

A CRITICISM OF LOCAL TAXATION IN ENGLAND—Continued

Railways, Tramways, Etc.

"In these undertakings the Overseers are supposed to make an estimate of the net earnings in each parish. For this purpose they have usually to discover or estimate the actual receipts and expenditure of the entire line of which the section in their parish forms a part, and apportion them on sundry arbitrary bases. They must then proceed to divide their estimate of the net earnings in the parish between a hypothetical tenant and a hypothetical landlord, and the share of the latter is adopted as a rental upon which rateable value is based. But this share is never arrived at by an independent calculation. What is computed is the share of the hypothetical tenant. The rolling stock, loose plant, materials, etc., are supposed to be provided by the tenant, and their estimated capital value is added to another estimated figure of working capital. Interest on this total, usually calculated at $17\frac{1}{2}$ per cent., is assumed to be the share of the hypothetical tenant, and its deduction from the net earnings is the only method by which the hypothetical landlord's share (*i.e.*, rateable value) can be calculated. Under this system it is obvious that the better such undertakings are managed, the higher they are rated, while if they are so mismanaged as to be financially unsuccessful, they escape rates altogether, except on such parts of their property (depots, stations, etc.) as can be assessed on a true rental value basis."

"Rebus sic stantibus."

"The doctrine of *rebus sic stantibus* (things being as they are) has grown up in the Courts. The statutory definition of the rent a tenant might reasonably be expected to pay has been limited (and not unreasonably limited from one point of view) to the premises in their condition at the time that rent is fixed, since a tenant from year to year could not be expected to spend money in improving them. But the effect of this is that much valuable land escapes a large portion of its fair burden, if it happens to be occupied by a building, permanent or temporary, which does not develop its full capacity. Land of this character benefits in the same way as unoccupied buildings from the common expenditure on local services, and its owner should contribute in proportion to its true value, and not according to the rental which its present occupation indicates. . . . A system which exempts unused property from all rates, and increases the burden on other properties in proportion not to their value, but to the use that is made of them, cannot fail to encourage the holding-up of land, to shackle enterprise, and hinder development."

Land and Improvements.

"Inclusion of buildings and improvements in

the basis of charge distributes the burden unfairly between rating units. . . . If structural value bore a fairly constant proportion to land value in the assessment, its inclusion would not materially affect the distribution of burden. But, as a fact, this proportion varies within wide limits. To take London as an instance, rateable value in the heart of the City is probably composed of at least three-fourths land value, whereas in the suburbs it is usually one-sixth. As nearly three-fourths of the rates in London are levied at a uniform rate in the £ for the whole county, it is no wonder that the wealthy central areas with their high land values show a rate in the £ considerably lower than most suburban parishes.

Effect on Town Development.

"There is, however, a further important result upon the development of outlying land, which now is either not assessed at all or assessed at little more than agricultural value. But immediately a building is erected on such land the full rental value of site and building together is entered in the valuation list and becomes the basis for local rates, which are levied as soon as the building is occupied. This very large and sudden increase in rate-burden directly land is built on leads prudent builders to defer building until the local rent standard rises high enough to cover this increased burden without reducing their normal rate of profit. Thus building operations are delayed, the possible number of houses is reduced, and the rent standard artificially raised."

Effect on Housing.

"This part of the question has been so fully considered elsewhere that I can do nothing better than quote the views expressed in the separate report on Urban Rating and Site Values made by Lord Balfour of Burleigh and four other members of the Royal Commission on Local Taxation :

Our present rates indisputably hamper building. Buildings are a necessary of life, and a necessary of business of every kind. Now, the tendency of our rates must be generally to discourage building—to make houses fewer, worse and dearer. As Mr. Fletcher Moulton (now Lord Moulton) says : "A tax upon buildings proportionate to their value necessitates that the rent of buildings should represent a high rate per cent. on their cost. In other words, it drives people to take (and, therefore, builders to build) poorer houses!

Anything which aggravates the appalling evils of overcrowding does not need to be condemned, and it seems clear to us that the present heavy rates on buildings do tend to aggravate those evils."

Effect on Manufactures.

"The drawback inflicted on the manufacturing industry by the levying of rates on factory buildings is precisely similar to the drawback inflicted on housing enterprise by the levying of rates on house buildings. But the injustice to the manufacturer is greatly accentuated by the inclusion of

the value of machinery in the calculation which determines rateable value. . . . As the plant and machinery is usually the most valuable part of manufacturing premises the rateable value of such premises is very much greater in proportion than in the case of premises without machinery. Consequently not only do such premises bear an unusually heavy additional charge for rates, but every exemption and other advantage given to other classes of property increases the burden of this heavily rated property in a greater ratio on the average."

Effect on Agriculture.

"The Agricultural Rates Act, no doubt intended by the majority of its supporters as a relief to the agricultural industry, has in fact proved to be mainly an additional security for rent. It has neither relieved existing agricultural buildings nor encouraged the erection of new ones. . . . It is, moreover, a serious blot on the Act that it gives the greatest relief where agriculture is flourishing and agricultural land is most valuable, and the smallest where the opposite conditions prevail."

"The regularity with which the sub-division of large farms into small holdings and the provision of allotments are followed by large increases in rateable value is probably the clearest indication of the great burden the present basis of local taxation imposes on agriculture; and it may well be one potent reason why so comparatively small an area of land has hitherto been found for small cultivators, in spite of Acts of Parliament designed to secure this object."

Effect on Public Services.

"Water, light, power, and locomotion are all made more costly than they need be by rating those who provide them on what is practically a profit-earning basis. Assessment Committees are usually keen on assessing railways on the highest possible figure, though often reluctant to incur the expense of professional advice—their object being the relief of other ratepayers. But it is a grave question whether the whole of such relief and a good deal more has not to be made good by the public by way of high railway charges, both for passenger and goods."

Incidence of Rates.

This complicated and much debated problem is discussed by Mr. Harper, and he makes the following conclusions :

(a) The tendency of rates, as now levied, is to fall upon owners of site values in equal proportions, the burden being too light in the centre and too heavy in the suburbs.

(b) These inequalities hinder the development for building on land in the suburbs, and thereby give rise to an increase in the rent standard, greater in the centre than in the suburbs.

(c) That, consequently, while an increase in the rent standard may compensate owners as a body for the burden

of rates, that compensation is distributed among them as *individuals* in inverse ratio to the amount of that burden.

(d) That the increase of the rent standard is a heavy burden unnecessarily inflicted on occupiers, with results disastrous to the development of the town and to the proper housing of its working-class population.

These are the mature opinions of a keen student and recognised authority, but we are not in accord. Our view is that rates are borne by the occupier and by the land owner in proportion as they are levied on improvement value and on land value respectively. It is a "vexed question," as Mr. Harper says, and it cannot easily be disposed of in a few paragraphs, less so if the solution is to be found in a "tendency," a baffling word which often blurs scientific discussion. There is a contradiction in the statement that rates are ultimately borne by the owners of site values, and so falling cause an increase in the rent standard. Does that not mean that occupiers ultimately bear the burden?

Attempts at Reform.

Among the attempts at reform Mr. Harper mentions the Metropolitan Common Poor Fund, which is a pool for certain specified items of expenditure incurred by Boards of Guardians; and the Equalisation of Rates (London) Act, 1894, which provided for the raising by the London County Council of a rate of 6d. in the £. "Experience has shown that piecemeal modifications of this kind give little relief while the system as a whole remains unsatisfactory."

In 1904 Mr. Walter Long introduced a Bill to amend the law of valuation, which in the main followed the recommendations made by the Royal Commission on Local Taxation. The latest attempt to reform the bases of local taxation was made by the present Prime Minister in the Budget of 1914, which was under discussion when war broke out, and had then to give way to national needs of greater importance.

In the discussion which followed the reading of Mr. Harper's paper, Mr. E. Bond, Sir Harry Howard, and Sir H. Trustram Eve took part. They spoke more in criticism of the proposal to tax site values than in criticism of the paper. Mr. Harper, in his reply, pointed out that was not the place nor the time to discuss proposed amendments in the law. He had submitted a destructive paper, and it was not intended to be anything else. When they saw a bad thing, naturally they were keen to abolish it. "Although it had been correctly said that all the gentlemen who had spoken had taken a view opposite to that which he had endeavoured to put before them, there was no one who had attempted to defend any one of the enormous accusations he had brought against rateable value. No one had attempted to defend the burdens in the centres and the poor districts. No one had attempted to defend the evil effects of this system of

rating upon housing, upon manufacture, and upon agriculture, and he was only inviting all whom his words could reach to consider and ponder this matter, and ask themselves in all seriousness how long it was to go on." A. W. M.

A NEW TOLSTOY LETTER.

The following is a translation of an excerpt from a letter Tolstoy wrote to the Tzar on January 16, 1902. The letter had never been published until it was discovered in the Tzar's private safe after the downfall of the dynasty:

"And those desires which the Russian people would now express, if given the opportunity to do so, in my opinion, would be the following:

"First of all the working class would say that it desires to be freed from those exceptional laws which place it in a position of a vassal who does not enjoy the rights of all other citizens; next it would say that it wants freedom of moving from one place to another, educational freedom, and the liberty to follow that religion which satisfies its spiritual needs; and, what more, the whole one hundred million people will declare in one voice that they want the right to use the land, *i.e.*, the abolition of private ownership of land.

"It is the abolition of private ownership of land that, in my opinion, constitutes that nearest aim, the realization of which must become the principal task of the Russian Government to-day.

"In each period of human existence, corresponding to the time, there is a nearest step for the realization of the better forms of life to which she is always striving. Fifty years ago such a nearest step was the abolition of slavery. In our time such step is expressed in the emancipation of the working masses from the minority which rules over them—that which is called the labour problem.

"In Western Europe it is thought that this aim can be accomplished by turning over the factories and mills to the workers to be used collectively. Whether such solution of the problem is correct or not, and whether or not it is attainable for the Western nations, it is obvious that such solution is inapplicable to Russia in her present condition.

"In Russia, where an enormous part of the population lives on the land and is entirely depending upon the large land-owners, it is obvious that the emancipation of the workers *cannot* be accomplished by public ownership of the mills and factories. Real emancipation can come to the Russian nation only by abolishing private ownership in land and by recognising the land as national property. This has been the hearty wish of the Russian people from time immemorial, and they are still expecting to see the Russian Government realise this need of theirs.

"I personally believe that in our times private land ownership is just as much lamentable and obviously unjust as serfdom was sixty years ago. I think that the abolition of land ownership will put Russia upon a high degree of independence, prosperity and contentment. I also believe that such measure would undoubtedly annul all that socialistic and revolutionary exasperation which is now inflaming the working men and which is pregnant with the gravest dangers for the Government and the people."

We are indebted to the *Public* (New York, May 11) for the foregoing translation. Commenting on the letter the translator says:

The impartial student of the events which took place in Russia during the first eight months of the revolution cannot fail to note two distinct forces. First, after the downfall of the Tzar's régime the 100 million peasants instinctively felt that the land would be taken away from the hated landlords, without compensation, and proclaimed the property of the nation. Confident of such

a solution of the aggravated problem, they immediately started to organise the entire agricultural population for the carrying out of the land programme. On the other hand, one finds that the provisional and coalition governments during the first eight months of the revolution did their utmost to hinder the progress of the village organisations. The Constitutional Democrats demanded compensation for the land which was to be taken away from their owners, but the peasants resented that, claiming that in the final analysis the land-owners owed them incalculable sums for having used the land, which the peasants have always looked upon as the property of the people, for centuries, and also for the inhuman exploitation to which they had been subjected during many generations by land-owning nobility. The November revolution was the result of that resentment.

We may quote also the first two clauses of the land law passed by the Constituent Assembly on the one and only day it met—a law already promulgated by the Soviet Government:

1. The right to private ownership of land within the boundaries of the Russian republic is hereafter and for ever abolished.

2. All lands to be found within the boundaries of the Russian republic, with all their natural resources, with the forests and waters, become public property.

LAND OWNERSHIP A CENTURY AND A HALF AGO.

"A large proportion of America is the property of land holders. They monopolise it without cultivation; they are for the most part at no expense either of money or personal service to defend it, and keeping the price higher by monopoly than otherwise it would be, they impede the settlement and culture of the country. A land tax, therefore, would have the salutary operation of an agrarian law without the iniquity. It would relieve the indigent and aggrandise the state by bringing property (land) into the hands of those who would use it for the benefit of society."—Robert Morris (one of the "fathers of the Constitution"), Report to Congress, 1782.

No man can question the business sense of Robert Morris, the banker who financed the American Revolution. The very fact that he did that very difficult thing shows that his financial and economic wisdom is sound. Therefore, when he comes to the land question we are bound to admit that he knew what he was talking about.

At that time there were scarce three million people in the country. Land was to be had for the taking, almost. Yet he saw where land monopolisation inevitably leads to, and expressed it tersely. As the country has become more and more thickly settled the dire effects of this policy have become more and more evident till to-day, the country over, not more than half the people who till the soil own the land they cultivate. It will continue to be worse and worse till we come to the remedy he proposed. We must inevitably come to a tax on land values or agrarian laws, and the former, as he pointed out, is the better course.—*The Southland Farmer*.

The vision of "confiscatory legislation" haunts some noble pillows, and those who are scared by it seem to think that land will be the first object of the confiscators' attentions. But is this a sound calculation? I very much doubt it. Our Bolshevists are, I should think, quite as likely to tackle capital as land, and, although the seller of land may invest the purchase-money abroad, a confiscatory Chancellor of the Exchequer has an uncanny knack of detecting its whereabouts.—The Right Hon. G. W. E. Russell, in the *Daily Express* (London), September 14.