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Revaluation—Alarm and Confusion

The tax methods adopted for raising local authority revenues have harmed the national economy and impaired the well-being of the people for the last three and a half centuries. Throughout that long period, apart from minor exceptions such as churches, every building erected and every addition and improvement made has been subject to assessment for local taxation.

It is inconceivable that any body of lawmakers would consciously and deliberately seek to limit employment and the production of wealth, or would choose the inferior in preference to the best, yet taxation of buildings and other improvements has had precisely that effect. It has placed obstacles in the path of progress and enterprise, preventing, discouraging and "fining" the placing of brick upon brick to provide shelter or to meet the diverse requirements of the economic and social life of the country.

Long custom has blunted minds to the folly of inflicting high taxation on well-developed properties while exempting valuable undeveloped lands from all contribution. It is almost as if development was considered socially undesirable and as if inactivity represented something praiseworthy. Thus it is that most people have come to accept the present rating system with a sort of stoic resignation.

Indignation, Ingenuity and Ignorance

This is not to say that there has been any dearth of complaints by individual ratepayers that their properties are over-assessed. Far from it. The appeal courts have been kept busy; and at council meetings where rate poundages are discussed and decided proceedings have become more and more lively, with councillors indulging in mutual recrimination as they protest against the ever-increasing burden. Indignant letters from rate-payers are published and cases are reported of extreme hardship imposed on retired people living on fixed incomes. There are pleas for increased grants and subventions from the central government and suggestions as to how rate income might be supplemented by excise and other taxes. Ingenious schemes are devised by individuals and organisations for shifting some part of their burden upon other shoulders. But in the main it is seldom that a word is said about the *basis* of assessment. There are even those who represent the present practice as being superior to any possible alternative and as having "stood the test of time."

How Society is Injured

Let us look at its effects. They may be conveniently grouped in three main brackets, between which there is little to choose. The first has been already mentioned—a premium is placed on development. From that stems slums, overcrowding, the perennial housing shortage, small rooms, dilapidation and the retention of buildings beyond the term

of their useful life. The social consequences are repeatedly attested in the law courts and in hospitals and sanatoria.

Equally deplorable is the artificial division of society into mutually antagonistic groups. For example, agricultural land, however valuable, is not even assessed. The presence of privileged farmers in the rating area is a constant source of grievance to ratepayers whose rate liability is thereby increased and who see some of their money being spent to benefit farmers. There is similar feeling against manufacturers who are excused payment of three-quarters of the rates otherwise due from them. The manufacturers envy the farmers their complete exemption and in turn warehousemen and other businessmen resent not having the privilege enjoyed by either farmers or manufacturers.

Speculation Encouraged—

The present rating system encourages investors, who would otherwise put their money into productive enterprise, to buy land and hold it vacant while its value appreciates with the growth and progress of the community. Because properties are assessed on the annual rental value which they would command on the open market if offered *in their existing condition*, unused land, however valuable, is deemed for rating purposes to have no value. Take the case of an idle site perhaps strewn with rubbish in the centre of a busy town. *In that condition* it is treated as if it had no value and is not even assessed. The owner, having no tax-incentive either to develop himself or to make it available for others to develop, and having substantial reasons to wait while its value increases year by year, continues to hold the site vacant. For that none can blame him. Who, in similar circumstances, would not do the same? Yet this dog-in-the-manger attitude restricts the amenities and opportunities in the town. The artificially induced land scarcity increases the rents and prices of surrounding land.

—And Opportunities Restricted

Precisely the same happens on the town outskirts. Land suitable for houses and factories, for which there is a market demand, is held idle or is used to graze horses, or to grow a few cabbages, or for some other temporary purpose. Wherever land for which there is a market demand lies idle or is used uneconomically, the effects of the present rating practice are to be observed. High land prices, dear goods, reduced opportunities, low (real) wages, the housing shortage and a host of other social evils stem from that single cause. The resultant brake on enterprise is far and away more damaging even than the taxation which falls on buildings and improvements, for dear land often prevents any buildings at all taking shape. Apart from the experience of private enterprise, have we not repeatedly heard of municipal schemes for

housing, schools, street improvements, etc., being held up or abandoned just because the land was too dear?

The recently completed revaluation of rateable properties in England and Wales, the first to be made since 1934, has done nothing to remedy but has rather aggravated this state of affairs. The re-assessment hits the well developed properties most savagely and collaterally those who sit on rate-exempt land enjoy still greater privilege.

Brooding Anxiety in Countless Homes

The constant rise in the value of land during the past two decades, and the steady fall in the purchasing power of the currency are reflected in the new assessments, and the increase is most notable in the commercial centres of towns. The over-all increase permits a reduction in the poundage of the rates levied; and until the "rate in the pound" is struck nobody can tell precisely how he will be affected. The indications are that for a very large number of *residential* ratepayers the burden this year will be approximately the same as it was in 1955. Meanwhile there is brooding anxiety throughout the country, and many ratepayers have cause to fear that increase in the total rateable value may tempt some councils to undertake costly new ventures. What seems certain is that the upward trend in rates will continue, for local authorities are as much the victims of inflation as are the people whom they serve; they have to meet demands for higher wages, higher prices, increased interest rates, and the higher rate of purchase tax imposed by the autumn budget. As an instance, the L.C.C. will have to spend £99,800 more this year because of the budget changes, and the purchase tax on dustbins alone will cost Sheffield an extra £3,000 this year.

Schedule "A" Fears Unallayed

Since rateable values have become the customary basis for fixing liability for income tax Schedule "A," the new revaluation affords property owners additional cause for disquiet. Will their income tax payments be increased because their rating assessments have gone up? There have been repeated questions in Parliament and repeated ministerial assurances, but painful experience of broken pledges in the field of national and local taxation makes many distrustful. The latest word on the matter came from Mr. Henry Brooke, the Financial Secretary to the Treasury, on January 26. In reply to an oral question from Capt. Pilkington, he said: "The new rating valuation which comes into force in England and Wales next April can have no effect on the existing Schedule "A" assessments on property without specific legislation. The Royal Commission on the Taxation of Profits and Income made certain recommendations in its final Report, but my Hon. friend has not yet completed his consideration of the matter." That is very much less categorical than some earlier replies and will do nothing to allay fears. Indeed it seems likely that income tax assessments will, in fact, be increased, although perhaps not immediately.

The New Tax "Shift"

The introduction of two new provisions has brought about a considerable "shift" in the incidence of local taxation. Firstly, the valuation has been undertaken for the first time by the Inland Revenue (a Government department); secondly, private dwellings and private small garages have been assessed on a preferential basis. The latter has resulted in a storm of bitter protest from the trading community who are the principal victims.

Assumption of responsibility by the Inland Revenue (under powers conferred by the Labour administration's *Local Government Act*, 1948) has ensured a standard of assessment that did not previously exist throughout the country. To-day when local governments are dependent upon the central government for almost a half of their income, this is of paramount importance since eligibility for exchequer aid is measured by the rateable value per head of population, "weighted" to take various factors into consideration.

Many rating authorities have received this aid under false pretences, having been deemed to be "poor" areas because previously they had deliberately under-assessed the properties in their areas. They had done so during a period of widespread unemployment in order to benefit their poorer rate-payers (at the expense of the more well-to-do) and to attract and retain industry.

Treasury Grants Redistributed

The new assessments will considerably affect the distribution of the exchequer subventions, so that some areas will receive aid for the first time, or increased aid, while others will have to face reductions in or withdrawal of this income. Two examples may be quoted. Birmingham will lose its annual grant which last year amounted to £1,641,741, while Liverpool, which previously has not received this aid will receive this year £1,183,759. To make good the loss sustained the general body of ratepayers in Birmingham will have to shoulder an additional burden, but ratepayers in Liverpool will have their burden considerably lightened unless the grant is mopped up by the increasing cost and any extension of municipal services. It is pertinent to remark in passing that these exchequer grants are in part intended as some compensation for the loss of revenue suffered as a result of the Derating Acts. A curious anomaly of the kind inseparable from the present rating system is that the well-to-do person living in a "poor" area where the per capita rateable value is low is subsidised by (among others) the poor person living in a "rich" area.

The deliberate "shift" of local taxation on to commercial enterprises is the most notable feature of the revaluation. It will have the most far-reaching economic effects. Some of these are examined below, but first it is necessary to recall the circumstances that led the government to introduce the *Valuation for Rating Act*, 1953. To get the matter in true perspective it is wise also to recall what was the position of commercial premises before revaluation.

Extravagant and Absurd

Authority for the revaluation was given in the *Local Government Act*, 1948, sponsored by Mr. Aneurin Bevan as the responsible Minister of the Labour Administration then in office. It provided that current rental values were to afford the basis of assessment of all rateable properties *other than dwellings*. Houses were to be assessed at an annual value based hypothetically on 1938 costs of construction and having regard to the actual state of repair. An extraordinarily complicated formula was devised making necessary the measuring of every room in every building, the examination of walls, floors, joinery, sanitary equipment and other component parts, and the passing of judgment on each according to arbitrary standards—minimum, fair, very fair, good, very good or excellent. The effect of this absurd investigation was to run to earth those who occupied as owner or tenant premises with good appointments, valuers having to record among much else the existence and quality of baths, parquet

flooring, hot water systems, staircases and kitchen and linen cupboards.

Folly for Folly

This costly farce proved to be impracticable and was suspended by the Conservatives in 1953. Properties other than houses were not affected and their assessment proceeded. Later in the year Mr. Harold Macmillan, as the responsible Conservative Minister, introduced the *Valuation for Rating Act* repealing the provisions as to houses in the 1948 Act.

The new Act replaced folly with folly and in these columns (May, 1953) the comment was made: "The preposterous duty is imposed on the valuer to determine what the rent of a house would be if it were being let in June, 1939, and he has to take that for his basis of the rateable value; he has to transport himself and the house and all the 1953 local conditions and developments back to 1939, imagining that they existed in that place and at that time. However could anyone test, or contest, or prove, or defend assessments made on such extravagant assumptions?"

Somehow or other the valuers have contrived to obey the instructions of Parliament. But it is perversion of language to describe the summation of arbitrary hypothetical figures which have been placed on the rolls as a "valuation."

Technical and Political Considerations

Ostensibly the post-war absence of free market conditions in housing dictated the government's extraordinary decision. With no empty houses to rent available, with demand unnaturally high and far exceeding supply, and with rent control, building licensing and other artificial restrictions, how could any valuer say what annual rent a dwelling would command if offered to let? The problem was a real one. Yet was that the chief or the only reason for adopting 1939 hypothetical values? The thought of the political consequences if house assessments rose from 1934 levels to those of to-day is likely to have exercised a restraining influence on the Minister. The pledge has been given that this basis is to be used for this revaluation only, and that in 1961 current rental values will be used. That presupposes that the general housing shortage will by then have been ended, and suggests that repeal or relaxation of rent control may not be far away. Certain it is that if derating has not been abolished meanwhile its days then would be numbered. But we must dispense with conjecture and wait and see.

Grounds for Complaint

Subject to the proviso that buildings and other improvements should not be taxed, current rental values afford the proper and historical basis for rating assessments. Therefore traders and others have no grounds for complaint on that score although they have every cause to protest against the preferential treatment temporarily accorded to residential ratepayers. But the latter are their customers, and this may explain why the commercial interests confine themselves to voicing protest without offering specific recommendations as to how their burden should be reduced. Why they have not called for the repeal of derating is less understandable. Unlikely though it is that their campaign will meet with success, the conclusion cannot be escaped that their liability can be reduced only by increasing that borne by their customers. There would be bad feeling and less to spend in the shops if that happened.

The Editor and Publishers regret that owing to a dispute in the printing trade to which they are not parties, this issue has been unavoidably curtailed.

Among items held over are: Scottish Rating and Valuation Bill Debated; Danish Bacon and British Textiles—Tariff Retaliation; Professor Barker's HENRY GEORGE Reviewed; Anti-Malaria Schemes Enrich Asiatic Landlords—Striking Testimony from United Nations and The Times; Rate Reform Benefits a West Australian Town; The Case for Land-Value Taxation by a Canadian City Assessor; Tangier—A Speculator's Paradise; Motor Window Tax Claims Road Victims; Land Nationalisation in Bihar

Shop Rents and House Rates

Shop values have risen enormously since 1934 and in recent post-war years competition for central trading positions has been extremely keen, many multiple concerns offering rents which even estate agents have regarded as "fantastic" and "unbelievably high." The relatively low burden of rates before revaluation was a contributory cause of the high prices and high rents demanded. The traders who own their premises or who hold them on long lease have enjoyed a prosperity largely due to the community-created land value which repeated postponement of revaluation has enabled them to pocket. Many small concerns lacking this advantage have been driven out of business by their privileged competitors. The trend to monopoly has been accelerated. And since the value of central properties has risen proportionately more than the value of residential property, occupiers of flats and houses have had to bear a needlessly heavy rate burden during recent years to the benefit of a section of the commercial community. Now, however, the incidence of local taxation is being partly shifted from the residential periphery to the heart of the town where land values are highest. The point is of particular interest since it is held by some supporters of the present system, most notable of whom is Mr. Trustram Eve, that the rating of land values stands condemned because it has the same effect; but there is this important difference: under land-value rating it would be the recipients of the economic rent of land who would bear the cost of municipal services.

Small Traders Doomed

The perpetuation of the present system, aggravated as it is by the revaluation, will affect traders in diverse ways. Marginal undertakings will be so severely affected that many will be forced to close unless their working owners accept reduction of their earnings. Mr. Roy Harrod's recent investigation into the retail tobacco trade affords evidence to support this contention. He made the discovery that one important chain operating nearly 350 branches in Greater London showed net profits last year of only £7,000, or £20 per shop. The hardships that increased rates will impose on that firm, and on countless individual tobacco retailers may be readily imagined. The destruction of these and other small enterprises will further reduce opportunities for self-employment, will cause inconvenience to the public, and by switching trade to the prosperous centre, will tend to raise still higher the value of land in that position.

Fashion, footwear, furniture and other retailers obliged to maintain spacious and luxurious shops will be put at a severe disadvantage compared with coal merchants and others who do not need chromium and plate glass "emporia." So, too,

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Editor: A. W. MADSEN.

Assistant Editors: V. H. BLUNDELL and P. R. STUBBINGS.

4 GREAT SMITH STREET, LONDON, S.W.1.

Telegrams:
Eulav, Parl, London.

Telephone:
Abbey 6665.

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in each trade the most enterprising will be the most severely penalised.

Further Economic Effects

Revaluation drives deeper the wedge between freeholders and leaseholders. The former will survive a temporary diminution of their profits, but concerns which have recently negotiated leases at breakneck rents will be hard pressed. Because of the increase in rates, leases granted this year are likely to be at materially lower rents than those granted in 1955; thereby competition will be put on an even more unequal basis than before, and a new vested interest will be created. The temptation to pass the burden on to customers in increased prices will be strong indeed, and may to a limited extent be successful, yet fixed prices for branded goods and the diverse circumstances of competing traders will hold the tendency in check. To the extent that it is possible, the general standard of living will be reduced—less will be bought for the same expenditure. Retailers of luxury and semi-luxury goods, already adversely affected by the recent increase in purchase tax, will bear the brunt.

Seeds of Conflict

The division of society into mutually antagonistic groups to which attention was drawn earlier has been carried a stage further. Not only are traders and their customers (among others) set at loggerheads, but the trading community itself is seen to be divided again and again by the effects of revaluation. To drive the point home, further illustrations may be afforded.

Unlike residential ratepayers, traders may claim income tax relief in respect of rates which are treated as a business expense. That in itself is grossly inequitable and clearly the benefit thus conferred will vary immensely as between one trader and another, depending as it does upon the ratio of rate liability to taxable income. Will the central government give the tax screw an additional turn to make good the revenue lost on this account? Retailers of electrical appliances have cause for chagrin that they have to pay rates on their premises and suffer competition from showrooms occupied by the nationalised electricity boards which do not appear on the valuation lists.

Cities and Suburbs

The ratio of shops, offices and other commercial properties to residential properties varies from town to town. Thus revaluation will affect each town differently. In suburban dormitories, where offices are scarce and shops are not numerous, and where in addition there may be much rate

exempt agricultural land, the load placed on commercial ratepayers will be nearly intolerable. Yet in central areas, such as the cities of London and Westminster where department stores and highly developed shops and offices abound and where there are no farms, few factories and few homes, revaluation will not greatly affect commercial enterprise. The rise in rateable value will be very largely offset by a consequent reduction in the rate poundage. Initially traders at the centre will enjoy an advantage over their suburban competitors, but this will in due course be reflected in higher rents and increased land values—golden acres will be dusted with platinum.

Growing Demand for Reform

The validity of the contentions marshalled here may be readily tested and proved by the reader. Others could be cited if space permitted, yet these suffice to provide a severe and unanswerable indictment of the present rating practice. The anomalies, idiocies, irritants, penalties, privileges and schisms to which attention has been drawn are unavoidable by-products of levying local taxation on the value of buildings and other man-made improvements placed on or in the land. Patching and tinkering may achieve some slight improvement at some points, but only by exacerbating matters elsewhere. The present practice is inimical to the economic and social wellbeing of the nation, and contrary to common sense. It must be swept away and replaced by the just, scientific and thoroughly proved alternative of levying rates on the annual value of the site alone. We believe that every fair-minded person who studies this analysis will agree and will wish to add his or her voice to the growing agitation for that long overdue reform. A most cordial invitation is extended.

P. R. S.

A WORD WITH GROCERS

Many complain of the rating revaluation, surely the time to take action was before it became an Act of Parliament to which, by the way, all political parties agreed. Instead, traders did nothing. Take the question of de-rating. What do traders intend to do as groups or individuals to protest against this injustice, whereby all agricultural land is completely exempt from taxation, and industry is asked to pay only 25 per cent of their rates? I cannot recall any argument put forward for the abolition of all rates and taxes, which are nothing less than robbery.

Why not abolish the lot, and have a more sensible method, that being the taxation of land values whereby everyone would be compelled to contribute his equal proportion to the Exchequer?—Extract from a letter by J. W. BAKER in the *Grocers' Gazette*, January 21.

A CRIME

As a member of a Local Valuation Panel I have often witnessed the astonishment of small property owners when the effects of the present system are brought home to them. "Is it a crime to improve a derelict cottage?" "Must I be fined for building a bathroom?" Such are the comments one hears.

Should not those municipalities who wish to do so be empowered to use the site-value system? Hitherto this has been refused. The opponents of the site-value system are strangely reluctant to allow the British public an opportunity of seeing it in practice.—F. DUPUIS in the *News Chronicle*, February 6.

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