

“Financial Times” Open Forum on Land-Value Rating

Of the many recently published letters dealing with the rating and taxation of land values, we reprint the following from among those which appeared in the influential *Financial Times* during October and early November. The correspondence was initiated by Mr. P. R. Stubbings, assistant editor of LAND & LIBERTY, writing privately from Bromley, Kent, with the following letter:—

A year ago when site-value rating was under discussion in your columns, I referred to the notable and immediate benefits which the city of Dunedin was deriving from the adoption of that system two years earlier.

My correspondents in New Zealand now inform me that the value of building permits in Dunedin have shot up from £1.54m. annually under the old system to £2.61m. There is a move in Auckland to adopt the site-value system, following the unanimous recommendation of a city council ad hoc committee. Even more noteworthy, a Local Government Commission has recently recommended to the Minister that the system be made mandatory throughout the country because it is “ethical, expedient and equitable.”

In view of the prevailing discontent in Britain about constantly rising rates and the penalty they impose on enterprise, is it not high time for a dispassionately objective inquiry into the desirability of levying rates solely upon the site value of land?—October 6.

A SHARP REBUKE

Mr. Geoffrey D. M. Block, of Hampstead, in a letter published October 9, dismissed the suggestion. He wrote:—

Mr. Stubbings should ascertain the facts. A committee was appointed to consider the practicability and desirability of a levy on site values, under the Labour Government. It sat under the distinguished chairmanship of Mr. Erskine Simes, Q.C., and issued its Report in 1952. The majority report said:—

“We do not deny the possibility of the rating of site values, but we have been impressed with the administrative difficulties, the prospect of litigation which would inevitably arise, the undesirability of diverting much-needed manpower for the purpose and the relatively small revenue likely to be obtained, and can find no significant advantages in its introduction.”

—AND A REJOINDER

Answering this contention, October 12, Mr. Stubbings wrote:

Mr. Geoffrey Block’s perspicacity unfortunately does not match his promptitude in inviting me to ascertain my facts. They are beyond dispute and may be checked by telephone call to the office of the New Zealand High Commissioner.

The majority report of the Erskine Simes Committee does not invalidate my suggestion that there should be a “dispassionately objective” inquiry into the desirability of levying rates solely on the site value of land. The words, “having regard to the provisions of Town and Country Planning Acts” in its terms of reference effectively prevented that Committee from undertaking any such investigation. At that time the Development Charge blocked the path to a sound system of rating. With that obstacle wisely removed by the Conservatives the findings of the majority are rendered nugatory.

The passage quoted by your correspondent must be read in the light of those inhibiting terms of reference. Even so,

the inference that the annual value of land apart from improvements is less than the annual cost of local authority services is unacceptable to anybody conversant with the real estate market. Similarly one would have expected that less, rather than more, “much-needed manpower” would be required to assess the value of land alone than to assess the composite subject, land and improvements taken together.

One cannot compute the cost to the national economy of a destructive rating system which impedes development, fosters land speculation, makes buildings needlessly dear and the clamour for housing subsidies irresistible, generates slums and decay, divides society into mutually antagonistic groups, undermines local democracy and independence, and prepares the ground for the municipalisation of rented dwellings. Nor can one estimate the value to the whole community of substituting an incentive system of local taxation. Obviously much is at stake and scientific objectivity is warranted.

To a limited extent paragraph 168 of the majority report bears on these reflections:

“As we have seen, the most compelling case for site-value taxation has always been economic. It is argued that as contrasted with a real estate tax which included buildings in the assessment, it is logical to conclude that development would be actively stimulated. Land prices would tend to be lower for two reasons: first, the extra burden of taxation would reduce the capital value of land, but not of buildings. Secondly, liability to pay the site-value rate would tend to bring into the market land which would otherwise not have been offered for development, thus increasing the supply of available land and tending to lower its price.”

A PLEA ENDORSED

The plea for a new enquiry was endorsed by Mr. B. W. Brookes in this letter published October 16, addressed more particularly to manufacturers:—

Mr. P. R. Stubbings’ call for a new inquiry into the desirability of a change in the rating system is timely, coming as it does when the attention of Conservative delegates at Llandudno has been focussed on (i) the de-rating of industry, and (ii) the plight under the recent rating re-assessments of business occupants of shops, offices and commercial properties. In juxtaposition these two items appear to show an indefensible favouritism of industry, a favouritism which, however, is completely illusory.

The present rating system under which the better one builds the more one pays in local rates, amounts to blatant discrimination against the go-ahead industrialist with plans for building large competitive factories and installations; and it is a recognition of the brake on enterprise which the present “real estate” rating system exerts, and of the resultant deleterious effect on the economy as a whole, that the pressure has been partially eased by de-rating.

But a slight easing of a punitive taxation is no justification for its existence. A system which needs variation according to expedient, and which inevitably causes dissension between the fully de-rated, the partially de-rated and the over-rated obviously needs review.

If I understand the Erskine Simes Report correctly the rating of site values would favour none and discriminate against none. All ratepayers would be equal but, unlike George Orwell’s animals, none would be more equal than others. Industry would get no special favours, but then, in a fair field, it would need none. But it could certainly

do without a rating system which, while appearing to give it favours, and thus making it the butt of re-rating rabble-rousers, in practice penalises it just where it should be encouraged.

LOCAL POLL TAX ADVOCATED

The course of the correspondence was temporarily deflected by Mr. John Harley, of Hendon, who wrote:—

Your correspondents who urge the rating of site values are to be commended for their pertinacity in drawing attention to the iniquities of the present system of rating property values.

Today, however, the locally raised taxes provide in approximately equal proportions for education, personal services and environmental services. It was only to cover the last of these, the environmental service, that a property rate was originally levied, but the cost of the education and personal services has been so increased during the past 10 years that some enlightened re-thinking is now desirable.

Either the rates should be levied upon each adult citizen, as a direct charge for the cost of local services, with a separate charge made to business premises for such services as they use, or the cost of the education and welfare services should be transferred to the national exchequer, leaving the local authority responsible once again for environmental services alone.

The first method of a personal rate would, psychologically, be the best means for keeping local expenditure down, for the ratepayers would feel directly all increases and decreases in spending. It would be the most equitable method of bringing in contributions from all those people who use the local services but contribute nothing as they are not householders.

The second method would meet with objections all round, for local authorities will not agree to give up control of education and personal services, nor will the central government permit local authorities to administer these services without financial responsibility. Yet the re-rating of industry and agriculture can only be justified if this course is adopted.

To collect a personal rate should not entail any great difficulties, as by an extension of the annual electoral registration every householder could be made responsible for declaring the names of those liable to pay on a given date. Collection would still run with the property but based upon the number of adult residents instead of on the assessed value. The main objection to the introduction of a personal rate is that the back-room boys of the Conservative Central Office think such a change would be politically unrewarding and tending to create redundancy among the civil service and elsewhere.

TODAY'S CRYING NEED

These views received some published support but were countered, on October 24, by Mr. T. S. Bradley, of Carshalton, Surrey, and in a second letter by Mr. Brookes, on November 6. Mr. Bradley wrote:—

The Rating Reforms proposed by Mr. John Harley (October 19) prove, on examination, to be little more than the replacement of the property rate by local personal taxation schedule—presumably complete with its own P.A.Y.E. procedure. It would be a pious hope to suggest that such a scheme could possibly invigorate interest in local government spendings, for most people would promptly classify it as income-tax, and henceforth cease to have even an apathetic interest in the local council and its expenditure.

The present taxation and rating assessments are derived from a somewhat mythical conception based on "from each according to his means," which does not take into consideration either the amount or time of physical and mental labour required to earn the taxed "means," and in most cases it acts as a distinct brake on maximum effort. The concept of spending taxation on each "according to his needs" has now reached such proportions that individual thrift has become a redundant virtue, despised by most, and actively penalised by the State with heavy taxation culminating in devastating death duties.

The crying need, today, is to lift the burden of taxation from where it lies heaviest, and place it fairly and squarely on non-productive shoulders. The principles of both land and site value taxation have been based on natural economic laws, and Australia and other countries which have adopted this form of taxation are proving that the proposals of Henry George and others are as sound in practice as in theory, and that taxation based on the economic rent of sites and land in no way hinders development.

TAXATION—PENALTY OR INCENTIVE?

MR. B. W. BROOKES' SECOND LETTER

Mr. John Harley may well be right in his assertion that no tax stimulates interest more than a direct one, but I suggest that where the prime force of such interest is directed to ways and means of avoiding such taxation, the results may be disastrous to the nation either socially, economically or both.

The British eighteenth-century tax on windows, and the contemporary French impost on marriages and baptisms, provide vivid examples of taxes with anti-social repercussions. In Britain, windows were bricked up and the health of the community suffered almost beyond repair. In France, the result was irregular unions and a steep rise in illegitimacy.

For a tax with similar pernicious consequences in the economic field one need look no further than our present income-tax. Having an economic effect as restrictive as that of a ball and chain on a ballet dancer, it places a heavy premium on initiative and enterprise, diverts some of our finest brains to the negative problem of tax avoidance, and secures that the differential achieved by the man of ability, industry and skill is a mere fraction of its true worth.

As with individuals, so with our industrial companies. The voracious appetites of income-tax and profits tax leave companies with the ability to distribute as dividends a mere 37 per cent of their gross earnings. In short, the implacable erosion of income-tax is responsible for more levelling down, both among individuals and in industry, than all the direct action of six years of Socialism.

I believe that David Lloyd George and, later, Philip Snowden, pointed the way out of this dilemma, and I am convinced that the taxation of site values, while providing the State with sufficient revenues to enable income-tax to be abolished (or at least substantially reduced) would, at the same time, restore that incentive to hard work and industry which is so conspicuously lacking in our affairs to-day.

SOUTH AFRICAN SCHOOLBOY'S EXAMPLE

Mr. J. M. Chippington writes from Cape Town, South Africa: "As I am leaving school at the end of this year, I would like to present a copy of the new condensed edition of *Progress and Poverty* to the School Library. I would be most grateful if you could send me one, and I enclose postal order to cover cost and postage."