THE CASE FOR LAND-VALUE RATING

By James Dundas White, LL.D., M.P.

The present rating system is fundamentally wrong. It draws no distinction between the natural resources and the products of industry; in the case of each property it takes the land and the improvements together as a composite subject; and it rates that composite subject, not on the basis of its market or selling value, but on the basis of what it is yielding in its present state. The more a man builds and develops his property, the more he is penalised; and the less the use which he makes of it the more he is favoured. The man who uses his land to the greatest advantage is the most heavily burdened; the man who keeps it idle goes practically rate-free. This has a double disadvantage. On the one hand it facilitates the withholding of land from use, thus narrowing the available supply of land and forcing up rents. On the other, as Sir Henry Campbell-Bannerman said, it " operates as a hostile tariff on our industries."

Unrate Improvements

The effects of this " hostile tariff " may be seen on every side. The rating of houses penalises building, making itself felt in the increased cost of house-room and in overcrowding. The rating of workshops, factories, and machinery penalises our manufacturing industries, checking production, adding to the oncost charges, and making it more difficult to find a market for the goods. The rating of glass-houses, byres, and farm-buildings penalises market gardening, dairy-farming and agriculture, and hinders even the elementary uses of the land. Nor is the hindrance of little moment. In country districts even a small rate will check prospective improvements. In towns the rates are often very high.

Rate Land Values

Our whole system of rating is mistaken. We should apply free-trade principles to production. Houses, buildings and all other improvements should be rate-free. Our rating system should be based on the principle that those who hold the land—that is, the natural resources of the country—should contribute to the needs of the community in proportion to the market-value of the land which they hold, whether they use it or not.

Can a Land-Value Rate be passed on?

Such a system of rating would not hinder production, because land is not produced. Land is there naturally, and the natural amount of it can neither be increased nor diminished. The landlord cannot pass on the land-value rate by charging an increased rent for the land, because the amount of rent which he can get depends on what people are willing to give; and that, in turn, is determined by the supply of land as compared with the demand for it, and is not affected by the question of how much the landlord has to pay over to the public authority. If the public authority takes more, less is left for the landlord. This is recognised by economists. John Stuart Mill, for instance, in speaking of the taxation of rent—using the word " rent " to mean the rent of land as distinguished from the rent of landlord's improvements which, as he observes, is " properly a profit on capital "—says:—

" A tax on rent falls wholly on the landlord. There are no means by which he can shift the burthen upon any one else. It does not affect the value or price of agricultural produce, for this is determined by the cost of production in the most unfavourable circumstances. . . . A tax on rent, therefore, has no effect other than its obvious one. It merely takes so much from the landlord and transfers it to the State." (PRINCIPLES OF POLITICAL ECONOMY, 5, iii, 2.)

Who Pay the Taxes?

The essential difference between those taxes which can be passed on and those taxes which cannot was stated by Henry George thus:—

" If we impose a tax upon buildings, the users of buildings must finally pay it, for the erection of buildings will cease until building-rents become high enough to pay the regular profit and the tax besides. If we impose a tax upon manufactures or imported goods, the manufacturer or importer will charge it in a higher price to the jobber, the jobber to the retailer, and the retailer to the consumer. . . . The way taxes raise prices is by increasing the cost of production and checking supply. But land is not a thing of human production, and taxes upon rent cannot check supply. Therefore, though a tax on rent compels the landowners to pay more, it gives them no power to obtain more for the use of the land, as it in no way tends to reduce the supply of land. On the contrary, by compelling those who hold land on speculation to sell or let for what they can get, a tax on land-values tends to increase the competition between owners and thus to reduce the price of land." (PROGRESS AND POVERTY, 8, iii., 2.)

More Land and Lower Rents

In like manner the rating of land values would not only not raise rents; it would make them lower than they are now. Here we should avoid the confusion which sometimes arises from using the word " value " to denote the usefulness of land as well as its market-value or rent. While the more useful land fetches more rent than the less useful, the amount of rent obtainable for any land depends on the general demand for land (which is roughly proportional to the population) as compared with the available supply of it, rising if the general demand increases faster than the available supply, and falling if the available supply is increased more rapidly than the general demand—though the usefulness of the land may remain unaltered. At present, rents are higher than they ought to be, because the available supply of land is artificially narrowed. But if we were to rate each who holds land according to its market-value, whether he uses it or not, the pressure of that rate would bring unused land into the market, and this increase in the available supply of land would reduce rents generally.

A Fundamental Distinction

In considering the principles and practice of rating land values it is necessary to bear in mind the fundamental distinction between the natural resources and the products of industry. A man may justly be allowed to retain the products of his industry till he gets his own price for them, and any rating of these products would check production and raise prices. But the natural resources of the country stand on a different footing. They are not the products of industry, but are themselves the basis of production. No one has any right to " corner " them, or to hold them idle against his fellows. All have equal rights to them, and it is in the interests of all that they should be fully utilised. These rights and interests will best be secured by calling upon each who holds land to contribute to the rates in proportion to the value of the land which he holds, whether he uses it or not, and by unrating all buildings and other improvements. Such conditions would be to the advantage of those who develop the natural resources which they hold, and those who hold natural resources without developing them would soon be induced, by the pressure of the land value rate, either to develop them themselves or to transfer them to others who would develop them.

Effects of a Land-Value Rate

In almost every case the pressure would secure that result. It is no answer to suggest that, if a landowner is willing to forgo an increased return from the land in order to keep it in his own hands, he would not be induced to alter his policy by a land value rate. As every investor knows, there is a great difference between the relinquishing of profits and the payment of "calls." In the case of withheld land these "calls," if on a land-value basis, would be more substantial than they are now, and would increase with any increase of the land-value. They would make the landowner consider, not whether it is worth his while to dispose of the land which he is not using, but whether it is worth his while to keep it unused. From the business standpoint it would not be worth his while to keep it unused unless its market value were increasing more rapidly than the increasing amount of the relinquished returns and the rate-payments, calculated as accumulating at compound interest at, say, three per cent.; and, in practice, the land value would never increase as rapidly as that, particularly if the gradual increase of the land-value were accompanied by a gradual increase of the land-value valuation and the land-value rate.

Further Considerations

Thus the rating of land-values would practically settle the question as regards the "accommodation land" in and around our towns, and any other land which is being kept back for the present with a view to obtaining a higher price in the future. With the bringing of such land into the market, the prices and rents of lands would simply tumble, and the people would have access to the land on easier terms than ever before. In some cases, of course, land is kept from use, not so much for purposes of gain as for the position and prestige associated with proprietorship, and the strength of custom. But custom will yield to circumstances, and the position and prestige of proprietorship will become less when the economic power of the landed over the landless has been sapped by the rating of land-values. It should always be remembered also that the rating of land-values and the unrating of improvements are bound up together. The one will open the land to the people; the other will give free course to its development.

Considerable numbers of Norwegian farmers have been emigrating recently from the State of Washington to Canada, says Reuter from Ottawa. Representatives of 50 families totalling 400 souls have selected land close to the existing Norwegian colony at Balf, near Edmonton.—Daily News, October 17th.

THE FALL IN REAL WAGES

By the late Mr. Arthur Chamberlain

That real wages have fallen during the last fifteen years, and that they have fallen much more than the Board of Trade figures show, I think there can be no doubt. The few trades the Board of Trade selects for its comparisons are not by any means indicative of the fortunes (or misfortunes) of the great mass of wage-earners. The cause and the remedy are, I venture to think, quite clear. In the first place, I put on one side the increased gold production, because it is only in a very small degree responsible for the rise in prices; and I do not attribute it in any degree to a general rise in the prices of materials used in manufacture. In my experience, which covers all the metal industries and some others that might be described as chemical, I don't say there have not been some rises, but these have been more than balanced by greater economies in use. The average figure of percentage of material to total cost has not gone up.

The real explanation of the rise in commodity value is this: The merchants and manufacturers, pressed by various causes, one of the most important of which in recent years has been the oppressive nature of the Income Tax, have set themselves to obtain a *quid pro quo* by raising prices, and thereby increasing gross profits. Price-agreements have certainly been on the increase, but even without any definite agreement there has been a censensus of opinion that competition was being carried too far. This accounts for the fall in real wages, and this might be met, so far as the present condition is concerned, by bringing the facts clearly before both the masters and the men.

Employers, as a rule, do not want to deal unfairly with their men; but I have found that very few, even of the employers, and, certainly, hardly one of the workmen, are accustomed to consider wages in connection with the price of commodities. Most people to-day would say that men were well off—that their wages were higher than ever before, and that no rise was justified. If the case were properly put, and if the Trade Union leaders were thoroughly to explain the position to their people by meetings and discussions in every local centre, they would understand that they had a moral right and real claim to such a rise in money wages as would at least make them equal in commodity value to the wages of, say, ten years ago. I doubt if the men are at present aware that they have such a claim. In the same way I feel convinced that, if the case were fairly put before the employers, the great majority would be willing to give a general advance to all trades, though not, perhaps, a special advance to a single trade.

This is one way—I should call it an artificial way—but there is a second and a better, because a more natural and more permanent way. It is this: to free the land—to enable the agriculturists to have access to it. A small holding of one acre and upwards, according to the position and value of the land, means an addition of at least three shillings a week to the agricultural labourer's present weekly earnings. This would diminish the present exodus of the countryman into the town, and would increase the demand of the country for the products of the town. We should have, then, two natural forces at work increasing wages—namely, the smaller supply of competing labour from the country, and the larger demand for factory products by the country. The result would be inevitable. Without the machinery of strikes and lock-outs, wages would be bound to rise, because employers, having a larger demand for their products and a smaller supply of labour, would compete among themselves for such labour as was available. The machinery to produce this result is simple, an imperial tax on the capitalised prairie value of the land, and, at the same time, local taxation withdrawn from the products of industry and of man's labour, and