to the smaller occupiers who have to pay a considerable portion of their income in rent, and who, therefore, under the existing system have to pay a disproportionate share of local taxation. If buildings were completely unrated, the problem of providing accommodation, at rents they could afford to pay, for those who at present are living in overcrowded or insanitary accommodation would be greatly simplified.

As a rate upon land values would fall upon land according to its full market value, and would fall upon land irrespective of whether it was used or not, it would discourage the holding of land out of use or badly used. It would stimulate the owner either to use it himself or to let others use it who were able and willing to do so. By thus discouraging the holding of land idle it would tend to reduce the price or rent charged for land.

The general effect, therefore, would be to encourage production, both by securing that land could be obtained at more reasonable rents or prices and by exempting from rating the buildings and other improvements made on it. It would therefore tend to a larger volume of productive employment.

It should also be observed that a rate on land values cannot be shifted by owners of land on to tenants.

This is one of the few propositions in economic science upon which there is general agreement. The reasons for this are almost self-evident. Rent is determined by supply and demand. The imposition of a rate on land values does nothing to reduce the supply of land and so enable the owner to get a higher rent. On the contrary, as it stimulates the bringing of vacant land into use and the provision of more accommodation, it tends to increase the available supply of land and to reduce rents. Hence the rate cannot be shifted by increase of rent.

### INCIDENTAL ADVANTAGES

The valuation and rating of land values carries with it a number of incidental advantages. The existence of a general valuation, established for purposes of taxation, will put a check upon the price demanded from local authorities when they require land for public purposes. If the price asked is excessive, the owner will be confronted with the value he has assented to for rating and he will be required to abate the price accordingly.

It will also much assist the carrying out of town planning schemes, one of the greatest obstacles to which is the fantastic claims for compensation made by the owners of the land affected.

### CONCLUSION

An objection which rises to the minds of those to whom the rating of land values is presented for the first time is that it is unfair to single out one class for special taxation. It must be remembered, however, that land value is pre-eminently a community value. It arises from nothing that the owner has done. It is due entirely to the natural situation of the land, to the public services which can be enjoyed in connection with it, to the demand of the people for it. Every well-devised public improvement tends to increase the advantages of living in its vicinity, and therefore increases the value of land. If it were not for the public services, if money were not spent upon them day after day, if it were not for the work and industry of the community from day to day, land would have no value. It is, therefore, only reasonable that those who own it and who in an exceptional measure benefit by public expenditure should make a special contribution towards that expenditure.

Moreover, it is not correct to regard the owners of land as a class who own nothing but land. Most of them own buildings and improvements made on the land. Many of them are not mere owners of property, but are workers as well. In their capacity as workers and producers they will gain by a system which removes taxation from the fruits of their labour. This consideration applies particularly to the small cottager. The value of his house is much greater than that of the land upon which it stands, and to readjust the burden of local taxation in proportion to the value of the land alone, excluding improvements, will relieve him of much of the burden he now bears. Those whose rates are increased by the rating of site values will be well able to bear the increase.

This reform is therefore recommended as providing a just basis of local taxation, which will relieve those who deserve relief, which will return to the community a value which it has created and which will have valuable economic results.

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