

## MANCHESTER MISUNDERSTANDINGS SET RIGHT

ON NOVEMBER 9, 1943, the Manchester Corporation appointed a special committee "to consider and report upon the recommendations contained in the reports issued by the Royal Commissions on Compensation and Betterment, and on Land Utilization in Rural Areas, in so far as they are applicable to the present and future needs of the Corporation; and the advisability of acquiring powers to rate land values."

The Committee presented an interim report on March 1, 1944, in which they gave a résumé of the recommendations of the Uthwatt Committee and of the Scott Committee, and also a summary of what it regarded as the arguments for and against the rating of land values. It has now presented its final report, recommending "that representations be made to H.M. Government that an expert committee be set up to make an exhaustive enquiry into the arguments advanced for and against the rating of land values, with the object of advising the Government whether or not a *prima facie* case exists for the making of a valuation of site values either nationally or in respect of typical areas."

### Little Enlightenment

The citizens of Manchester will not get much enlightenment out of the report of this committee, nor can we imagine the Government accepting the recommendation it makes, unless for the purpose of shelving consideration of the matter. It is difficult to think that there can be any doubt in the mind of anyone familiar with local government that there is a clamant need for a national valuation of site values. Quite apart from the rating of land values, how can there be any intelligent and scientific handling of the problems of purchase, compensation and betterment in the absence of such a valuation? How can there be any sensible planning without it? It is not surprising that town planning makes such slow and uncertain progress when its practitioners make no attempt to provide themselves with the tools necessary for their task.

### Information Ignored

The committee go on to say: "In making this recommendation we are aware that the rating of land values has been introduced in other countries; in our view this fact does not in itself provide sufficient justification for the introduction of the system in this country, where the system of land tenure and other considerations may be entirely different, but the experience of other countries should, nevertheless, be examined and given proper weight by the expert committee in reaching their conclusions." Evidently

the committee themselves did not take the trouble to seek information about the experience of rating land values abroad, although there is in print a considerable volume of evidence. If they had done so, perhaps they might have come to some conclusion on the matter, instead of confessing that they were not competent to do so.

### In Other Countries

It would be interesting to know what are the differences in the system of land tenure which make the results of rating land values differ in other countries from what they would be in this country. Surely the committee were aware that the majority of the countries in which rating of land values has been introduced are English-speaking ones, in which the system of land tenure is derived from the same sources as our own, and does not differ from it in principle. On the other hand, it has been applied in Denmark where the legal system is somewhat remotely related to ours, and in South Africa where Roman-Dutch law prevails.

The lesson of these facts is simple and twofold, and it is this: The rating of land values is based on economic principles, and not on juridical ones. Economic principles are the same in this country as in any other. On the other hand, law itself must be conditioned by the subject matter to which it relates, and although the legal system may differ widely in different countries in its application to land tenure, there are, and must be, broad resemblances between countries which have attained similar stages of civilisation.

Thus the suggestion that the difference in the system of land tenure would prevent the rating of land values from working successfully in this country while it does so work in New South Wales or Queensland, lacks any kind of foundation.

### No Decision Until—

At an earlier stage in their report the committee say that "until a valuation is available it is impossible to reach any decision whatever on the subject," that is to say, whether the introduction of the rating of land values is advisable or not. This is to rate the powers of human intelligence too low. The matter is susceptible of fairly simple economic analysis. It is true that in a world in which economic topics are more than ever before the subject of discussion, it seems to become more and more difficult to secure the application of basic economic principles to their solution. Still, that is not a habit to be encouraged, and the results of allowing others to do our thinking for us may easily be disastrous.

### Arguments Against

That the committee have not endeavoured to understand the economics of the subject is well exemplified by an appendix to their report, in which they set out what they conceive to be the arguments for and against the rating of land values. For example, they give the following as an argument against: "The principle of the rating of land values rests largely on ground which is highly contentious in its nature, that is, the incidence of rates payable upon real property. The rent of any property is divided into two parts—first, the rent of the site and, secondly, the rent of the structure; and the division of the total rent between the two parts depends upon various factors." By rates payable upon real property we suppose that the committee mean rates levied according to the system at present in operation in this country. If so, they are asserting that the case for the rating of land values rests upon the incidence of rates on the rental value of land and improvements. This is only partially true.

### Arguments in Favour

The case for the rating of site values rests in the first place upon the fact that such a rate does fall on the value of land and is not shifted elsewhere. This is not disputed by any serious student of economics. It is also not seriously disputed that land value is not created by the owner of the land, but is entirely due to its natural characteristics and its situation in relation to population, means of transport, facilities for carrying on industry, and other factors. Hence it follows that a rate on land values takes for public revenue a value which is created by the activities of the public generally. This is a good and solid argument in favour, irrespective of what views we hold on the incidence of existing rates. It may also be observed that a rate on land values, falling on all land according to its value and whether used or not used, will discourage the holding of land out of use, will stop speculation and so reduce the value of land to a reasonable level. Conversely, as the rate on any site will not be increased by the erection of a new building or the improvement of an old one, the rating of land values will not discourage building. These again seem to be solid arguments in favour, irrespective of the incidence of existing rates.

### Who Pays To-day?

But is the incidence of existing rates so difficult to ascertain? It is true that the total rent of any hereditament is made up of two parts—rent for the site and rent for the structure. If a better structure is put up which will fetch more rent, then

the rateable value is increased, and more rates are payable. Does anyone hold the opinion that these rates are borne by the man who erects the structure unless he occupies it himself? In any other case are they not shifted on to the tenant? In fact, is it not clear that a large portion at least of the rates is at present borne by occupiers? Does anyone really hold the view that an increase of rates is wholly or mainly borne by owners and not by occupiers?

### Where the Burden Falls

The committee observe that the division of rent between site and structure depends upon various factors, but they do not attempt to explain what these are. There is one broad principle which can be discerned fairly readily. It is that in the central more valuable sites of a city the proportion of the rateable value which is accounted for by site value is relatively high, while in the outlying less valuable sites the proportion of the rateable value which is accounted for by site value is relatively low. (In order to avoid misunderstanding, we must make it clear that we are referring to sites which are normally well developed according to their situation. If comparison is made between sites which are badly developed, and, in fact, more or less wasted, no principle is evident.) In the centre of a city the value of the building may be about equal to that of the site, whereas in the suburbs, as everyone knows, the value of the building will be many times as much as that of the site.

From this well-known fact, it follows that a change from the present system of rating to rating on land values will reduce the amount of the rates levied upon the outlying sites and increase the amount levied upon the inner and more valuable sites. This shift applies to well-developed sites, and is quite apart from the fact that the rating of land values will bring unused sites into contribution. Clearly it will tend to facilitate suburban development, as will also the cheapening of the price of land to which reference has already been made. Thus rating of land values will help to remedy the congestion and over-crowding in the centre of cities.

### Urgency of Reform

All this, we venture to think, rests upon facts of common observation, and requires no profound knowledge of abstract economics. Let us go a step further. Is the incidence of rates as at present levied so difficult a matter? Consider, for example, a house on the extreme edge of some city, where the value of the building is perhaps ten or twenty times the value of the site. Can it be seriously argued that the rates do not fall as a burden upon the building? If

the contrary is suggested, then it would follow that the whole burden of the rates would fall on the annual site value, which in such a case is much less than the rates levied on the property.

It is surely not unreasonable to infer that rates, as now levied, are mainly a tax upon buildings, and improvements and fall upon the occupiers, or, if the occupier uses the property for commercial or industrial purposes, the rates form part of his costs, and are shifted to the

## REAL ESTATE TAXATION—International Research

AT THE instance of a number of persons in the United States, Canada and this country interested in problems of municipal taxation, there was set up in 1940 an International Research Committee on Real Estate Taxation, of which the chairman is Mr. Harold Buttenheim, editor of the *American City*. On behalf of this committee Mr. H. Bronson Cowan has for a considerable time been engaged in making an investigation of methods of municipal taxation in New Zealand and Australia. We are glad to quote the following notice of his work from a leading article in the *Examiner*, the principal daily paper issued in Tasmania (August 12):

Tasmanian students of rating reform are indebted to Mr. H. B. Cowan for the information he gave, at his Launceston meeting, about the results of his investigations into rating systems in Australia and New Zealand. Mr. Cowan is making this inquiry, on which he has been engaged for more than three years, on behalf of the International Committee of Real Estate Taxation, representing chiefly British and American municipal and other bodies.

Rating methods have a considerable influence upon the development of all countries, and it is natural that there should be a very keen interest in the subject at this time by those who appreciate the necessity for healthy, balanced growth. Many municipalities in New South Wales have abandoned the annual rental and capital value systems of rating in favour of rating on unimproved values, and the whole of Queensland has gone over to this method. There can be not the least doubt that the principle of rating on unimproved values is sound. Obviously it is unfair to tax improvements and, in the words of Mr. Cowan, "give a bonus to those who do not improve their properties at the expense of those who do."

Mr. Cowan tells of growing dissatisfaction, in Britain and America, with the annual rental and capital value systems of rating. It was this dissatisfaction that caused him to be sent to Australia and New Zealand to study the effects of these

consumers of the goods he sells.

On the basis of such an examination as we have made, the committee might have come to some definite conclusion instead of evading decision. Reform of the rating system is a matter of urgency, and as the burdens and responsibilities of local authorities grow it will become more so. If something is not done the local rating system may break down completely, and with it the system of local self-government, which is the foundation of democracy.

systems compared with those of the unimproved value rating method. He expected that his investigations would occupy him only about six months, but on arrival he found that very little useful research on comparative lines had been done. He therefore had to begin at the very beginning and laboriously collect for himself all the data required and then analyse it. His full and detailed report will be a valuable document. It is hoped that it will be published and made available to all students of rating reform.

## MULBERRY LAND VALUES

MR. F. W. PERFECT, *Daily Telegraph* special correspondent, October 17, writing from France, described the great artificial port of Arromanches, and said: "Damage in the old French harbours, like Brest, Cherbourg, and Le Havre, may restrict their peace-time use for years to come, so that the synthetic port will be of untold value to France, which will need to import an enormous amount of material to repair the ravages of war. Less than a fortnight after Invasion-Day far-sighted Frenchmen were already making inquiries for the acquisition of land and property round the port. 'There is going to be a city here,' one of them said to me one day as we stood watching the steel piers lengthening out to join the massive floating landing-stage moored off the beach. 'Arromanches will never be a quiet little seaside town again,' he added. 'This harbour you are making will be a Godsend to this part of France.'"

A godsend, but shall landowners be its residuary legatees?

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6d. LIGHT ON THE LAND QUESTION. A frank inquiry into the Land Value Policy.

6d. LAND VALUE TAXATION IN PRACTICE. Review of what has been done in a number of countries. By A. W. Madsen, B.Sc.

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1s WHAT'S WRONG WITH TAXATION? By Judge Jackson H. Ralston.