FARMERS, AVARICE AND THE £500m. HAND-OUT

By re-imposing rates—Britain's local property tax— on agricultural land, government revenue would increase by about £500m. But landowners are resisting the proposal . . .

Report by VIC BUNDELL

AT ONE TIME local government expenditure in Britain was financed entirely by local taxation. Today, more than half of the cost is financed out of central government funds. Despite this, many local authorities have been obliged to increase their charges by more than the rate of monetary inflation.

Whatever the economies that could or should be made, it is not surprising that attention continually turns to the possibility of an additional source of rate income. At the moment the re-rating of agricultural land and buildings[1] enjoys considerable support from the Labour Party, the Liberal Party, the Rating and Valuation Association and various other professional, trade unions and local government associations.

The reaction to this proposal from the National Farmers Union (NFU) was predictable. Robert Fookes, legal adviser of the NFU, in reply to an article in the *Local Government Chronicle* by Frank Othick, Secretary of Land Institute, referred to the "superficial attraction in casting avaricious eyes across the nation's farmland."[2] The loaded terms "superficial", "avaricious" and "nation's" will deceive no-one, except perhaps the land-owning members of the NFU who will want to be reassured of their concern for the "nation's needs," and of the wickedness of those who seek to deny them the continuation of their rating privileges.

It is a well-established ploy of those who would suffer from the withdrawal of a government privilege, or who would benefit from a new one, to proclaim their support for imaginary sufferers or beneficiaries, knowing that an outright declaration of self-interest would win scant sympathy.

A racketeer, demanding protection money and asked by his victim to whom the money was going, would at least be honest; he would not say the money was going to a charity!

The battle between landowners and the rest has been going on for a long while, with the former resisting even the mildest of reforms aimed at reducing their privileges.

Frank Othick marshalls excellent arguments for the need for the re-rating of agriculture. He is in no doubt as to who are the beneficiaries: "It is an economic fact that abolishing a land tax leads to higher rents and higher selling prices. Reinstate a land tax and the letting and selling markets will respond". But he accepts the dubious argument that de-rating seemed justified at the time because of the "economic doldrums" in which agriculture found itself, which reduced the price of agricultural land. This suggests that there is some acceptable price for agricultural land below which it should not be allowed to fall.

Furthermore, Mr. Othick would rate agricultural buildings. While this may be tidy or convenient in that it would bring the agricultural industry in line with other rated hereditaments where improvements are included in the valuation (the professional rather than political view), it would be better to rate agricultural land only and bring residential, industrial and commercial property in line by rating sites only.

One of the strongest arguments against rating improvements is that it reduces the incentive to improve. Agriculture, like other industries, needs incentives not disincentives to increase capital investment, and the industrious and up-to-date farmer would suffer most and the laggards least if improvements were rated.

The Lincolnshire County Council (Conservative) have, by the way, put it on record that they accept that the value of buildings can be separated from the value of land, by voting for the rating of agricultural buildings only![3]

The 'appeal' of land value taxation . . .

WHO pays the tax on land values? What are the economic effects of the tax? The theoretical exposition contained in Henry George's classic *Progress & Poverty*[1] has not been falsified. Indeed the latest textbooks endorse his view.

One of the most authoritative modern texts is *An Introduction to Positive Economics*, which is used in advanced courses in universities throughout the world.

Its author is Richard Lipsey, formerly of the London School of Economics, currently Prof. of Economics at Queen's University, Kingston, Ontario, who states:

"Who ultimately pays taxes on the value of land? If the same tax rate is applied to land in all uses, the relative profitability of different uses will be unaffected, and thus a landlord will not be tempted to change the allocation of his land. Land will not be forced out of use, because land that is very unprofitable will command little rent and so pay little tax. Thus there will be no change in the supply of goods that are produced with the aid of land, and, since there is no change in supply, there can be no change in prices. *The tax cannot be passed to the consumers.* Farmers will be willing to pay exactly as much as they would have offered previously for the use of land. The prices of agricultural goods and the prices paid by tenants for land will be unchanged, and the whole of the tax will be borne by the landlord. The incomes earned by landlords will fall by the full amount of the tax, and land values will fall correspondingly (because land is now a less attractive investment relative to, say, bonds than it was previously)."[2]

Lipsey adds: "A further appeal of taxes on land values arises from the fact that economic rent can be taxed away without affecting the allocation of resources."

1. Henry George, *Progress & Poverty*, 1879; Centenary edn., New York: Robert Schalkenbach Foundation, 1979.
2. R. G. Lipsey, *An Introduction to Positive Economics*, London: Weidenfeld & Nicolson, 5th edn., 1980, p.370; Lipsey's emphasis.

ROBERT FOOKES, during the course of his reply to Mr. Othick, brings out the stock arguments used against any unwanted tax reform – the cost of administration and collection, shortage of staff in the Inland Revenue, etc. – but these should fool no-one. More plausible (to the uninitiated) however, is the bogey-man threat that the re-rating of agriculture would lead to increased food prices. This fallacious economic argument is supported by the emotionally loaded example of how milk prices would allegedly rise.

Mr. Fookes carries his argument further: "... this additional imposition would cause our market to become flooded with dumped Euro-milk." And there would be a "serious agricultural depression in the dairying regions..."

However, since food prices would not increase as a result of re-rating agricultural land and only marginally, unevenly and unpredictably from the rating of farm buildings, the argument counts for very little indeed.

The defence of the non-rating of agriculture is crystallised in the following paragraph: "Relief from rating has always been linked inescapably with policies on food prices. It is the consumer who eventually pays for any impositions on farmers and likewise, it is the consumer who benefits eventually from any of the reliefs given to farmers."

Now let us take a look at contrary statements made by those *in the same camp* as Mr. Fookes. When de-rating was being debated in 1929 the then Lord Advocate, William Watson, speaking *for* the Scottish De-rating Bill in the House of Commons on 20 February 1929, said: "I do not want to argue at length whether a benefit like this ultimately comes to the Landlord or not. My humble view is that it certainly does."[4]

Col. Sir. G. Courthope (Conservative), speaking in favour of de-rating, said: "Anything that helps that recovery (of agriculture) whether it be the removal of the burden of rates or anything else, must naturally, I admit it at once, tend to effect an improvement in the ordinary average selling price of land."[5]

BUT EXPERIENCE, more valuable than opinions, was forthcoming some four months after the passing of the de-rating Act and from none other than a branch of the Farmers Union itself.

The Daily Herald reported (16.9.1929): "Farmers made bitter complaints at the meeting of the Caernarvonshire Farmers Union on Saturday that in some cases rents had been raised from 25–100% as the result of the working of de-rating.

"During the discussion it was pointed out that the reason given by the late Tory Government for de-rating agricultural land was that the farmers were too heavily burdened. But instead of a subject for rejoicing, it had turned out otherwise.

"Members said that when the Union recently urged land owners to reduce rents the excuse was given that farmers would derive considerable benefit by the De-rating Act."

The landowners were saying in effect that "rate relief belongs to us so we are getting it back through higher rents." Thus this is true in reverse, i.e., the re-rating of agricultural land would be paid for not by the consumers, and not by farmers as farmers, but by the land-owners who enjoy the unearned increment of land rent.

By far the biggest obstacle to the understanding of the effect of a land-value rate or tax upon the different interests in agriculture, is the assumption among laymen (including most politicians) that the varying productivity of land – reflected in land rents and land prices – is not relevant to the discussion.

Thus the statement that a tax or rate on agricultural land cannot affect the price of produce; cannot be shifted on to a tenant or anyone else, and that farmers as farmers will not pay the tax, is taken as mere political assertion rather than economic fact. Nor is it thoroughly understood that a rate or tax on the economic rent of land (or its capitalised selling value) has no basis for assessment unless the land can produce, when farmed, a surplus over the costs of production.

Where production costs equal income (which includes the return to labour and capital), *there is no economic rent, no economic land price and thus no tax.*

Land rents of farms (which actually include interest charges for buildings and other capital improvements), range from £10 and below per hectare (1,419 farms in England and Wales), to £75 and over per hectare (2,870 farms in England and Wales), out of a total of 26,325 farms.[6]

While those who own high grade land will pay more tax than those with low grade land, the income is there to support it. And no matter how high this may be, it will *not* be a charge upon production but upon the unearned increment of land – nature's special bounty which is the rightful inheritance of the community. Thus, both equity and economic efficiency require the imposition of a tax on the value of agricultural land.

REFERENCES

1. Exempted from 75% of rates in 1923. Fully exempted in 1929.
2. *Local Government Chronicle*, 18.1.80: 'Why Farmers Should Pay Rates', Frank Othick, and 'Agricultural Rating Would Amount to a Tax on Milk', Robert Fookes.
3. *Lincolnshire Free Press*, 26.2.80.
4. *Land & Liberty*, October 1929.
5. *Land & Liberty*, October 1929.
6. *Farm rents in England and Wales 1978*, Ministry of Agriculture, Fisheries and Food, 1979.