

RATING BUILDINGS v. RATING LAND VALUES

It is sometimes suggested that the American system of taxing for local purposes the capital value of land and buildings taken together has the advantage over the British local rating system, that it taxes all land whether used or not; vacant land therefore comes under contribution and under-developed land is not let off because it is under-developed. The British system on the other hand, because it taxes the use to which land is put (irrespective of the actual value) entirely exempts valuable vacant land and the under-developed property is let off lightly. There is something in the alleged superiority of the American system but not very much, and it is offset by several disadvantages.

Anyone with his mind on the fact that "vacant land is taxed on its value in New York" will wonder why there should be any valuable vacant sites at all, why in some quarters there are such frightful slum conditions, why so much derelict property is standing on land of obviously high value. And in the outlying parts of some of the Boroughs there is plenty of evidence of "land speculation." The Report (1934) of the Department of Taxes and Assessments gives these particulars: In Manhattan out of 77,709 parcels of land, 2,381 are vacant and have a selling value of \$98,985,900; in the Bronx 29,639 (out of 93,488), value \$121,696,900; in Brooklyn 29,455 (out of 293,504), value \$122,234,100; in Queens 73,999 (out of 271,079), value \$247,712,100; in Richmond 38,716 (out of 74,959), value \$52,177,780. This land-withholding obtains despite the burden of the taxation imposed in each of the Boroughs and falling on vacant land (as on all land and buildings) at rates which vary from 2.71 per cent in the Bronx to 2.83 per cent in Queens.

It is not difficult to explain these circumstances. The reason is the heavy taxation of buildings and improvements—a tax levied on capital value whether the buildings are occupied or not. The penalty placed on improving the land weighs more heavily in the scale than the encouragement to build that the tax on the vacant land would otherwise give. The burden and the obstacle of the tax on buildings become more marked, the more the value of the building required for proper development of the site exceeds the value of the land alone. For example, in the centre of Manhattan, as indeed in the centre of any large city, fully developed sites carry buildings that are no more valuable (and are often less valuable) than the land alone, whereas on the outskirts of the town for a site to be fully developed, the building has to be anything up to ten times as valuable as the land itself. This is a matter of common observation. In the centres of cities, buildings and land are in the relation of 50 to 50, whereas in the outer residential districts, the relation is 50 to 10 or less. In these outer districts a £1,000 house would stand on a site worth £100, whereas in the centre business or shopping districts a building worth £100,000 would stand on a site of £100,000—and both these classes of properties would be "fully developed."

Consider the Borough of Queens, where the tax rate on land and buildings taken together and therefore also on land that is vacant, is 2.83 per cent. There is a site worth £100 which for proper development would carry a house worth £1,000. It is suggested that the tax of 2.83 per cent on the owner of the vacant site, that is an annual contribution from him of £2.83 whether he uses the land or not, should induce him to put the land to use. But will it, when the result of putting the land to adequate use obliges him to pay an additional tax of £28.3 a year? The impetus of the tax payable on the land is more than

destroyed by the savage penalty of the tax on the building, which acts with all the greater force in times of depression such as at present afflict New York and other cities. Again it should be said that the effects of this taxation are felt most harshly where the value of the land is lowest in proportion to the value of the building it is necessary to place there for the proper development of the land.

Taxing buildings on their capital value, as is done in America, probably does more injury than the taxation of buildings on their assumed rental as is done under the British practice. It is to be observed that the rental of a building has no necessary relation to the structural value. The most expensive building imaginable, if it stood in a bad or unsuitable spot, would scarce rent for anything; or there might be many buildings of good character in parts of the town that had changed and declined in attractiveness, so that the rents obtainable had fallen. The American practice taxes such buildings as it taxes *all* buildings on their structural value less only *structural* deterioration.

It would be interesting to discover how the new houses that have been built in such large numbers, especially within a radius of 50 miles of London, would be treated if they were within a similar radius of New York. In this country they are rated, with the land beneath them, at rateable values corresponding to the assessment of old houses of like description. It is common to find the £1,000 house and its site rated at not more than £30 net annual rateable value. It is highly doubtful that the rate burden upon these houses would be less, if the present British method of taxing houses (bad as it is) were substituted by taxation that fell on their full selling value. Looking only at the building tax, and not considering such taxation as is imposed on vacant land, it appears that the American system has everything to condemn it. No one in this country has reason to envy it even although it does, as is said, "rope in the value of vacant land."

But there are other and more serious objections to any taxation of buildings, under whatever assessment whether capital or annual. Taxation of buildings is a gift to those who appropriate the rent of land. This is apparent from an inspection of the particulars available from all the towns and places where the value of land is separately ascertained, as in New York—and from the outstanding fact, which is the key to the consideration of the proposal to tax or rate land values, that the relation of land value to improvement value varies for fully improved properties according to their situation. It could not be otherwise. The law of rent determines it and dry as dust as these statistics may be, there is the picture of "the cat" on every page of them, which not to see is never to appreciate the full significance of land value taxation—the truth that with equal application of labour and capital to different lands, different results will be obtained.

Let us apply this thought to the recorded results of the New York valuation and the taxes that are imposed to-day. The aggregate capital value of "ordinary real estate" is 16,062 million dollars, of which 7,791 million dollars is land value, so that the land value is 48.5 per cent of the total. The annual tax levied on the real estate, land and buildings, amounts to \$442,606,780.

There are five Boroughs in New York. Whereas for the whole city, land value makes 48.5 per cent of total value, this percentage is 55.6 in Manhattan, 36.3 in the Bronx, 41.5 per cent in Brooklyn, 43.7 per cent in Queens and 48.1 per cent in Richmond. Specimen

sections of the various Boroughs show as follows: Section 4 of Manhattan, 58·8 per cent; Section 5 of Manhattan, 60·0 per cent; Section 12 of the Bronx, 33·0 per cent; Section 13 of Brooklyn, 34·4 per cent; and Ward 1 of Richmond, 39·2 per cent.

Now it will be obvious that if, instead of taxing land and buildings together, New York exempted all buildings and applied a uniform tax on the value of the land alone over the whole city to obtain the existing revenue (\$442,606,780), the result would be to increase the contribution wherever the percentage of land value was more than 48·5 per cent (the average for the whole city) and to diminish it wherever the land-value percentage was less than 48·5. This is true of every Borough, every section of a Borough and every individual property.

At present the Borough of Manhattan makes an annual contribution of \$222 millions; but if land value only were taxed it would contribute \$258 millions, which is \$36 millions more a year—an increase of 16·2 per cent. In Section 5, the annual contribution would increase by \$14½ millions, which is 24 per cent. On the other hand, the annual taxation in the Bronx would be less by \$11 millions, which is a decrease of 23·8 per cent. In residential Section 13 of Brooklyn taxation would decrease by \$847,300 or by 30·5 per cent; and in residential Section 15 of Queens, the contribution would be lessened by no less than 39·8 per cent.

Why is this? Clearly because, *relatively speaking*, there is more land value to tax where the contribution would be increased and *relatively speaking* there is more building value to exempt where the contribution would be diminished.

The figures given go to show the enormous gift that

is made to the landowners of sites where the value is high in proportion to the buildings. To the extent that buildings are taxed to that extent the value of land is exempted. The "American practice" of taxing buildings is not peculiar to America, its only characteristic is that the assessment upon capital value makes the imposition and the burden more certain, and more iniquitous. Furthermore, as in New York City, it transfers to the shoulders of the owners of buildings as such and the occupiers of them (upon whom the burden of the building tax ultimately falls) all that taxation that ought to fall on the value of land alone. Thus, far from "taxing land values," the system there in force makes a clear gift of \$14,702,000 a year to the landowners, taken in the lump, in Section 5 of Manhattan, and no less than \$36 millions a year to all the landowners of Manhattan taken together.

What is true of New York is true in principle of every city and of every taxing area, whether in Britain or America or any country. The land monopoly is protected and endowed by the present system of taxation. There can be no refinements of *that* by juggling with methods of assessment that simply continue to tax buildings and improvements. The surprising thing is that in New York, with the separate valuation of land fully and accurately revealed, no action has been taken to shift taxation upon land values for the exemption of buildings. Fortunately in Great Britain the public sentiment for this reform is very much more alive and the lessons to be learned from New York's example are very eloquent—that the value of land can be easily ascertained and that the separate valuation of the land should be used forthwith to institute the Rating of Land Values.

A. W. M.

IN PARLIAMENT

DEBATE ON THE ADDRESS IN REPLY TO THE KING'S SPEECH

(6th December)

Mr DAVID GRENFELL (Labour): The League must fail and fall into discredit unless it is charged with authority to bring to the service of all nations the various elements of industry and wealth production. To make free access to these elements and raw materials the League or some similar super-international authority must be able to offer access to the territories where raw material is available. We do not hide from ourselves that this is a departure from the ideas of conquest and invasion in pursuit of which the Italians are now in Abyssinia seeking the oil, fuel, gold, rare and indispensable metals which Italy's soil does not hold and seeking a domination over a people whose home is bespoiled to serve Italy's industrial ambition. World territory is parcelled out, not by a plan to secure the world's interest, but for the exclusive profit of nations who have gone far from home to conquer and colonize in the past.

The struggle for new territories and for domination goes on with great danger to the peace of the world. Italy and Japan are on the march. There will be counter-marching, bloody conflict and consequent devastation unless we can build up by working together a world economic structure through which the bountiful treasures of the soil, subsoil, water and air can be brought into industrial service and the satisfaction of human wants.

Mr D. J. K. QUIBELL (Labour): The farming community have taken the dole, but I have found that on some farms where previously twelve and thirteen men were employed there are now only four, five or six. They seem to be satisfied to take all that has been given them by this House and the country, but it has not been reflected in the amount of the wages paid, the number of men employed or the regularity of employment.

(9th December)

Rt Hon. C. R. ATTLEE (Labour): The right hon. Gentlemen opposite consider it essential that the property claim should come first.

An Hon. MEMBER: No.

Mr MAXTON: One dissentient.

Mr ATTLEE: If the hon. Member disagrees, then he must alter the present economic system by which mining royalties come before mining wages, by which rent comes first, by which interest comes first. The whole system is built up on the priority of profit. We are here to challenge that view. We are here to say that the miner should come before the royalty owner, the agricultural labourer before the landowner, the worker before the rentier.

IMPORT DUTIES ACT, 1932

RESOLUTIONS IMPOSING ADDITIONAL DUTIES

Rt Hon. A. V. ALEXANDER (Labour): I am perhaps the only Member of this House who regularly finds it necessary to appear before the Import Duties Advisory Committee to state specific trade objections to proposals for increased duties or to deal with applications for special variations by way of drawbacks. Listening to-night to the Parliamentary Secretary explaining why these additional duties should be put on, I am confirmed in my impression that the machinery set up for dealing with this kind of duty in the course of the fiscal revolution which the country has gone through, has involved us in the worst kind of practices, corrupt bargaining and corrupt agreements that we have ever had described by all the authorities on fiscal procedure, from Henry George to Professor Thompson.

Mr H. G. MCGHEE (Labour): When we were promised that tariffs would cure unemployment, there was no