

spread view in orthodox economics literature that land plays no role in the process of economic growth. Harrison reminds us of the crucial distinction between a fixed potential supply of land and the very variable supply made available to the market for use.

The scandalous paucity of official data on land ownership, use and non-use has encouraged this neglect of land's role in economic growth and cyclical instability. It has made Harrison's researches more difficult but also all the more important. Despite these difficulties, he presents us with very informative case studies in the history of land's alienation and monopoly in Britain, the USA, Japan and Australia.

**T**HE EXPERIENCE of Soviet bloc countries is also reviewed. Whereas land monopoly and speculative hoarding are the fatal flaw in the capitalist free enterprise model, the socialist model suffers from an equally-fatal error stemming from Marx's labour theory of value. Since land has no direct or indirect labour costs of production, it can have no labour value, hence no value. In socialist systems, there is no market to guide the efficient allocation of scarce land resources and rents are not collected from users. Instead, a corrupt totalitarian bureaucracy presides over the rationing process, with predictable results.

The gloomy concluding message of this book is that unless the liberal democracies introduce the proposed fiscal reform to their land markets, the appeal of an illiberal socialism may prove too hard to resist.

Lastly, there are some very important sections of the book, perhaps not brought together or emphasised sufficiently, that deal with the question of the adequacy of land rents to finance the requirements of modern governments.

The conventional view, popularised by textbooks such as Paul Samuelson's, is that rent is now only a small fraction of governments' financial needs. Harrison explains the nature of pure economic rent as the only true surplus from which taxation can ultimately be derived, the insight originally propounded by the eighteenth-century French physiocrats. Taxes on capital and labour not only distort resource allocation and discourage supply, they also tend to be passed on in higher prices that ultimately must reduce land rents if labour and capital are to remain employed at their minimum acceptable levels of wages and interest.

If this diagnosis is correct, it means that gross rents would rise as taxes on labour and capital are reduced. The growth of taxation as a proportion of national income in modern industrial economies indicates that the physiocrats, Henry George and Ricardo may not, after all, have been wrong in their prediction that rents would capture a growing share of income even in the face of land-saving as well as labour and capital-saving technical progress. If so, the case in favour of the *impôt unique* (single tax), on grounds of efficiency, equity, certainty and 'buoyancy', deserves careful re-examination by modern economists and politicians.

Fred Harrison's work has provided them with ample material and a comprehensive bibliography and documentation.

## VIC BLUNDELL

analyses official reports  
and Britain's land laws



**M**YTHS, like misquotations, have a habit of persisting despite all attempts to put the record straight.

In the political and economic field, land-value taxation has perhaps more than its fair share of myths, many of them generated by political hostility and perpetuated by the lazy and prejudiced who, whenever the subject comes up for discussion, rush to quote biased sources of information rather than do a little original thinking.

Much of the mythology can be traced back through Green Papers on the rating system to the report of the Simes Committee (Chairman, Sir Erskine Simes), which dealt exclusively with the rating of site values. This Committee was set up by the Labour Government in 1948 and reported in 1952.

Of the four Green Papers published since then, the latest in December 1981 *Alternatives to Domestic Rates*, ignored site-value rating with only a passing reference, citing the previous two Green Papers: these were published in May 1976 (the Layfield Committee report) and July 1971 (*The Future Shape of Local Government*).

Although over the last hundred years there have been a number of Government committees and Royal Commissions dealing directly and indirectly with our land tenure system and taxation, it is the Simes Committee report that has gained the greatest currency and credibility. The terms of reference given to this Committee were:

"To consider and report upon the practicability and desirability of meeting a part of local expenditure by an additional rate on site values, having regard to the provisions of the Town and Country Planning Acts and other factors."

The majority (six) found site-value rating neither practicable nor desirable having regard to the provisions largely of the 1947 Town and Country Planning Act. The minority (three) was favourable to site-value rating.

The arguments of the majority report received a severe blow by the repeal of the very development charges of the Town and Country Planning Act which they had said made site-value rating impracticable, and by the publication of the first Whitstable valuation of land (1962) which refuted other arguments as to practicability.

'A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else. It does not affect the value or price of 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.'

John Stuart Mill (*Principles of Political Economy* 5, iii, 2).

Specifically, the Whitstable valuation demolished what appeared to be an irresistible argument regarding the amount of revenue that could be raised by rating sites only. The committee, with apparent logic, argued that the value of sites alone must be less than the value of sites plus buildings. This would of course have been true, had the value of a site been determined separately and then added to the value of the building standing upon it. However, as members of the committee must have known, under the present rating system, valuations are not done in this manner. Valuations are based upon what a property would let for from year to year with the site in its existing use and the building in its existing condition. Thus, a poor building on a valuable site would have a low valuation irrespective of the fact that, on its own, the site might have a higher value.

Also, under the present system, vacant land and agricultural land is excluded from valuation and from rates.

The Simes Committee estimated that the value of sites was between 20 per cent and 50 per cent of the then composite valuation of land and buildings for rating purposes. Taking 35 per cent as an average, we can see how far out they were then. The Whitstable Survey revealed that the total value of all the sites in Whitstable was almost 90 per cent of the composite valuation for rating purposes.

It is no wonder that *The Guardian*, commenting on the results of the Whitstable experiment, said: "The Simes Committee reported adversely in 1952 on site-value rating but their report cannot continue to be Holy Writ..."

Despite this, many of the arguments in the majority report of the Simes Committee continue to be quoted and used as evidence against site-value rating.

## LAND LAWS

**T**HE HISTORY of land legislation in Britain makes dismal reading. Not only have successive Labour governments since the war failed to get to the heart of the matter, with their lack of understanding of the economic principles involved, but they have muddied the waters so much with unworkable land schemes that new proposals for land legislation may well provoke fears of the same nasty medicine as before.

Looking back to pre-war land legislation, there were two attempts at taxing land that were aborted.

● The first piece of legislation, the Lloyd George Land Value Duties of 1909-10, was subsequently repealed and the land duties that had been collec-

# The Myth Makers

Not all the conclusions of the Simes Committee were adverse to site-value rating; indeed, some were favourable and the two chapters in the report dealing with the British background and the operation of the site-value rating policy abroad can be commended. But these carried little weight in the conclusions.

The minority in their report not only stated well the principles of site-value rating but also answered many of the objections and misapprehensions of the Majority Report. However, it was the majority report that prevailed.

**I**T WILL BE useful to examine the nature of the now almost standard objections and expose once again the unsound basis upon which they rest.

The most persistent myth is that the betterment levies, development charges and development-land-charges which have been features of land legislation since the last war render site-value rating unnecessary, implying that the purpose of site-value rating is merely to collect some of the *increases* in land value. No doubt site-value rating would do this in the periodic revaluations but, like a national tax on land values, site-value rating has as its primary target the taxation of *existing* land values which these other taxes completely ignore.

The notion that the value of land cannot be separated from the value of buildings, or that such an exercise is extremely difficult, was most effectively disposed of by the two Whitstable valuations. Nonetheless this argument has been repeated *ad nauseam* and is still around.

Making a vice of a virtue, i.e. that land would not be neglected or misused under site-value rating, the claim is made in the

Green Papers that encouraging the better or fuller use of land would result in overdevelopment.

The fact that development does not take place unless there is a market for it is ignored so that we are presented with a picture of unwanted skyscrapers suddenly appearing in everybody's back garden!

If there is anything to be said for encouraging development, the critics add, then it is that it has perhaps more force in relation to underdeveloped countries. And Australia is frequently included in this category by those who quote them. This, of course completely misses the point that it is in developed but rundown areas with derelict sites that the encouragement would be beneficial. The better use of land and the use of idle land should be particularly welcomed in this country where there is so much talk of "land famine".

A new myth, which grew out of the first Whitstable survey, was that site-value rating would price amenities out of existence. This was because the Chestfield golf course, which was in a very desirable residential area, was given a high valuation. The valuer did this on the assumption that planning permission, which had already been applied for, was imminent. It subsequently transpired that planning permission was refused and, of course, under site-value rating the valuation would have been reduced to permissible use only, i.e. use as a golf course. If planning permission had been granted for development, then it would have been the *planners* who had priced this particular amenity out of existence by releasing the development value of the land in question. The site-value rate would merely have increased with the new value.

This seems not to have been appreciated by those eager to seize upon

any excuse to decry site-value rating. Much was made of it in the Press, with scare headlines claiming that site-value rating would put an end to all sporting amenities!

Another golf course in Whitstable, at Seasalter, some distance from the town and subject to periodic flooding, was unsuitable for development. This golf course naturally had a low valuation.

The above example of muddled thinking springs from the false notion that all sites under site-value rating would be assessed upon their uninhibited potential use rather than their permissible use. But it is a principle of site-value rating that no owner of land is taxed or rated upon a value that cannot be realised.

Land owners would not be exempt if they kept their land idle and this would mean, say the myth makers, that since the owner would have no income from the land with which to pay his rate, he would be obliged to realise some of his other assets and thus finish up out of pocket. But that, of course, is the very discipline required to release the land for use so as to provide employment and revenue.

More examples of misunderstandings, misrepresentations and faulty reasoning could be given but perhaps the foregoing will be sufficient to illustrate the nature of the most persistent objections to site-value rating and the prejudice underlying them.

Compilers of Green Papers and members of Government enquiry committees who are instructed to look into these matters cannot plead ignorance, for The United Committee for the Taxation of Land Values has regularly submitted for their benefit evidence and statements dealing with the myths surrounding this subject that have accumulated over the years.

## Experiments in failure

ted were paid back to the landowners. Not that these duties bore the slightest resemblance to land-value taxation as proposed by Henry George and demanded by many of those who supported that Liberal Government.<sup>1</sup> Nonetheless, the Act had at least the virtue that it established a valuation of land and it was in fact about to be stripped of most of its ambiguities regarding the definition of land value.

● The second attempt was in Part III of the Finance Act 1931, when Philip Snowden, Chancellor of the Exchequer, imposed an annual tax of one penny in the £ on the capital value of land (about one shilling and eightpence in the £ of annual value).

This was the Act that the Tory,

Stanley Baldwin, said would "never see daylight" if the Conservatives got back into power, and about which Ramsay MacDonald, in an eve-of-poll speech in the 1931 General Election which returned a National (predominantly Tory) government, said: "If there is to be any partisan manoeuvring (by the National Government), then I am not their man."

MacDonald, who was to become Prime Minister of the National Government (which had succeeded the fallen crisis-ridden Labour Government) was later to eat his words. Challenged by the United Committee for the Taxation of Land Values to explain why the Land-Value Tax clauses were repealed under his pre-

miership (1934),<sup>2</sup> the Prime Minister said in a letter to the Committee:

"It may be argued that the step which has been taken indicates the power of certain interests . . ."

Despite its exemptions and other defects, these clauses did, in principle, express the taxation of land values as understood by its advocates — albeit only a small beginning in the collection of the rent of land for the community.

**S**UBSEQUENTLY, the Labour-controlled London County Council (as it then was) made two attempts to get government approval for the rating of site values by promot-

ing two Bills in Parliament. The Conservatives defeated these attempts.

It was natural to expect that with the return of a Labour Government with a large majority in 1945, the Labour Party would pick up the threads of the two previously abortive attempts to introduce Land-Value Taxation and make good their pledges to legislate for the local rating of site values and a national tax on land values. *They didn't.*

The leaders of the post-war Labour Party declined to follow in the footsteps of their predecessors and, as part of their overall scheme to establish a government-planned economy, introduced the Town and Country Planning Act (1947) with its development charges (represented as land taxes).

This tortuous Act purported to deal with the problems of compensation and betterment, land scarcity and high land values. Land use was frozen to existing use and the future development rights nationalised by allocating £300m as compensation to landowners who lost the future development value of their land.

The Act is far too complicated to describe in any detail. It was never fully understood by anyone, not excepting the Government itself. It bristled with legal and technical complications, anomalies and absurdities.

- The "land tax" provisions were embodied in the development charge, a charge which fell immediately there was a change in the use of land. The bigger the change or material development, the bigger the charge.

- No taxes or charges fell where land remained in its existing use, even if the land increased in value.

- Where the charges fell on change of use or redevelopment of land, they had no real relation to land values (whether released by planning permission or not), only to the value of the development.

Protests came from politicians of the left, right and centre, from professors, planners, the people and the Press. And with justification. And yet this monstrous Act was heralded by the *Christian Science Monitor* as the fulfilment of Henry George's ideas! Perhaps they were misled by the excited waving of a copy of *Progress & Poverty* in the House of Commons by an enthusiastic but not too well-informed Labour member during the debate.

When the Conservatives were returned to power the Development Charges were among a number of the provisions of the 1947 Act that were repealed.

● Cont. on P.99

**C**ONSISTENCY, declared Winston Churchill on one occasion, is the bugbear of little minds.

In one sense, that aphorism summarises his career. He changed party twice, and often caused considerable embarrassment in whatever ranks he chose to join. And his attitude both to Hitler and to Stalin underwent dramatic and swift changes.

And yet, in another sense, Churchill was a good deal more consistent than many politicians. His patriotism was never in doubt. He was always fundamentally a Free Trader, although he was often prepared to make compromises which infuriated purists. And he was a keen land reformer: again, not the sort of man to nail his colours to one mast and go down with his ship rather than abandon those colours, but a consistent believer in the importance and necessity of land reform in the spirit of Henry George.

Churchill's belief in land value taxation went back a long way. At Caernarvon, in October 1904 — as an Opposition backbencher — he declared that it would be necessary to give effect to the almost unanimous demand for the taxation of land values".<sup>1</sup>

This expression, "almost unanimous", was something of an exaggeration, but not as much as it may seem. Well over 500 local authorities — Conservative as well as Liberal — had petitioned for the right to levy rates on the basis of site values, and in the overwhelmingly-Conservative House of Commons of the day, a Bill in favour of site value rating had not long passed its second reading, winning substantial support from Ministerial supporters.<sup>2</sup>

**A**S A JUNIOR minister in Campbell-Bannerman's Liberal Government, Churchill did not resile from the views he had expressed in opposition.

- At Glasgow, in October 1906, he spoke of the "determination . . . to intercept all future unearned increment which may arise from the increase in the speculative value of the land".

- In his first major speech on the land question, delivered at the Drury Lane Theatre in April 1907, he called for "a universal valuation of the land, rural and urban" on the basis of "fair market value of the land, apart from the buildings and improvements of all kinds".



Churchill contended that "the present land system hampers, hobbles and restricts industry . . . a reform of our rating system and our system of land tenure would be followed by an upward movement in the material welfare of the nation."

He made an important point which is often missed by proponents of land reform. The injurious effect of a bad land system does not lie just in the fact that some people become richer and others become poorer than would otherwise be the case. This imbalance is only preserved by "vexatious obstruction of social and economic progress far more injurious and wasteful than could be measured by their own inordinate gains".

Churchill, however, had a disposition to introduce quasi-moral judgments into his dialectic.

"There are only two ways in which people can acquire wealth", he once declared. "There is production and

# THE MOTHER



## Don't forget the less spectacular exploitation

Sir, Several of your writers use the adjective "absentee" in connection with landowners. I think it is totally irrelevant whether landowners live near their property or far away: both categories are equally harmful.

They conserve an evil system not so much by living "off the land" as by living off the labour of producers.

Why is so much stress laid on the evil of land speculation? The phenomenon of non-speculative landownership should be considered as more important, just because it is less spectacular!

A similar objection can be made about the symptom of vacant or under-used land. In our country, at least, there are practically no vacant areas to speak of — and still we in Holland suffer under the system in which people privately pocket land-values.

In other words, the failure of our legal system should not be seen in terms of the vacancy or under-use of land, but the daily expropriation of all workers on fully used sites.

William Costerus,  
Amsterdam, NETHERLANDS.

## What about the progress?

Sir, Many readers of *Land & Liberty*, like myself, will feel indebted to John Allen for his clear analysis of the differences between the Ricardo/George "proportional" view and the Malthus/Keynes "quantitative" view of economics, and for his emphasis on the role of taxation.

However, if it is claimed that adoption of an unsound principle in political economy is the cause of the decline of industrial nations both in the east and in the west, some reasonable account is then due to explain the progress as well as the poverty of those economies.

As Karl Marx predicted, the crises of the capitalist economy are recurrent. It would be most interesting if John Allen could follow up his first article with an equally lucid exposition of how both long-term (Kondratiev), medium term (Juglar/Kuznets) and short-term (Kitchin) economic fluctuations, or cycles, have influenced both the historic economy and the economic prescriptions of economists.

Robin J. S. Kimmerling,  
Lincoln, ENGLAND.

## The nation's dividend . . .

Sir: V. H. Blundell's objection to Professor Cord's idea (July-Aug. issue) of a national dividend derived from land value taxation (LVT) asks whether the removal of specific general taxes (rather than a national dividend) would not be equivalent to a cash bonus.

### LETTERS TO THE EDITOR

He says that even the poorest still pay taxes in one form or another. But those with little or no income pay little or no taxes. Surely a dividend drawn from an automated/robot economy would be a less objectionable method of distributing income and purchasing power than the dole?

A growing number of breadwinners are being displaced from the economy as a result of technological changes over

which they have no control. To assume that the introduction of LVT would provide jobs to absorb all the new unemployed, as Bert Brookes does elsewhere in the same issue, is utopian wishful thinking. A report by the MSC funded Institute of Employment Research (*Sunday Times*, 31 July) suggests that 70 per cent of the 560,000 new jobs likely to be created in the UK over the next seven years will be taken by women. That leaves a lot of unemployed men, and in families where the male is still the breadwinner, very little purchasing power.

LVT might well increase the number of jobs in the short or even medium term, but most of those would go to women and there would still be a vast number involuntarily unemployed. A national dividend derived from LVT seems a sensible element in the solution of the problem.

Paul Rowlandson,  
The National Institute for  
Higher Education,  
LIMERICK, Ireland.

### Experiments

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*But Labour did not learn from this mistake — they repeated it.*

● When again in power, they produced the Land Commission Act (1967), which included a betterment levy similar to that in the 1947 Act, though with some modifications. This levy was supposed to distinguish between a normal capital gain realised by the disposal or development of land, and a gain due exclusively to planning permission or betterment.

● The Act also gave wide powers to the Land Commission to acquire land compulsorily, if necessary, to sell it at lower than market prices.

● Further, the Land Commission had powers to manage and improve land.

The consequences of all this was bureaucratic bungling and political vandalism. This Act in turn was repealed by the next Conservative government.

LABOUR's last attempt to "capture some part of the increase in land values when development or redevelopment takes place," was in 1976. This legislation, the Development Land Tax Act, was preceded by a chorus of condemnation — and not only from the Conservative opposition. Architects, surveyors, valuers, barristers, planners and many local authorities joined in the cries of disapproval, though not all for the same reasons — but it was all in vain.

Brought in with this Act was the Community Land Act which was sup-

posed to "enable the community to control the development of land in accordance with its needs and priorities." This amounted to the municipalisation of land imposed as a duty upon local authorities. Here again were the same bureaucratic controls. There were complicated formulae for calculating the development land tax, which had an initial rate of 80 per cent of development value gains (with the usual exemptions), and there was all the paraphernalia inevitably destined to hold up and deter development.

As predicted by many, the Community Land Act was repealed by the Conservatives and the Development Land Tax was reduced from 80 to 60 per cent instead of rising up to 100 per cent, as was Labour's intention.

The fact that under all Labour's land legislation some small part of the value of land accrued to the Exchequer is almost irrelevant. Set against the inhibiting effect it had on development, and taking into account administrative costs, there was very little indeed left on the credit side.

In each subsequent Act, Labour leaders thought they had only to make minor changes to the discredited previous Acts, but such tinkering was useless. *What they ought to have done was to return to the 1931 Finance Act which was sound in principle and a good basis on which to build.*

#### REFERENCES

1. See *Lloyd George's Land Taxes*, Sir Edgar Harper, Land & Liberty Press, 177 Vauxhall Bridge Road, London SW1 (25p post free).
2. The actual valuation of land was stopped almost immediately upon the return of the National Government and the taxation clauses suspended.