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MEETING THE COST OF GOVERNMENT

We have received the following letter from MR. COLIN CLARK, M.A., Director of the Agricultural Economics Research Institute, University of Oxford:

"I thank you for your article in the November issue, and I think we are agreed that the imposition of a reasonable tax on the occupation of land would promote its more efficient use, and not deter it as present income taxation does.

"I must, however, point out to you, as emphatically as possible, that it is entirely out of the question to expect any such tax to provide for the whole or even a large part of government and local authority expenditure, which now totals nearly 40 per cent of national income. The entire net income of urban and rural land taken together will be below 5 per cent of national income. Even if you propose to collect the whole of this in taxation, which in my opinion would be going much too far, it still only represents a small fraction of present government expenditure.

"To estimate the possible proceeds of a land tax, it is best in the first instance to estimate the actual or potential net annual income from land, not in the first instance to attempt to estimate its capital value. After all, we know that in the case of land, it is the annual value (together with the expected speculative gains in the future) which determines the capital value, not vice versa. You quoted a quite unsubstantiated figure for 1929, and go on to presume that it must have risen considerably since with the changes in the value of money. But recent experience in U.S.A., where land values have been subject to much closer examination, shows clearly that they are *not* rising with the fall in the value of money. As a proportion of national income they are showing a marked tendency to fall (see, for instance, "The Financial Problem of the City of New York," report prepared for the Mayor by an expert committee, which brings out the fall dramatically). As transport improves and cities become more separated out, the relative importance of land values tends to decrease."

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Before dealing with the many debatable points raised by Mr. Colin Clark we must make quite clear that we do not advocate the imposition of "a reasonable tax on the occupation of land." The value attaching to land apart from buildings and improvements is created entirely by the presence and activities of the community and it belongs in its entirety to society by absolute moral right.

Any purely subjective conception as to what may or may not be a "reasonable" public appropriation of this communal fund we reject as inadmissible. We regard as most valuable adjuncts of this reform the reduction and ultimate removal of all taxes on the fruits of men's labour and the promotion of the best use of nature's resources, but our primary concern is to secure the restoration of the equal rights of all to the use and value of land, involving as it does the simultaneous removal of the fundamental cause of poverty and inequality and the host of social evils that spring therefrom. The economic effects of a tax on the "occupation" of land would in no way differ from those of the imposts levied under the existing rating and taxation systems. The land value tax is so designed that it falls solely upon the recipients of economic rent in proportion to the advantages they enjoy over their fellow citizens. Whether or not they occupy the taxable unit is irrelevant.

Discussion of the adequacy of land value as the sole source of public revenue in Britain is necessarily conjectural. There are four main reasons. First, in the absence of a valuation, nobody knows the total value of land apart from buildings and improvements, in this country. Secondly, official statistics purporting to show the "gross national product," the "national income," etc., contain so many duplications that they are absolutely valueless in this context. Consider, for example, Table 284, "Personal Income," of the Annual Abstract of Statistics. Total income includes, among other items, wages and salaries, pay and allowances of the Armed Forces (much of which comes from the taxes paid by wage and salary earners, and which in turn is taxed, providing the funds out of which wage and salary earners in Government employment are paid) and rent, dividends and interest received by persons, much of which again comes out of salaries and incomes. Thirdly, the *real* net cost of national and local government is not known. One illustration will suffice: The gross cost of local government which appears in official statistics includes taxes paid on practically every item used in municipal service—purchase tax on ambulances, fire engines and dustcarts, petrol tax, etc.—and these contributions to national government are not separately recorded. Fourthly, a considerable part of to-day's budgeted expenditure by municipal and national government is devoted to subsidizing the poverty which is attributed, directly or indirectly, to land monopoly and which a sufficient application of the land value policy would eradicate from our society.

Confronted by these frustrating imponderables we can, as we admitted in our previous issue, only guess at the possible yield and adequacy of a 100 per cent tax on land values. Our tentative and cautiously offered "guess" of "perhaps £20,000 millions, equivalent at, say, 5 per cent to an annual value of £10,000 millions" may be considerably wide of the mark. We do not know. But our estimate was not based, as Mr. Clark affirms, on "a quite unsubstantiated figure for 1929." It was based on the ascertained selling value of land (apart from buildings and improvements) in New Zealand and in the City of New York.

The total land value of New Zealand was £315 million, equivalent to £206 per head of population. Making the reasonable assumption that the selling value per head of population in much more densely populated Great Britain was not likely to be less, we multiplied that figure by the 1929 population of this country and thus arrived at a figure of a little less than £10,000 million.

The 1929 assessed selling value of the land on which New York City stands was more than £1,500 million. The value of the surface of Greater London was not likely to be less and it was reasonable to assume that the land value of the rest of Britain was seven times as much, *i.e.*, for the whole country, upwards of £10,000 million.

While accuracy is not claimed for the conclusions thus derived, the way the figures for New Zealand and for New York support each other suggests that our 1929 estimate gives an approximate indication of the then value of the land of this country. That is all that we claimed for it. In view of the constant fall in the value of money since those days and the consequent heavy investment in land by financiers and others, the three million increase in population, the march of progress, the liberal distribution of government grants and subsidies of all kinds which have all raised land values, and other factors, we do not believe that it is unreasonable to assume that land values have at least doubled during the past quarter of a century. We accept Mr. Clark's contention that it is preferable to estimate annual income from land, rather than to attempt to estimate its capital value, but our use of the latter method was dictated by the form in which New Zealand and New York present their statistics.

Mr. Colin Clark's computations are much more questionable than are our own. In the absence of a valuation, on what does he base his conclusion that "the entire net income of urban and rural land taken together will be below 5 per cent of national income," mythical figure as that is? The official statistics of national income in the United States, to which he refers, are as faulty as those for this country. Based on the fallacious assumption that national income is synonymous with the aggregate of personal incomes, they include payment for services and self-cancelling "obligation values" of various kinds.* Whether or not land values in the United States are in fact falling as a proportion of this meaningless figure is not only unknown but, even if it were known, it would prove nothing. A proportion of a false figure is itself false. And while in some parts of the U.S.A. land is valued separately from the buildings and improvements thereon, this is not the general practice. As a result, nobody knows the total unimproved land value of the country. Certainly land value *in a given area* may tend to decrease as "cities become more separated out," but elsewhere it will rise. Men take land value with them when they move as surely as they take their shadows.

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In conclusion, Mr. Colin Clark remarked:—

"Some people purport to deduce, by theoretical reasoning, that the expenditure of any money on any government services is bound to create the exact economic equivalent in land values, so that the whole cost of the services could, if we wished, be paid by taxing such land values. This piece of theoretical reasoning is utterly untenable and always has been."

Strictly interpreted, there is substance in what Mr. Clark says. National expenditure on armaments, for instance, could be doubled without raising land values one iota (assuming that existing plant is sufficient for the purpose). Extravagant municipal expenditure on the most expensive vehicles, needlessly costly public buildings

and the provision of splendid uniforms for all its employees would similarly fail to raise land values. But to concede this point does not invalidate the self-evident and amply supported contention that wise communal expenditure on necessary and desirable communal services does, in fact, always augment the communal fund of land values, the collection of which would largely, and in some cases entirely, offset the cost of their provision.

To recapitulate and to conclude we would say this. Neither we nor anyone else knows what is the present net cost of government. Nor can we make any accurate estimate of what would be the cost of necessary services in a free and just society. Knowledge of the unimproved value of the land of this country is withheld from us at the instance of its present appropriators. It is, however, certain to be quite insufficient to meet the present combined burdens of ameliorating poverty, maintaining a swollen civil service, supporting large armed forces equipped with crippling costly weapons, paying interest and redemption charges on the national debt, etc. But land value is sufficient to pay for all the proper functions of government in the Just Society based on equal freedom and its collection is the first and indispensable step for the attainment of such a civilization.

P. R. S.

AN AUSTRALIAN STATESMAN'S VIEW

SIR FREDERIC EGLESTON ON MUNICIPAL REVENUE

In an article in the *Melbourne Age*, August 21, Sir Frederic Eggleston, a man of recognized influence in the public life of Australia and a frequent contributor to the press, discussed the question of how municipal services should be paid for. He criticized severely the agitation for relieving the municipal authorities from a good deal of their present financial responsibility, saying there was an unhealthy tendency to put all burdens on the Federal Government. It is the same move, in fact, that has gone to such tremendous lengths in Great Britain whereby through subsidies from the Treasury the cost of local government has been more and more thrown on the general taxpayers, for the relief of local rates, not only undermining the very existence of local self-government, but also having the eventual effect of enhancing the rent and prices of land for the peculiar benefit of the landed interest, and thus making conditions all the harder for the mass of the people.

Sir Frederic Eggleston maintained that it is right to charge all local services against land, the reason being that "land values rise in relation to the profit made from the use of land and nearly all those services make land use more profitable and therefore increase land values. They rise in response to human effort on the land, of course, but far more in response to the general development of the community and its prosperity." One of the worst features, he says, of the present system in Victoria is not only that the rates are low, but also that the land is grossly undervalued—a very important point indeed on which anyone who knows land values in Victoria will agree and it is well brought out in the table of the Shire valuations that Sir Frederic produces from the Municipal Year Book. In nearly every case, the value on which the assessment is made is only a fraction of current sale values, sometimes only one-tenth; and the conclusion is that "if these lands were properly valued, country municipalities would be able to provide all the amenities their citizens require and contributions from Federal resources would not be needed."

* See *A Study of the Concept of National Income*, by Roy A. Foulke. Dun & Bradstreet, Inc., New York, 1952.