

LOCAL RATES AND WHO SHOULD PAY THEM

INCREASES OF rates are reported from many parts of the country. The rate in the pound has gone up by one, two, or even three shillings. Some local authorities have so far evaded this action by drawing upon balances which they have accumulated during the war, but that process cannot be long continued. Increases of rates are inevitable and unavoidable, unless the State should withdraw a large bulk of expenditure from the control of local authorities.

The operative causes are obvious. The cost of the materials and services required has risen because of the inflation which has taken place during the war. The rise in the price level may be expected to be permanent. Inflation is a process that is never completely reversed, unless it proceeds so far that the currency collapses completely, and a new monetary unit is substituted. On the other hand, revaluations for rating take place only at quinquennial intervals. The rating authorities are most reluctant to incur the odium of increasing the valuation, and so the recorded valuations lag far behind the true values. Even in the twenty years between the two wars, valuations had not overtaken the new price level.

Unwillingness to increase valuations is especially pronounced in the case of dwelling houses. This is connected with the operation of rent control, as an endeavour is made to keep the valuations in step with the controlled rent. On the other hand, the valuations of shops, factories and other properties were increased to a higher extent than those of dwelling houses. As, even before the introduction of derating, dwelling houses accounted for about three-quarters of the total rateable value, the increase in the valuation of other properties was not sufficient to prevent an increase in the rate in the pound. Thus the increase in the valuation coupled with the increase in the rate threw a disproportionate part of the burden on factories and other properties.

The "Derating" Legislation

This set of events was one of the reasons why complaint was made of the burden of rates on industry, transport and agriculture. It provided the excuse for the derating legislation of 1929-30. As a result of the complete exemption of agricultural land and the three-quarters exemption of industrial and freight transport hereditaments, the proportion of the rate burden borne by dwelling houses and other non-derated subjects rose from 77 per cent. to 95 per cent. of the total. This is one of the facts brought out in a study of *Derating* published last year by the Institute of Municipal Treasurers and Accountants.

The distortion of the rating system resulting from derating was much greater than average figures of this kind would suggest. The cumulative loss in many rural districts caused by derating of agricultural land was the equivalent of a rate of many shillings in the pound.

Similarly in highly industrialised districts the three-quarter derating of factories and railways has thrown a sharply increased burden on other properties.

It is interesting to observe that the report referred to comes to the conclusion that there has been no fulfilment of any of the hopes held out by Mr. Winston Churchill, when, as Chancellor of the Exchequer in 1928, he announced the scheme. The inequalities of rates between one district and another have not been mitigated but have increased. The distressed areas were not restored to prosperity. Industry was not set upon its feet again. Agriculture still alleging its plight clamoured for and obtained subsidies, import quotas and other assistance of many times the value of the derating relief.

It is also interesting to observe that the *Report on Reconstruction*, issued last year by the Incorporated Association

of Rating and Valuation Officers, comes to the conclusion that these exemptions "have a purely historical origin and little rational justification."

Alternative Methods

This report deals not only with derating, but surveys the whole field of local rating. It makes a large number of proposals for administrative changes, which are intended to make the existing system work better. These need not detain us. It also looks at the question whether the basic principle of our rating system should be altered, and comes to the conclusion that it should not. The idea of a local income tax is dismissed as not providing a practicable alternative to the present system for a number of reasons which need not be repeated. In this they are undoubtedly correct.

After setting out a series of propositions which are described as the arguments for and against the rating of site values, the Report says: "The taxation of site values has much to commend it, but as an alternative method of raising local revenue it is undesirable. The rating of annual values as proposed in the Uthwatt Report appears to be practicable and provides the best method yet advocated for securing 'betterment.' The present system of rating, with or without a practical scheme for rating site values, is better than the proposed alternatives."

Houses Made Scarcer and Dearer

The inconsistency of these observations is evident. It arises, as so often happens in reports of this kind, from failure to elucidate the economic aspects of the question. For example, this Report says, quite correctly, that rates are a charge on the occupation of property. It then goes on to say that the amount the tenant has to pay in rates will affect the amount he is prepared to pay in rent. No attempt is made to pursue this argument to its ultimate conclusion. If the tenant pays less rent, it becomes unprofitable to build houses, and ultimately shortage of houses raises rents to a point at which it becomes possible once more to build them. This effect of the present rating system in making houses scarcer and dearer is entirely ignored in this Report. This is all the more strange when it does say very clearly that "rates are a charge not on income but on expenditure. In the case of houses they are a direct charge. With other classes of property, such as clubs, licensed premises, shops, business premises, industrial, transport, and public utility undertakings, they are an indirect charge, because it is well recognised that they are ultimately passed on to the consumer." Thus the argument used in another place that rates are a "selective" tax, the amount of which the ratepayer can vary by changing his place of occupation, is blown sky-high. If every ratepayer could shift to a lower rented property, the total to be raised in rates would still be the same and all that would happen would be that the rate in the pound would be increased.

Concrete Proposals

The concrete proposals which the Report makes for reform of the rating system are that local government services should be classified as either beneficial services affecting property or social services affecting the individual. The expenditure on beneficial services should be borne entirely by the rates levied as at present. The expenditure on social services should be met in part by Government grant and the balance by rates. The cost of town and country planning should be met out of a rate on increases of land value on the lines suggested in the Uthwatt Report.

The distinction sought to be drawn here between beneficial and social services owes its origin to the distinction attempted to be made between beneficial and onerous services by the Royal Commission on Local Taxation in 1901. No hard and fast line can be drawn, but in so far as the services provided by the local authority go to enhance the value of property, it is the value of land which is enhanced and not the value of the buildings. Thus, if this distinction means anything, the conclusion to be drawn is that the rates for maintaining the beneficial services should be met out of a rate on site values. But it is the whole complex of services provided which, together with natural advantages, determines the value of land at any point. There is thus a sound case for rating site values for all municipal purposes, and that indeed is what is done in the many places in which this plan is in operation.

The Association, in its report, does indicate some of the

INCREASED GOVERNMENT CONTROL OF INVESTMENTS

THE INVESTMENT (Control and Guarantees) Bill, to which a second reading was given on the motion of the Chancellor of the Exchequer (Mr. Hugh Dalton) on February 5, proposes to do two things. Clause 1 enables the Treasury to prohibit or control the borrowing of money or the raising of money by the issue of shares, debentures or other securities. Clause 2 enables the Treasury to guarantee the borrowing of money by individuals up to a limit of £50,000,000 in any financial year. The extent of the control to be imposed over borrowing is to be settled by Order in Council. The Government has published a draft of the first order proposed to be made indicating that the control will not extend to transactions below £50,000. Such an order could at any time be revoked and a more extensive one put in its place, subject to the power of the House of Commons to annul it by resolution within a limited time.

The Bill was introduced by the Chancellor of the Exchequer as part of the machinery for economic planning. It was criticised by some Labour and Liberal members as not going far enough. It was opposed by the Conservatives as a restriction upon freedom and individual enterprise and initiative, although some admitted that a temporary measure of control while there was acute shortage of capital might be justified. Some opposition approval was also expressed of the part dealing with guarantees—a principle which was established to a limited extent by the Trade Facilities Acts, 1921 and 1926, and the Development (Loans, Guarantees and Grants) Act, 1929.

The Chancellor of the Exchequer stated that the object of the Bill was "the determination of priorities according to the national interest. . . . We must make our plans, aiming at full employment, a fair distribution of wealth among the different sections of the community, and the best use in the national interest of all our resources, whether physical or financial." The power of guarantee was "intended as an anti-slump weapon" and to assist "industries which are in a bad way and are greatly in need of modernisation and new plant."

Broadly speaking, we would say that the Bill gives to the Government powers to divert the investment of money from those channels which the investors consider most profitable to others which they consider less profitable. In the one case this result is achieved by the Treasury refusing to permit the investment. In the other case, it is achieved by the Treasury guaranteeing the repayment of money lent and thereby giving the lender the assurance that the taxpayers will refund his money if the enterprise in which it is invested is a failure.

It is hardly conceivable that these measures can increase the amount of capital invested above what it would other-

main arguments upon which the case for rating site values is based:—That site and buildings differ in character; that the value of sites arises without effort on the part of the owner, while buildings must be erected and maintained; that to shift the burden to site value would encourage the erection of buildings; and that unused and vacant land would be rated, thus tending to the best development of land.

No attempt is made to counter these sound arguments. Nor is any attention paid to the great body of practical experience which attests the value of rating site values. Neither does this Association, nor the Institute of Municipal Treasurers, note that the rating of site values would be the means of granting a true and beneficial derating of the work of men's hands which we would wish to encourage while not exempting (and thereby allowing to flow into private pockets) the value of land which the community creates.

wise have been. They would simply seem to have the effect of diverting investment from some purposes to others. If this view is correct, the ultimate justification of the Bill is that the Government knows what the people want better than they know themselves, or else that they want the wrong things and that the Government ought to prevent them from getting what they want. The issue should not be obscured by talk of various abuses which have been associated with some financial transactions. It is the duty of the State to protect people against fraud, but that is not the real purpose of this Bill, and is a subject for another Bill which is said to be under consideration.

The suggestion that the Bill is an anti-slump measure appears to rest upon the assumption that the power of guarantee under Clause 2 can be used in a time of depression so as to increase the total volume of production and not merely to divert it from one channel to another. This in turn appears to rest upon the idea that during a depression there is money lying idle which can be put into circulation by such means. If that were true, the real avenue of inquiry should be to examine why money was hoarded and to eliminate the causes. However, this is a speculative discussion, for we did not notice that any speaker attempted to give an economic explanation of how or why this Bill could be an anti-slump measure.

The one effect which it is clearly likely to have is to strengthen the power of the great monopolies and combinations who will be able to exercise the utmost pressure upon the Treasury when they want permission to borrow money or issue shares and will be able to persuade the Treasury to guarantee loans which they will then be able to raise at low rates of interest. Thus the public credit will be used to advantage the shareholders in these giant undertakings, while the manufacturer or trader in a small way of business will find it more difficult than ever to raise the capital which he wants. This seems to be a curious outcome of Socialist policy, but practical experience of such measures in the past has shown that it is the inevitable and logical outcome.

WELL SAID. The effect of taxation on the housing problem was criticised by Mr. Justice Macnaghten in the Revenue Court to-day (London *Star*, March 12): "All the dilapidated buildings you see are really due to the system of taxation," said the judge. "It is the same with cottages. You have a dilapidated cottage and make it good and habitable, but immediately you have done that you have to pay much more in income tax upon it. People are clamouring for good houses, but the real cause of the disgraceful housing conditions is taxation."

The same applies with greater force to local taxation.