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P. R. STUBBINGS

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Should We Rate Land Values Only?

Roland Freeman's article in the October, 1960, issue of "The London," monthly newspaper of the (Conservative) London Municipal Society, is here reprinted in full. Our reply appears overleaf.

THE old controversy about rating site values (or land value taxation as it is sometimes called) has been resurrected. A campaign was launched this year by the Land Value Taxation League and is designed to appeal to ratepayers who may be alarmed at the prospect of substantially increased assessments at the 1963 revaluation. The Liberal Party supports the system and there is a movement within the Labour Party favourable to it. Conservative Governments have always opposed its introduction although the Working Party set up by the Minister of Housing and Local Government to study rating legislation may be considering this aspect of it afresh.

At present rates are levied broadly on occupied property. It is the task of the Inland Revenue Department valuers to assess what a property can be let for in a free market taking one year with another. Since the last time when a free market in rented property existed was 1939, assessments of residential property are made at present in respect of values as they existed in mid-1939. Industrial and commercial properties were last revalued in 1956 at the then current values (although they are of course de-rated by 50 per cent. and 20 per cent. respectively from these values).

TWO SHILLING RATE

Site value rating, on the other hand, disregards any buildings on land or any improvements made to it. Rates are levied on the value of the site alone. Thus for example where an old building stands on a site which could be developed to considerably greater advantage the assessment under the new system would tend to be

much higher than that applying at present. This assumes that site value rating *replaces* the present rating system. It could of course be used as an *addition* to the existing system or a partial replacement to it.

The amount of money likely to be raised by a 2s. rate on site values in England and Wales has been variously estimated at between £10 million and £75 million. This compares with about £65 million raised by a 2s. rate under the present system.

The case for site value rating is as follows:

Since the increase in land value is often due to the efforts of the community rather than the owner, a system which shifts the rate burden from occupier to owner is fair to the community as a whole.

UNFAIR SYSTEM

Rating property at rental values discourages improvements and developments which tend automatically to cause the assessment to rise. Rating sites, however, must encourage the maximum development of every site (within the limits of planning permission) since rates will be levied on the *highest* potential use of the site.

The present system is unfair since it constitutes a regressive tax and, contrary to income tax, tends to penalise the man with family responsibilities.

The income from rates at present is inadequate and gives rise to large Government grants with inevitable control from Whitehall.

On the other hand a strong case can be made out against the system.

The incidence of rates may temporarily be shifted from occupier to owner; but ultimately the owner will often be able to pass it on in higher prices of goods and receive the increased value of land produced by "the efforts of the community" if the buildings on his land are subject to a long lease.

Development and improvement can in an old and highly developed country such as Britain only proceed relatively slowly. In the meantime, owner occupiers of old property would be penalised compared with owner occupiers of new property. There would also be an undesirable increase in pressure for office, etc., building in town centres in order to achieve the maximum potential development of these sites.

Although the present rating system is to some extent unfair in that it is regressive and does not therefore allocate its burden according to ability to pay, it does nevertheless broadly reflect the use made of local services. (The larger the family, the greater the demand on education, health, welfare, transport, etc., facilities.)

DERATING

Rating of site values works successfully only in newly developing countries. It would probably not produce a sufficient income to substitute for the present system. A better way of reducing dependence on Government grants is to press for the end of industrial and commercial de-rating in 1963 when residential property is rated on current values.

The new system is particularly unjust in two respects:

1. It is a tax on capital invested in land, yet it does not fall directly on capital invested in a business which can also appreciate in value owing to communal development;

2. The source of revenue for local services would be decisively shifted to a section of the community which has only a very small proportion of the voting strength in local elections. Already limited companies pay heavy rates but have no votes. Under site value rating a large body of electors would be relieved of direct payment of rates while many of the largest contributors would have no votes at all. This offends against the principle of "no taxation without representation".

The London Boroughs are being asked by the Standing Joint Committee to submit their views. It will be interesting to see whether there is any change in the party line-up on this issue.

Our Reply

ON BALANCE publication of this article in a Conservative Party publication is likely to be helpful despite the "strong case" advanced against rating land values. The latter rests largely on readily corrected misunderstanding. First, though, we must contest strongly the reference to the supposed yield of a land value rate at a given poundage. It is the result of the wildest guesswork since nobody knows what is the annual land value of this country, and therefore it is quite worthless. Rate poundages at present vary from place to place and there is no reason why a land value rate should be struck at the same figure throughout the country or why

it should be at 2s. in the £. In central areas such as the cities of London and Westminster, where the annual value of the land alone runs into thousands of pounds an acre, a relatively small rate would be required whereas in the country districts, where land values are much lower, a much higher rate would be required.

For several reasons the objection that a rate on land values would be "passed on" is extraordinary. First, it is untrue. Second, if it were true, the immediately following objection would fall to the ground for that very reason. Third, rates as levied at present *are* "passed on".

Conservatives understand and are in favour of competition yet some blind spot prevents them from appreciating that if the High Street shopkeeper attempted to "pass on" his relatively high land value rate in higher prices, his customers would flock to his back street competitor whose land value rate would be lower. If, in fact, the High Street trader can charge higher prices than his less favourably situated competitors why does he not do so at present?

REDEVELOPMENT ENCOURAGED

The assertion that development and improvement can proceed only slowly in Britain has to be seen against the Government's declared policy to redevelop city centres and "twilight" areas. Everywhere there is abundant evidence of recent, current and planned redevelopment. Land-value rating should simply accelerate this trend. Germany and Japan are "old, highly developed countries," yet they have been able to rebuild their cities rapidly.

Let us accept as broadly true though poorly expressed the charge that "owner occupiers of old property would be penalised compared with owner occupiers of new property". At present the exact reverse is the case. Which is more desirable—a system which tends to promote development or one which tends to retard it?

Why is intensive development of town centres considered undesirable? The whole purpose of a town is to enable people to come together for trading and other purposes. The more conveniently they can do so, the better. Business is conducted more readily, wealth production and productivity is greater as a result. There is no merit in a straggling, inconvenient town. The more compact the centre, the more space there is available for residential, recreational and other purposes on the outskirts. If the choice is between increasing pressure on already developed central urban areas or on green belts and amenity land, as increasingly is the case, is it not better to adopt a rating system which has the former rather than the latter effect?

NEW TOWNS

Few people would regard Denmark as a "newly developing country". Yet it successfully rates land values. Thus the article in *The Londoner* is factually incorrect.

Moreover it has to be recognised that much of Britain is (and for long will be) "newly developing". There are the New Towns, the expanded towns and the suburban areas which sprang up in the 'thirties or which have been built in the last decade. On the authority of the article under consideration they would benefit from the adoption of the land value basis for local taxation.

DE-RATE ALL BUILDINGS

While it would be equitable to "repeal de-rating" so that the occupiers of all buildings paid rates on the full current assessed value, is it economically desirable to heap further taxation on industry and trade?

How much better it would be to derate factories (and all other buildings) completely. Then industrialists who sell abroad would have an edge on their less fortunate foreign competitors. They — and the country — would be more prosperous. Employment opportunities would be more secure. Manufacturers would be able and willing to improve or expand their premises once such socially desirable action were no longer "rewarded" by an increased rate assessment. Working conditions in thousands of slum factories would improve. This, too, ought to lead to increased output and a more contented work force. These and other factors, plus increased competition, would lead to lower prices which is another way of saying the standard of living would rise.

Traders and other commercial interests would benefit if rates in respect of shops, offices and warehouses, etc., were levied on the sites they occupy. Those who pay rack rentals and hold on short lease would benefit most, of course, since they would bear little if any of the rate. Premises would be cheaper to rent. Lower prices for manufactured goods plus the increased spending power of their customers (most of whom would pay lower rates on their residential properties under land-value rating) would increase their turnover considerably. It is probable that after a while competition would increase as new enterprises were established in response to these conditions but there is no reason whatsoever to assume that this would leave traders less prosperous than they are at present. The position of the independent firms would certainly be strengthened whereas at present it is being progressively weakened. Several small firms went under as a result of the rate increases resulting from the 1956 revaluation and others will follow in 1963 when the next revaluation takes effect.

RIGHTS OF PROPERTY

If a Marxist were to criticise the proposal not to tax capital in the form of buildings we would let it pass. However mistaken, he would at least be consistent. His aim is to destroy the free-enterprise capitalist system and to undermine personal freedom and individual initiative. But when a writer in an official Conservative Party publication denounces the proposal as "particularly unjust" one is lost for words.

AN ANACHRONISM REFURBISHED

An unprincipled political reshuffling of the incidence of local taxation is proposed by the Government in the Rating and Valuation Bill published as we go to press. Industrial and commercial derating is to be abolished and, in some areas, residential derating will be introduced — "for five years". This is intended to cushion the steep increases which otherwise domestic ratepayers in those areas would have to meet as a result of substituting current market rental values for hypothetical 1939 values as the basis for assessment. Vacant land and farm land is to remain completely rate-exempt.

Buildings in the main are private property. They represent the stored up fruits of private endeavour and private thrift. They are one of the standards by which the wealth of a society may be judged. If it is unjust *not* to tax buildings it would seem to follow logically that it is just to tax them. This would imply that the individual who, by his effort and abstinence has produced and saved the wealth which has brought a building into existence is not morally entitled to enjoy its full value. As a corollary his fellow townsmen who have played no part whatsoever in erecting and maintaining the buildings are regarded as having a moral right to that part of its value which he is not allowed to retain. Can any right-minded person claim *that* is justice?

BUILDINGS DETERIORATE

Consider now this Conservative writer's further assertion that "a business can also appreciate in value owing to communal development". Is that true? The part of a business which is represented by bricks and mortar, furnishings and fittings deteriorates (as do all other man-made things) and in the normal course of events depreciates in value from the word "go". Admittedly, due to inflation, the value measured in money terms of a building erected twenty years ago may now be greater than it was then, but in real terms it is less valuable. As every property owner knows only too well, maintenance costs for buildings are heavy. Appreciation in the value of a business is due to good management and to capital investment. "Communal development" makes businesses appreciate in value *only by increasing the value of the sites they own or hold at a fixed ground rent*. There are certain notable exceptions—for instance partial repeal of rent control has brought appreciation to certain property-owning companies — but their existence does not affect our general agreement.

SOCIAL PRODUCT

"No taxation without representation" evokes shades of the Boston tea party. It has a splendid ring but on

examination it is found to have crept into the wrong article. It belongs more appropriately to a consideration of whether unenfranchised young people should pay income tax, purchase tax, excise duty, customs duty, etc. The argument arises from an imperfect understanding of the nature of land value. This is a social product which arises from the presence and activities of the whole community — judges and criminals, millionaires and penniless beggars, babies and centenarians, and everybody else. Therefore it is a grave mistake to regard a proposal to collect for municipal purposes a part of this communally-created fund of land rent as any narrowing of the tax base. The reverse is the case. Only some people have earned incomes, only some receive interest, only some own buildings, and so on, but everybody creates land value. Nor can anyone — except, just possibly, the vagrant — escape payment for the use of land. Whether one is a freeholder or a leaseholder, whether one lives in a flat or a bungalow, in furnished lodgings, or a swanky hotel, on a houseboat, or in a caravan, in a hostel for down-and-outs or in a tent in a farmer's field one has to pay — and rightly — for the opportunity to occupy valuable space.

Since every voter contributes to the communal land rent fund there would be neither "taxation without representation" nor "representation without taxation" if Councils drew their rate revenues exclusively from land values. Moreover, it could be arranged (as was provided in the London Rating (Site Values) Bill, 1938) that in the case of rented properties, the rate demands would be addressed to tenants other than those on, say, weekly tenancies, and they would be empowered to deduct the rate from their rent. This would affect the *apparent* but not the actual incidence of the land value rate. Collection would be easier and those holding on lease would not be misled into thinking that they had no interest in the public revenue or the good government of their town. Local democracy ought to be invigorated by rating reform; certainly it would not be impaired.

These reflections are offered in no partisan spirit but simply to correct obvious misunderstandings. Support for a sensible, fair and incentive system of local taxation should not be determined on party lines. But if every reform has to carry a party label then land value rating could very well be labelled "Conservative" for it, as nothing else, would conserve well-improved property and promote a "property-owning democracy".

NOTES ON THE MONTH

The Bouverie Street Murders

FREEDOM lovers mourn the extinction of the liberal *News Chronicle* and *The Star*. Their passing marks a further step on the road to monopoly. That they collapsed just as the Liberal Party is gaining influence is a cruel irony. Both were bought daily by more than a million loyal readers.

Our own sense of loss is tempered somewhat by the two papers' obdurate refusal to say a word in favour of the taxation and rating of land values or to campaign for free trade. No paper (or political party) is entitled to call itself liberal which is silent or tepid about those policies. Wiping rheumy eyes and protesting their liberalism, the denizens of Fleet Street and beyond are feverishly bidding against each other for the two papers' former readers.

Why did they die? The *City Press* argued that they were victims of protectionism; *The New Daily* contended they were "murdered" by printing unions. Both are right.

Protectionism is one of the major factors responsible for the advance of the big industrial battalions which are trampling everything under foot. These vast enterprises, naturally enough, place their advertisements with the mass circulation newspapers and the "quality" press. The *Chronicle* and *Star*, being "popular", relatively small circulation papers failed to secure their patronage, and so died. In a sense it was suicide: had they campaigned day in and day out for free trade, and won, they would be alive today.

The New Daily developed its argument in a series of articles. These have since been revised and enlarged and published as a book.* Fully substantiating its reasoning with facts, figures and telling quotations, it maintained that the two papers were absurdly overstaffed and crippled by restrictive practices and an exorbitant wages bill. If the number employed had been pruned, and those who remained had given a fair day's work for a fair wage or salary, the two papers could have prospered.

Their source lends extra weight to these arguments. *The New Daily* was started eight months ago, using secondhand machinery bought with the gifts and small loans of more than £12,000 people made anxious by the mounting evidence that the cherished freedom of the press

* **The Murder of the News Chronicle and The Star.** Christopher Johnson, Publishers, Ltd., 11-14 Stanhope Mews West, London, S.W. 7. Cloth, 6s. 0d. paper, 3s. 6d. Postage, 6d.