

New Conservative Pamphlet Condemns Derating

An unequivocal call for the total repeal of derating (here reprinted in full) appears in *The Problem of the Rates* published in July by the Conservative Political Centre (40 pp., price 1s. 0d.). Joint authors are Councillor Alban Allee (Richmond, Surrey, Borough Council) and Councillor Josephine Hodgson (Surrey County Council). The rating of land values—described as “a hardy annual which crops up in various guises”—is summarily dismissed with this misleading reference to the Simes Committee: “Because of administrative difficulties and the relatively small yield, they (the Majority) could find ‘no significant advantages in its introduction.’”

“In 1929, against a background of economic depression and mounting unemployment, the serious step was taken of relieving agricultural and productive industry, wholly or partly, from the payment of rates. The legislation carrying this through was comprised in the Rating and Valuation (Apportionment) Act, 1928, and the Local Government Act, 1929; while the 1929 Budget was the instrument of financing the Block Grant to local authorities, which was a measure of compensation for the rates the latter had lost.

“The State thus became virtually a ratepayer on a substantial scale, drawing the funds mainly from the taxation (at that time) of petrol. In itself the validity of such financial policy was open to objection, but it brought in its train other evils which could be, and were, foreseen.

“Under the derating legislation, productive industry and railways were relieved of three-quarters of their rates. Agricultural land and buildings (not farmhouses) ceased to pay rates at all. Agriculture had, of course, been a distressed industry since the last quarter of the nineteenth century; and in 1929 was paying rates only as to a quarter, having been successively derated by 50 per cent in 1896 and by a further 25 per cent in 1923.

“The first thing to note about this kind of arrangement is the evil which is inherent in all wholesale subsidisation, whether it be of food, housing or productive industry in general. Conservatives themselves were not slow to point out that as well as helping the capital industries (which were then admittedly in poor shape) derating also subsidised prosperous concerns like breweries and tobacco companies.

“Moreover, the unfairness to other industries which were excluded, such as the seaside resort ‘industry,’ which has in many places been languishing for some years, is often raised.

“It would be far preferable, where any special interests are suffering from economic depression, for them to continue to pay their full rates, and for any subsidy deemed necessary to be paid directly out of taxation, so that it can be clearly seen.

“The new valuations, due to come into force in 1956, will highlight the anomaly of derating, for shopkeepers and businesses, which will have to bear a heavier share of the rates, will inevitably protest at booming industries remaining largely exempt.

“The effect of derating on local government has also been serious. Although some compensation was effected in the shape of the Block Grant, the net result was a further decrease in its financial independence. Further, when the Equalisation Grant superseded the Block Grant in 1948, those authorities which ceased to receive grant naturally regarded it as a particular hardship.

“Another criticism of derating centres on the fact that agriculture and industry, in the conditions of to-day, benefit greatly from local services. Roads, cleansing, sewerage, police, and street lighting, aid them directly, while education and

housing confer a considerable indirect benefit in connection with the availability and contentment of labour.

“It is sometimes argued that the effect of derating would be to put up appreciably industrial costs. But this contention hardly stands up to close examination. Abolition of derating would make industry pay about £40 million more a year in local rates. ‘Most of this,’ wrote Mr. D. N. Chester, Warden of Nuffield College, Oxford, ‘would be an offset to income and profits taxes, and with gross annual output of manufacturing industry running at £5,000 million, and with gross profits of manufacturing companies running at some £1,500 million, the sum is not so significant’ [Article in *The Times*, July 28th, 1954]. The detailed research study on ‘Derating’ produced jointly by the Institute of Municipal Treasurers and Accountants and the County Accountants’ Society in 1945 came to the conclusion that ‘it is doubtful whether [such rates are] sufficient to affect selling prices materially.’

“As a large part of the increased rates from industry consequent on derating would in effect be paid by the Inland Revenue (in the form of loss of taxes) the Government would presumably want to recoup some or all of this by a reduction in grants. Even so, derating would be an immense boon to local councils. And it is at least possible that the Government might be able to square its accounts by cutting down Exchequer expenditure. Taxation is now taking 40 per cent of the national income, and many economists believe that 25 per cent is the limit that any healthy economy can bear indefinitely.

“In any case, derating would involve some review of the grants system. ‘Revaluation, derating and an adjustment of the equalisation grant should go hand in hand [Mr. D. N. Chester, *The Times*, July 28th, 1954].

“It is estimated that full derating would restore to local authorities a sum of the order of £80 million (industry, about £40 million; agriculture, about £30 million; railways, about £8 million). As regards agriculture, the benefit of derating would accrue mainly to the hard-pressed counties. Unsubsidised agriculture in this country, it has been admitted, is in general an uneconomic proposition, but surely any further subsidies considered essential should be provided by the Exchequer and not from the rates. As immediate derating would present obvious difficulties, it would probably be advisable to phase it over a period of, say, five years.

“In the case of industry, it should not be impossible to devise, if necessary, a Treasury scheme of temporary relief for individual firms in times of exceptional difficulty—though it should be noted that no such concession is extended to shops and businesses.

“Local authorities have felt for a long time that the case for derating has never been very strong, and now fewer voices are raised to support its continuance.

“Perhaps it was a practical method of alleviating hardship at a time of industrial distress and widespread unemployment; but in these days of booming industry and full employment (when better techniques have been evolved for avoiding the onset of disastrous slumps) it is hard to justify.

“If it were found practicable to reinforce the rates in some such ways as sketched above, local government finance would be given a ‘New Look.’ With the considerable increase in its own resources, it would no longer have to depend on the Exchequer for more than it raises itself. In any case, the levying of large sums of money (of the order of £400 million) by one public authority, the Government, to be spent by another, is opposed to sound financial canons.”