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Editor V. H. BLUNDELL | *Asst. Editor* R. C. GRINHAM

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Site-Value Rating—Some Unreal Objections

THE POINTS made in favour of site-value rating by Mr. Christopher Price in his paper presented to the annual conference of the Rating and Valuation Association (printed elsewhere in this issue), will speak for themselves. Here we wish to examine some of the more doubtful conclusions reached which lead him to reject site-value rating as a substitute for the present rating system.

Mr. Price first questions the theory, universally accepted by economists, that a tax on land values cannot be shifted. He does not question the Ricardian theory of rent as such, but doubts its validity in the "near monopoly conditions" created by our planning structure. What is the effect on the theory of these conditions? The price or rent is all the market will bear, and this is true whatever the planning structure. There is still a market, if only a monopoly market, and there is no reason to suppose that the maximum price or rent is not asked. To tax or rate land values is to place an obligation on the owner to pay part of its value to the state each year. Since the economic value has already been determined by the market (not by costs of production, for land has none), the tax must be discounted in the price the new owner or tenant is willing to pay.

It is a tenet of economic theory that taxes on any monopoly value cannot be passed on, for the reasons stated. Thus whether land is under monopoly conditions or not the tax cannot be shifted, demand at a given price remains unchanged.

This point was well made by Professor Alan Day, of the London School of Economics, at a land conference held in London. What he followed this up with is equally

relevant. He forecast that the Land Commission levy would most likely not make land any cheaper—indeed that it might make it dearer—and that no doubt the seller would be accused of passing on the levy when in fact his higher asking price would be due to the drying up of the supply of land because of the Land Commission Act. Recent press reports have tended to validate this reasoning.

Mr Price says that site-value rating would not recoup development value because ground rents are usually on long leases. This suggests that the site-value rate would not absorb the potential permissable development value of land. But this would be true only if the rate were charged on less than the full land value.

Where an old property had planning consent for re-development which would realise the full potential value of a plot, the site value and thus the assessment, would rise accordingly and would not wait upon the end of the lease. This in itself would provide an incentive for both leaseholders and ground landlord to terminate the lease on agreed terms so as not to be out of pocket. Both would stand to gain. The leaseholder would benefit by being relieved of his share of the site-value rate in respect of a value in excess of his existing use of the site, and the ground landlord would benefit by being able to make better use of his site with the earlier reversion.

Mr. Price describes the tax base as being narrow and inflexible and says that for that reason a rate of twenty shillings in the £ would soon be reached. The sooner the better for our part, but it does not follow that this would be so for the reasons stated. Far from being narrow and inflexible the tax base is very broad and would be continually expanding with the growth of land values. The table published by the N.S.W. Royal Commission showing increases in land values in the metropolitan area of Sydney is striking testimony to the ever-expanding site value tax base (See LAND & LIBERTY, August).

In the United States where both land and improvements are rated separately, there is the constant tendency to under-value land because its value is expanding too fast!

In fairness to Mr. Price, he regards many of these alleged deficiencies of site-value rating as being of marginal importance. It is surprising, therefore, to learn from him that the "serious doubts" begin to arise when questions of hardship and planning are considered. These two factors we would regard as *sub-marginal* considerations.

It has been demonstrated abroad that town planning and site-value rating can work in harmony—even that the one helps the other. As for hardship, Mr. Price must forgive us a mild smile at this one. Hardship as such, even if we discount the widow and orphan of long fame, is something not specfically caused by methods of rating. Our present rating system, which Mr. Price prefers, is alleged to cause hardship, and we have the legislation to "prove" it.

Hardship is a question of poverty, not a question of the system of rating, and there is no reason to suppose that rates (really a debt owing to the community) can be any more a cause of hardship than the obligation to pay debts, hire purchase instalments, mortgages, or anything else. Nor is there any reason to suppose that in the shift of incidence under site-value rating, national assistance benefits cannot work as now. (We think there would be less hardship under site-value rating.)

The development of certain sites that remain under-developed because of the age of the building, statutory restriction, or neglect, would not necessarily be in the public interest, says Mr. Price, and site-value rating would impose a "heavy burden" on them. But under-developed sites that were under statutory control because of historic interest would be rated only on the market value of their restricted use. Other old buildings would presumably be refused a preservation order because it was not in the "public interest," so that the onus of development would be left with the owner, who must make his own choice. As for those buildings in a state of neglect, and neither beautiful nor historic, surely it is in the public interest for the owner to pay the rate on the full value of his land like anyone else.

Another common error repeated is that under site-value rating, sites are valued on the possibilities and not actualities of planning permission. It is a basic tenet of site-value rating that land is valued at its *realisable* use under existing planning regulations. As for the values being "floating" or subject to change by a variety of restrictions or government decisions, it is no particular problem to adjust the valuation accordingly—immediately in the short run and at every re-valuation in the long run. These adjustments would not be very frequent. Indeed, earlier in his paper Mr. Price himself says that "work confronting the assessing authority in between revaluations would be negligible."

Again, when referring to the valuation of farm land, Mr. Price seems unaware of the methods adopted in other countries. Of course, most farm land has a multitude of improvements upon it, but in Denmark, New Zealand, and elsewhere (Whitstable) the separation of the value of the land presents no difficulties.

Since Mr. Price concedes that "there is no evidence that it (site-value rating) is not a workable alternative," it is strange that he finds so many objections. The extract from the Uthwatt report with which he concludes his paper is in no way contrary to the theory of site-value rating. It would obviously be unfair to rate a value that was not realisable.

Mr. Price seems to us rather like a man standing at the edge of a pool who wants to swim but dreams up too many reasons for not taking the plunge.