

LOCAL TAXATION IN SCOTLAND — ENQUIRIES AND REPORTS

IN JUNE, 1943, the Secretary of State for Scotland appointed a Committee to examine certain aspects of the rating system in Scotland. The terms of reference of this Committee were drafted in such a manner as to preclude a comprehensive consideration of the problem. The Committee's treatment of it is accordingly most incomplete and unsatisfactory.

HYDRO-ELECTRIC UNDERTAKINGS

The first branch of its inquiry arose from a suggestion by the Committee on Hydro-Electric Development, presided over by Lord Cooper, that the present system of rating was unfair to such undertakings as compared with those using coal as a source of power. On this point the Rating Committee presented a first report last year in which it endorsed this view. It made proposals which are now embodied in a Bill which has obtained a second reading in the House of Commons and has been referred to the Scottish Standing Committee.

The argument in this case was that hydro-electric undertakings required the investment of much larger amounts of capital in works fixed to the land and liable to rating, than would be required in a steam generating plant of the same capacity. This was said to be unfair to hydro-electric undertakings. The contention does not bear examination. Hydro-electric and steam undertakings are not competitive. The supply of electricity is in fact a monopoly. The areas of supply are exclusive, and no competition arises between the one type and the other.

The argument, if it is carried to its logical conclusion, is destructive of the whole rating system as it now exists. It could be said, for example, that railways should be rated at a less figure because they require more capital to be invested in works and lines attached to the land than is required by a road transport or an air transport undertaking. In fact, if any of the alternative ways of providing some economic result involves less capital outlay upon things which are attached to the land and are rateable than another then on this argument an adjustment should be made in the valuation for rating on that account.

The only logical conclusion to be drawn is that *all* works, buildings, plant and improvements should be exempt from rating and that the rates should be based upon the value of the land alone. This would have been a sound and beneficial conclusion. But the Committee has not drawn it, and has not attempted to consider these wider implications of the problem. What it has recommended is than an arbitrary reduction should be made in the valuation of new hydro-electric installations. The result is that all other ratepayers will have to bear a corresponding increase in their rates.

Thus the investment of capital in all other enterprises which involve the attachment of capital to land will be to that extent penalised.

THE SECOND REPORT

The same limitation of outlook characterises the second report of the Committee recently published (Cmd. 6595). This deals with the two remaining points in the terms of reference. One was "the effect of the existing system of rating on the provision of houses and the question whether it is practicable or desirable to limit the maximum amount payable in respect of owners' rates." The other was "the liability for rates in respect of empty or unused premises." It is evident that the Committee has restricted itself to considering whether owners' rates should be limited, and whether empty premises should be relieved of rates. They have refused to consider the rating system as a whole or to consider any modifications except those indicated, although evidence on the general question was submitted to them. This is a most regrettable result, and stultifies their conclusions.

RATING OF OWNERS IN SCOTLAND

The system of rating in Scotland differs from that in England in so far as a portion of the rates is imposed upon owners and a part upon occupiers. The term "owner" in this connection means broadly the person who is entitled to the rent of the property from the immediate occupier and includes an owner-occupier. It does not include superior interests who may receive rent (including feu duty or ground annual) from the property. These superior interests are not liable to pay rates.

There are minor differences relating to the method of valuation between the two countries, but these are not generally material to the broad economic aspect of the question. On the whole the valuation in both countries depends upon the annual value of the land including the buildings and improvements on it.

The fact that part of the rates in Scotland is levied upon owners has the result that that part continues to be payable although the property is unoccupied and the occupiers' rates cease.

Although, as we have seen, a part of the rates in Scotland is payable in the first instance by owners, this does not affect the ultimate incidence of the rates. The report admits that the owners' rates are sooner or later shifted to the occupier in the form of increased rent. Thus the result in both countries tends to be the same.

RATES AS A DETERRENT ON BUILDING

The report of the Committee reiterates time and again that owners' rates are a deterrent upon building because they

raise rents. But the occupiers' rates have precisely the same effect. From the point of view of the occupier it makes no difference whether he pays part of the rates directly and part indirectly in the rent which he pays to his landlord. It is the total burden which is material to him and which limits his ability to pay for and to obtain better or larger accommodation.

The Committee are quite in error in asserting that "to transfer the entire rate burden directly to the occupier would be the surest way to remove the rating deterrent to private enterprise house building for letting." The surest way and the only way is to relieve buildings and improvements from rates, and to rate the value of the land only.

THE COMMITTEE'S RECOMMENDATIONS

The principal recommendations made by the Committee are: (a) That in each rating area the consolidated owners' rate per £ levied in respect of house property should not in future exceed the present consolidated owners' rate per £. (b) That the consolidated owners' rate per £ levied in respect of the first £60 of annual value of each *new* house, unless the house is let by a local authority or other public housing authority, should be for a period of 25 years from the completion of the house, 25 per cent. of the consolidated owners' rate levied in respect of other houses in the same rating area. (c) That owners and occupiers should not be liable for rates if the property is unoccupied for three months or more, except in the case of owners' rates where the valuation assessor designates a subject as being lettable and the owner as not genuinely seeking to let.

These recommendations will have the effect of increasing the occupiers' rates levied upon all houses, and to some extent of increasing the rates payable by both owners and occupiers of all property other than houses. They will make the rating system even more complicated and difficult to work than it has already become, as a result of the derating of factories, railways, and agricultural land.

The recommendations make no distinction between the value of land and the value of houses and other buildings and improvements. They will have the tendency of inducing owners of land eligible for building houses to ask more for the land, and the relief in respect of new houses will in part be a present made to the owners of such land by the whole body of ratepayers.

THE SELECT COMMITTEE OF 1906

The whole question of rating was considered by the Select Committee of the House of Commons on the Land Values Taxation (Scotland) Bill, 1906. It is instructive to compare the bold and clear-cut proposals of the Select Committee

with the lame and impotent findings of the present Committee. The Select Committee described the present system of rating in these terms: "Contribution to the rates in the burghs of Scotland is made partly by owners and partly by occupiers, the standard for both being the yearly value of lands, including buildings. But the burden of the burgh assessments is not laid equally upon owners and occupiers. The occupiers bear by far the larger share." "The rental of the composite subject—land with the erections upon it is selected as the standard of rating applicable alike to owners and occupiers. No attempt is made to separate the yearly value of buildings from the yearly value of the site on which they rest. No rates are at present levied in the burghs in respect of the value of land apart from buildings. If the land be let the owner is rated on its actual rental; and if not, in respect of its presumed rental. Owners of feu duties and ground annuals and vacant land escape rating altogether."

THE PRINCIPLE OF RATING SITE VALUES

After explaining the provisions of the Bill they were considering, the Select Committee said:

"The main principle which in the opinion of your Committee, underlies proposals to tax land values, is the setting up of a standard of rating whereby the ratepayer's contribution to the rates is determined by the yearly value of the land, which he owns or occupies, apart from the buildings and improvements upon it, the object being to measure the ratepayers' contribution not by the value of the improvements on the land to any extent, but solely by the yearly value of the land itself. The justification given for the adoption of the new standard is that land owes the creation and maintenance of its value to the presence, enterprise and expenditure of the surrounding community. The value of the land is not created or maintained by the expenditure or exertion of its owner, except in so far as he is a member of the community. It is well, therefore, to select a standard of rating which will not have the effect of placing a burden upon industry. Hence the proposal to exclude from the standard the value of buildings and erections of all kinds, and fixed machinery. To include these in the standard tends to discourage industry and enterprise. To exclude them has the opposite effect. If, then, the value of bare land, apart from improvements, be chosen as the measure by which to fix contributions to local expenditure, the ratepayer will, it is alleged, be merely restoring to the exchequer of the local authority part of that which he has derived from it. Of this principle, and of the reasoning on which it rests, your Committee approve."

THE ECONOMIC EFFECTS

After thus justifying the principle of

the rating of site values, the Select Committee outlined its economic results:

"The direct effect of the adoption of the principle enunciated in the preceding paragraph will apparently be to effect a complete redistribution of the burden of rating. Owners *inter se* and occupiers *inter se* will pay the new rate in very different proportions from those according to which they now pay. Owners of valuable land, either unoccupied or occupied by buildings unsuitable to the site, will pay more; owners of highly utilised land will pay less; and owners of land put to ordinary average use will pay the same proportions as at present. The indirect effect of the adoption of the new standard will be to stimulate building and improvements, to bring more building land into the market, to lower rents, and to diminish overcrowding."

"The most valuable economic advantages of this reform follow from the change of the basis of rating. We have already referred to the nature of these advantages, which may be thus summarised:—

First.—Houses and other improvements would be relieved from the burden of rating. This would encourage building and facilitate industrial developments.

Secondly.—As regards the large towns, it would enable the land in the outskirts to become ripe for building sooner than at present, and would thus tend very materially to assist the solution of the housing problem. It would also have a similar effect in regard to housing in rural districts."

The Select Committee also considered the position of superiors or owners of feu duties from whom no rates are collected under the existing system. They came to the conclusion that "a superior is the owner of lands, that feu duty is the rent of land" and that the proposed rate on land values "is new in character and incidence," and that this "would be sufficient to warrant the inclusion of feu duties in the new rating standard proposed to be set up."

This comprehensive report is not referred to in the report of the present Scottish Rating Committee, who have ignored all the basic considerations relating to the incidence, equity, and economic results of the burden of local rates. It is to be hoped that no attempt will be made to embody their conclusions in legislation which can only have the effect of making the system of rating more inequitable and oppressive than it already is.

¹See also Cannan on the proposed relief of buildings from local rates (*Economic Journal*, March, 1907).

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SOUTH AFRICA

The Cape *Argus*, November 16, reported the stiff increase in the price of land in South Africa, which had gone up by 58 per cent. during the last two years; thus in the first six months of 1942, the price of 4,877,000 morgen sold was £11,433,000, whereas in the first six months of 1944 the price of 4,967,000 morgen sold was £18,503,000. A graver problem is that of acquiring building sites in the suburbs and near the city. This is almost impossible. The prices of the few sites available are sky-high. "People who own land to-day," one property agent commented, "are clinging to it. I suppose they feel that a solid piece of earth is a more substantial nest-egg than a wad of problematical paper pounds." Another authority who agreed that the reluctance of people to part with sites was stifling the expansion of Cape Town residentially, said this raised an ethical question. While some people were crying out for land and houses, was it socially just that others with money should be able to "lock up" sites they did not need for their own use? "I believe," he said, "that there should be some system whereby such unoccupied land could be expropriated and made available to the man who wants to build his own home."

Obviously the ethical question is that the land belongs to the people and the landholders should pay rent for it to the people. It is the *value* of the land that should be "expropriated" by the levy of rates and taxes upon it, exempting whatever improvement has been placed on the land. South Africa is ripe for that policy, like our own country and elsewhere throughout the world.

The working-men in the cities are hard workers, and probably work longer and get less out of life than any working-men in the world. The laws so much admired, and made ostensibly for their protection, such as insurance against unemployment, sickness, injury, old age, and so on, are in reality skilful measures which bind them to the soil as effectively as the serfs of the Middle Ages were bound to their masters' estates. I have had letters from working-men who have worked in America, begging me for a steerage fare to America, and saying that their insurance payments were so large that they could not save money out of their wages. Of course, after having made these payments for some years, the working-man naturally hesitates to emigrate and lose all the premiums he has paid to the State. From *My Four Years in Germany*, by U.S.A. Ambassador Gerrard, who was handed his papers when his country declared war on Germany in 1917.

2d. THE NEW POLITICAL ECONOMY. By John B. Sharpe.