

THE LAND VALUE INHERENT IN AGRICULTURAL LAND

By Capt. Arthur R. McDougal

It is a matter of regret to many economists, students of land values, business men and many farmers that Lord Snowden's Land Values Taxation Act of 1931 excluded agricultural land from its scope.

The question at once arises—Why was this done and were the reasons for its exclusion sound?

The principal reason alleged seems to have been that there was no land value whatever in agricultural land and its value was due wholly to improvements. This was urged from so many quarters in Parliament and outside that it appears to have been partly accepted. The other alleged reason appears to have been that agriculture could not bear any more taxation.

As regards the first reason, unfortunately the landowners are almost the only people connected with agriculture in the House of Commons and practically no genuine tenant farmers are in the House to present the other side of the case. It is appropriate, therefore, that the idea that agricultural land has no real value, apart from capital improvements, should be examined by one who is a practical farmer of over 30 years' experience.

GRAZING LAND

To begin with, take an actual case of good moorland grazing and assess all the capital improvements on it at the cost of replacing them to-day new, which is vastly greater than the cost originally, and greater than they are worth now.

They are as follows, valued at full present cost *new* :—

	£
(a) Ring fence, adjoining owner bears half cost, leaving 7,000 yards at 1s. per yard	... 350
(b) Surface drains, 80 miles at £3 per mile	... 240
(c) Cottage, byre, peat shed, etc.	... 800
(d) Hay shed	... 100
Total cost of improvements	... £1,490

Let it be noted that this is the maximum cost and it is assumed that the landlord has incurred the whole of it. As a matter of fact the whole of the drains and half the cost of fencing was paid by the tenant. The hay shed also was provided by the tenant, so the landlord's actual expenditure was only £975.

Interest on the above maximum figure of £1,490 at 5 per cent comes to £74 per annum and on the real landlord's outlay to only £48 per annum.

Against the above annual charges one now sets the rents as follows :—

	£
Grazing rent paid by farmer	... 350
Shooting rent, variable but minimum	... 50
Total annual value	... £400

If we deduct the maximum annual interest on Capital outlay shown above of £74, we are left with a *REAL LAND VALUE* inherent in this grazing of £326 per annum.

It may be argued that the farm is not worth the rent of £350 to-day. That is so, but it was worth it up to 1932, and the tenant being bound by his lease will have to pay it for several years yet.

MIXED ARABLE AND GRAZING LAND

Let us now examine an actual case of mixed arable land.

This is a well-equipped farm of about 1,000 acres arable land and grazing land in addition. There are 11 cottages on it and many miles of walls, fences, a good steading and farm house. Over the last 80 years the tenants have paid to the landlord more than £70,000 in rent. Most of the capital equipment was provided by the tenants (father and son) out of farm profits and the total expenditure by the landlord over the 80 years has not exceeded £8,000, which could have been easily met out of rent received. Much of this expenditure by the landlord and the tenants has, of course, depreciated greatly, but taking 5 per cent

on the landlord's total expenditure gives us a total annual charge for capital, allowing no depreciation, of £400. This would in any business by now have been written down to half, but let us take it at full and imagine it is fresh capital. The rent of the farm has varied but has averaged about £900, which it is now.

We, therefore, see that this farm has a real land value of at least £500 valued on the basis of the present rent.

It is admitted that for the last two years it has not been worth that rent but even in these times the farm would still fetch about £600 if offered to let, so we have even now a land value inherent in this farm of at least £200, valuing the farm in the present great depression at 30 per cent. less than it has been rented at for 60 years.

These two actual cases may be taken as fair samples to show that, honestly calculated, there is no truth in the assertion that there is no true land value in agricultural land.

PRICES OF FIELDS

Let anyone inquire into the prices made in their district of any fields which have been sold, with no buildings attached and they will at once note that there is great inherent value in bare land, even if one allows a big value on the drains which may be there.

IMPOSSIBILITY OF DEFINING AGRICULTURAL LAND

Apart from these matters it is impossible in practice to make a definition that will distinguish agricultural from building land.

Recently, as a member of a Public Health Committee of the County Council I spent the afternoon with the Committee looking for a site for a housing scheme of eight houses in and around a small village of about 800 inhabitants. All the land belonged to two landowners and wherever we suggested a site the price was £300 an acre on the road, and not less than £200 an acre in the back areas and right out in the open.

Here, wherever we went, as elsewhere, the owners in practice make no distinction between agricultural and building land, but simply say: "Wherever you want to build is building land and £200 is the price." The advent of the Taxation of Land Values would change all that and this land would tumble to £20 an acre for building or less.

THE TOLL OF RENT

In order to get an actual picture of the burden of rent on agriculture I recently made a graph of a big farm over a period of the last 30 years. I found that for the 14 years preceding the war the division of profits was as follows :—

	£
Rent for permission to use land, paid to one man	900
Wages for 16 men and women for six days' work a week	... 700
Profit for the farmer for his work, management and return on his capital which equalled two-thirds of the landlord's capital	... 350

During and after the war this was changed to a fairer basis and the wages came to about £1,600 and profits to about £1,000. Now with the depression things are tending back to the old division and worse, the division for this last two years averaging as follows :—

	£
Rent for one man	... 900
Wages for 14 men	... 1,200
Profit for farmer, being a loss of	... -800

The above instances and averages are given to show that even in these depressed times the landlord still receives an enormously disproportionate land value from his agricultural land and that a land values tax on it would be no burden on real agriculture, but would merely be a taxation of the unearned fortuitous increment accruing to the owner.

Last year, in the case of a big arable sheep farm selling over 2,000 sheep and lambs per annum, the rent charge per head of sheep sold was 9s. whilst the average price

obtained was only 20s. 2d. per head. Over the whole farm, rent took more than one-third of the total produce sold.

VALUE OF BUILDINGS

There are, of course, plenty of examples where a wealthy faddist has spent a sum far exceeding the present value of the whole farm. This has been spent on extravagant equipment and buildings, etc., quite out of proportion to the farm.

Further, in any case in which the whole farm is worth less than the amount spent within say the last 20 years on improvements, it is not reasonable to say that the land has no value and to credit the whole value to the buildings. In many cases it is the buildings that have little value as revenue producing subjects.

WHAT LAND VALUE TAXATION WOULD DO

As regards the effects of the Taxation of the Land Values of agricultural land: First, it would reduce the capital value of land, which would be an inestimable boon to real agriculture, since it is the money spent on improving a farm and not the money paid for the land that is important. When the tenant, buying his farm, pays a big price for the land he is hampered with debt and has less money to spend on actually reconditioning his farm.

Secondly, the man who improves his farm would not be penalized by higher rates and taxes, and would be encouraged thus to improve. On the other hand the man who did no improving would still have to pay as much as if he did improve.

It is part of the land value taxation policy that as the land values tax is imposed other taxes should be remitted, so that it is possible that the improving farmer or landlord would actually pay less total taxes under the land values taxation than he does now.

Finally, to show the folly of our present system I will quote an excerpt from the instructions given by the County Councils of Roxburgh, Berwick and Selkirk to their Chief Constable as follows:—

"That the Chief Constable be requested to instruct his officers to report to him, with a view to the information being communicated to the County Assessors, the erection of any new buildings and the alterations and additions to existing buildings which they may observe."

Under our present wonderful system the County Assessor would proceed to *FINE* those who had made improvements by imposing more *RATES*. What a job for the police! Yet it is necessary under our present system.

The complete answer to the contention that there is no land value in agricultural land is simply this: If there were none, why are people so anxious to buy land? True, they will not pay the wild prices still demanded in spite of the slump; but there is an enormous demand for agricultural land at prices far in excess of anything that would be paid for any asset in any other industry.

CAN AGRICULTURE AFFORD TO PAY A LAND VALUES TAX ?

This is the second reason given for excluding agricultural land from the Land Value Taxation Acts, and on examination it is seen to be unsound.

A tax on *RENT* is not a tax on agriculture at all. Rent itself is the heaviest tax on agriculture and it makes no difference to the tenant farmer how much of the rent is taken in taxes. It certainly does not adversely affect agriculture or the farmer. One will be told that the landlord will not be able to provide maintenance or fresh capital equipment if he is taxed further. The answer is that, except in isolated cases, he never has provided adequate maintenance or adequate new equipment and that the tax will not, nay cannot, make him do much worse.

When rents were high and taxes were low then we ought to have seen landlords improving their farms. But that was not done, as anyone can see by noting the state of farms now.

There is no reason to believe that fresh prosperity or subsidies, etc., would make any alteration to the landlord's outlook, which simply is to spend nothing unless compelled.

In this connection one must consider the vast amount

of public money now being poured into the landlord's pocket. Here are a few of the items:—

- (a) Wheat Quota, £6,000,000 per annum.
- (b) Beet Sugar Subsidy, £4,000,000 per annum.
- (c) Derating of Agricultural Land, £10,000,000 per annum.
- (d) Remission of Increase on Death Duties, £500,000 per annum.
- (e) Free grant of two-thirds of the cost of repairing farm cottages.
- (f) Free grant of £2 per acre for clearing old woodlands.
- (g) Free grant of £4 per acre for planting up same.
- (h) Free grants of from 30 per cent to 50 per cent for drains, roads, and water supplies.
- (k) Proposed new monopolies under the Marketing Acts and Schemes.

In addition to these, the free provision of research and agricultural education is in itself a huge subsidy to landowners who ultimately reap the whole benefits of these in higher rents or land prices.

At present not only have we to pay rackrent and price for any land required, but that in addition a deluded Parliament votes public money to pay for the great bulk of the landlord's outlays and relieves him of most of his taxes and rates.

WHAT SHOULD BE DONE

1. Tax all land values.
2. Repeal all subsidies to industry or landed interests.
3. Repeal all protectionist devices—quotas, etc., and leave the richest asset in the country to make its own way.
4. Apply the proceeds of land value taxation to the relief of other taxes, and begin by derating houses entirely.

Until these things are done agriculture and industry can never thrive. The remittance man is always an acknowledged failure and the agricultural landowner is the greatest remittance man in Britain. Protection means instability.

Within five years of the adoption of the above policy, agriculture and industry would be on a sound and healthy basis, with *RENTS* and *PRICES* of land reduced to a level at which agriculture and industry could thrive.

The bankrupt estates which, like moribund corpses, poison and damage whole districts would be sold up and would be in new and better hands.

The relief of the householders from rates would enormously increase their purchasing power which would increase consumption and thus benefit both industry and agriculture.

Deflation of Land Values, increased purchasing power of the masses and lower costs of production should be the aim and not artificial Inflation of Food Values and Land Values.

An illustration of the current trend towards monopoly and restriction is afforded by the fact that National Shipbuilders' Security Limited, when it acquires and closes "redundant" yards, re-sells the sites subject to a covenant restricting them from being used for shipbuilding for a period of 40 years.

At a conference of local authorities of the North-East Coast held at Newcastle-on-Tyne on 25th July, a resolution was passed expressing the opinion that this policy would cripple industry, and urging the Government to make it illegal. Councillor Holmes, of Tynemouth, according to the *Daily Herald*, gave one instance in which the plan was applied to a shipyard formerly employing 1,700 men.

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The world's shipping figures which we publish to-day make melancholy reading. There was a net decrease of 1,814,125 tons during the year ended June last, following a decline in the preceding 12 months of 396,750 tons.

This is a reflection of the world crisis and the catastrophic effect of tariffs, restrictions, and the other trade-destroying devices employed by practically all the nations of the world, including our own.

Empty ships. Idle docks. Deserted coal mines. Tariffs displace far more labour than they employ.—*Daily Herald*, 19th July.