

In Defence of Rating

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MR. Horace Cutler has stated that the Leader of the Conservative Party is "absolutely adamant, if a Conservative Government is returned at the next General Election, the domestic rate will be abolished, and *The Times* newspaper, 14th September, reported that Mr. Keith Speed, the Party's local government spokesman, had confirmed this to Conservative councillors at Gloucester and had said that it is likely that a local sales tax would be substituted for the domestic rate.

With the confiscation of the Church lands, which were held on condition that the Church cared for the sick, the aged and the poor, and from other causes, these people sought help in the towns and cities, and the towns and cities levied a "poor rate" on real and personal property. In 1547, during the reign of King Edward VI, for instance, the City of London Corporation charged occupiers of real property to a poor rate, and fifty-four years later, Parliament regulated rating by the "Statute of Elizabeth" of 1601.

By the time the General Rate Act 1967 consolidated rating into one Act of Parliament, almost all local government activities were covered by the rating system, which complies with the following canons:-

1. The rate is easily and cheaply collected.

2. The incidence is certain and evasion is impossible and payment of it automatically apportions itself among all contributing members of society whether they receive the demand or not and whether they pay rent or give services for accommodation.

3. So long as assessments are fair as between all classes of ratepayer, the rate bears equally so as to give no citizen an advantage nor put any at a disadvantage.

4. The list of assessments is open to public inspection and objection with rights of appeal to the local Valuation Officer, Local Valuation Court, Lands Tribunal

and (on points of law only) to the Court of Appeal and (with leave) to the House of Lords.

5. The burden of the rate is borne entirely by the freeholder or proportionately with any person deriving title under him who can exert a profit rent against an assignee or under-tenant.

There is no other system of raising revenue used in this country which has the same qualities.

Factors in the increase in prices, premiums and rents of landed property in this century include: abolition of tithe; agricultural de-rating; industrial de-rating; abolition of Schedule A tax on owner-occupied residential property; rent control; tax allowances on mortgage interest; subsidy of local rates out of taxation.

It follows from the fifth canon stated previously that he who bears the burden of the local rates gets the benefit of the rate support grant, whether he does or does not actually pay the rates. If a manufacturer takes a workshop valued at £1,000 rateable, and the rate in the £ locally is 150p reduced to 50p by the rate support grant taken out of taxation, the landlord gets £1,000 a year more rent from the manufacturer than he would if there were no rate support grant.

If, instead of becoming a tenant, the manufacturer buys the freehold of the workshop, the vendor will capitalise the rate support grant at about £10,000 over and above what the purchase price



would be if there were no rate support grant, and almost certainly the manufacturer will raise this



money by means of a mortgage, debenture shares, or a bank or other loan.

Similarly, a tenant with a "profit rent" can assign his lease at a premium, and the premium charged will reflect the capitalisation of the rate support grant over the unexpired term of his lease.

The rate support grant has been running at about £7,000 million a year, and the effect of it on industrial, warehousing, retail, commercial, professional, residential and all other rated occupation at a time when we have been going abroad for loans has been to create an enormous millstone around the neck of all human activity of something like £30,000 to £35,000 million. This money is absolutely inert: it is not being used to buy stock or renew fixtures and fittings, plant and machinery or tools or transport, and the interest on it is going into the pockets of private concerns when it might be going into the general rate funds throughout the country.

The promise by the Government to reduce the rate support grant by 15 per cent in the present fiscal year, if it is really being implemented, is the best piece of economic news we have had since the Local Government Act 1948 brought the grant into existence when a Labour Government was in office, but it would be much better if there were a promise to phase it out altogether. This would allow the threshold of personal income tax to be raised by something like £21,000 million and thousands upon thousands of people now paying income tax (including pensioners and widows) would be freed from this burden.

In the cities of this country, in bed-sitter land, and in the houses of their parents or parents-in-law, the pill reigns supreme among young couples. Marriages are not taking place which should take place, and even where they do take place, babies who should be born are not being born, because of this dreadful fiscal crime against

humanity, while they struggle against bloated income tax to get the "deposit" together for a home. Even when this is achieved, they may look forward to spending thirty years of their working lives "in hock".

If the manifesto *The Right Approach* is kept to, the Conservative Party is "committed to the objective of abolishing the domestic rating system" by which they will thrust up further the price, premium or rent of homes, and, to make up the deficiency, the blood of the rising generations is to be sucked by a local income tax or sales tax and a coming generation is to be extinguished.

It was the People, not Parliament, who invented rating, and there is no reason for denouncing the system because this was done a long time ago. Successive governments, in "supporting" the rates, have been trying to fight an immutable economic law. A periodic fiscal charge on landed property is different from all other forms of revenue because it means that the occupier is charged before he produces. Income tax, value-added tax and sales tax wait until he has produced, and then rob him, and value-added tax robs particularly the producer who is the most efficient. The people of olden times, close to the land, knew this, but the over-sophistication of modern times has dulled humanity and has made the electorate the prey of the politician.

Stoke Newington and Hackney North Conservative Association put forward the following resolution for the Annual Conference of the Party: "In view of the increased size since 1963 of rating and precepting areas throughout England and Wales, all local government expenditure should be met locally and all capital sums should be raised by the issue of bonds by local authorities."

Rating and precepting areas throughout England and Wales have increased very much in size as a result of the re-organisation of local government since 1963. Greater London County is divided into thirty-two rating areas, all of which are about three times the size of rating areas before 1963. Their combined rateable value is £1,885,247,200.

Greater Manchester, Mersey-

side and Lancashire have a combined rateable value of £619,933,800, there being twenty-nine rating areas.

The population of Greater London County is 7,167,600 and that of Greater Manchester, Merseyside and Lancashire is 5,463,500.

These populations exceed those of many European sovereign States, and the rateable values shown exceed their national budgets in some cases.

The effect of putting the resolution into practice would be to achieve devolution in local government and "get the Government off our backs" by the simple means of phasing out the rate support grant and telling the Government what they can do with their loans. Millions of people now paying income tax would be exempt. This is without prejudice to the maintenance of rate equalisation schemes between rating areas and to the payment of rate rebates in suitable cases.

I think that the strongest instinct in man (and woman) is the preservation of posterity, and I believe that the overwhelming majority of my contemporaries think the same. It is time that successive Governments stopped pursuing degenerate economic pol-

icies which give young people every cause to revolt.

I would make the following proposals for revision of Conservative Party policy:-

1. The proposal to abolish the domestic rate should be abandoned
2. The rate support grant (introduced by Labour in the Local Government Act 1948) is a serious mistake and it should be phased out so as to reduce the massive increases in the price, premium or rent of all rateable property which it has forced upon the nation
3. The threshold of income tax should be raised correspondingly
4. Rating authorities should be given the option to adopt site-value rating in their areas so as to relieve single people and elderly couples living in purpose-built residential flats both private and local authority owned of the heavier rating valuations which these flats attract in proportion to their living space under the present system of valuation of building - fixtures - fittings - plant - machinery - and - services and so as to simplify and quicken the process of valuation.

FORECASTING: SENSE OR SORCERY?

ACCORDING to the seventeenth century medical theory, some diseases could be cured by blood letting. The theory could not be tested by laboratory experiment and the evidence from individual cases was inconclusive; but accumulated evidence eventually convinced people that the theory was false. The art of testing theories against evidence where laboratory experiment is impossible has since become much more sophisticated. Professor Ramsey's contribution to a new Hobart Paper* explains the use of 'econometrics' for the testing of economic theories in terms which can readily be understood by the layman.

Just as econometrics should help to avoid the *post hoc ergo propter hoc* fallacy in the testing

of theories, it should also help to avoid some of the errors of naive economic forecasting. But economic forecasting remains notoriously unreliable. What has gone wrong? Can we expect it to improve? Can government intervention — with its dependence upon economic forecasts — ever become effective? Or should we seek to rely as far as possible upon market forces? Professor Ramsey sees the most effective government role as that of providing and enforcing a framework of property rights within which markets must operate. This conclusion is reinforced by Ralph Harris' contribution entitled "a sceptical view of forecasting in Britain".

For those who wish for a brief glimpse into the mysteries of economic forecasting, this booklet — with its useful glossary of technical terms — is probably the easiest way of getting it.

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* *Economic Forecasting—Models or Markets?* by James B. Ramsey. Hobart Paper 74. Institute of Economic Affairs, £2.00.