

GRANTS-IN-AID AND LOCAL RATES

IN RECENT times a number of American research workers have devoted attention to British methods of local government. Among such studies recently published is *English Grants-in-Aid*, by Dr Howard R. Bowen, Associate Professor of Economics in the University of Iowa (Published by the University, Iowa City. Price \$1). In addition to much useful descriptive matter this book contains a discussion of the merits of relieving local taxation by subventions from national taxation.

Dr Bowen attempts a statistical proof of the proposition that the poorer classes are on the whole relieved by the transfer of local burdens to national taxation. The data upon which this proof is built up are too scanty and hypothetical to be satisfactory. It is certainly true that rates are a severely regressive tax, that is to say that they take a larger percentage from the smaller incomes than from the larger. This can be demonstrated by both statistical and general reasoning. The incidence of national taxation is not so easily demonstrated by either method. Dr Bowen points out the inconsistency of certain calculations of Mr D. M. Sandrall indicating that national taxes take 118 per cent of the incomes of those who receive £50,000 a year from investments. His own calculations lead to a somewhat similar paradox, because he assumes that people with incomes of over £10,000 a year pay 54 per cent of them in national taxation, 2 per cent in local rates, and that they save 50 per cent. This gives a total of 106 per cent!

The fact is that it is too readily assumed that no part of the so-called direct taxes is shifted. If Mr Sandrall and Dr Bowen's calculations are correct, it is clear that part of the taxation which is supposed to fall on the wealthy classes must be shifted.

However this may be, and if it be true that the immediate effect of shifting part of the burden of local expenditure from rates to taxes is to relieve the poorer ratepayers, it does not follow that in the long run this is the wisest means of remedying the grievances of ratepayers. One of the results of such a policy may be an added tendency of land values to rise; the increased ability of the poorer classes to pay rent may well lead to landowners expecting and demanding higher prices. The poorer ratepayer may in the end be no better off.

Apart from this, it is clear that if we wish to preserve local self-government, which on the whole has been a success in this country, we must keep some measure of local responsibility for expenditure. There must, therefore, be a limit to the transfer of local tax burdens to the exchequer. What remains to be raised locally, if it is raised as at present, will be levied by a bad system which puts an undue burden upon the poorer ratepayers and has other undesirable effects. The case for reform of our rating system remains, even if the view be taken that some addition ought to be made to the grants-in-aid.

The rates are a tax on houses, shops, factories and other buildings and improvements, and as such discourage the provision of them and make them dearer than they need be. On the other hand, our method of local rating exacts no contribution from the value of land and particularly exempts vacant and undeveloped land no matter how valuable it may be. This encourages the holding of land out of use and conduces to higher land values, so handicapping all private and public activities.

It is pleasing to note that Dr Bowen does not avoid the vexed question of the incidence of rates. It has been too much neglected in recent discussions of the rating problem, and yet "unless one knows who really pays rates, how can one even discuss the effects of

various policies of local finance, much less reforms in local taxation and grants-in-aid?"

The three principal theories of this matter are: (1) that the landowner pays all the rates, (2) that the tenant pays all the rates, and (3) that the rates are borne in varying and unknown proportions by landlord and tenant. The latter statement, which has been wittily described as the "goodness knows who" theory, will hardly satisfy anyone who believes that there is such a thing as a science of economics. The first theory, which in one form or another goes back to the days of the Physiocrats, is not in much vogue to-day. If it were true, it would provide an excellent reason for placing the burden of rates expressly and definitely upon those who must in any case pay them.

Dr Bowen holds the second view "that rates are borne, in the long run, by the 'consumers' or users of rateable property who include (1) the occupiers of dwellings, and (2) the consumers of the products of businesses in which rateable property is employed. This conclusion is based on the argument that if rates were borne by the owners of rateable property, the return on their investment would thereby be reduced, and the supply of rateable property would as a result be restricted until the price of its use was again high enough to compensate owners for their outlay in rates. At this time, the 'consumers' would bear the burden."

The lines of Dr Bowen's argument are indicated in this quotation, but he devotes a long appendix to proving it in detail, the conclusion of which is "that the effect of rates upon the owners of land is very small and may in general be disregarded." He adds: "This conclusion may seem to be at variance with the classical doctrine that a tax on site values will tend to be borne by the owners of the sites. It must be pointed out that rates are quite different from taxes on site values in that they are never levied on sites as such, but only upon sites and buildings or other capital improvements. Vacant unused land and agricultural land are not rateable." He also holds that "it is largely through the derating of agricultural land that it is possible for urban landowners to escape the burden of rates."

These and other considerations indicate that the first thing to be done is to reform the rating system itself by exempting buildings and improvements and rating site values. If this were done the relation between local and national taxation would take a new aspect, and the argument in favour of shifting more of the burden to the national exchequer would fall to the ground, because it rests mainly upon the plea that, as things are at present, national taxation is less burdensome to the poorer ratepayers than rates are.

The *Glasgow Herald* of 17th January reports: Undeterred by the prospects of further air raids in the district, John Peterson, seaman and crofter, a married man with young children, has purchased for £210 a Shetland croft which is next to his own and has been vacant for five years. The croft was struck by several Nazi bombs during the first raid on 13th November, the house being slightly damaged.

Here is a new argument for the land-withholder. Vacant land serves a purpose in catching the bombs which would otherwise destroy life. After the bombs have fallen, the land acquires a new amenity value because it is most unlikely to be hit a second time. So this new servant of society, the land speculator "foreseeing" war and its calamities, is rewarded.