LAND & LIBERTY

MONTHLY JOURNAL FOR LAND VALUE TAXATION AND FREE TRADE

Sixty-first Year—Nos. 717—718. 4 Great Smith Street, London, S.W. 1. February—March, 1954. Price 1s.

A FALSE LEAD TO THE CO-OPERATORS

Mutually exclusive and self-contradictory policy statements have been prepared by the national committee of the Co-operative Party for adoption by the Annual Conference to be held at Blackpool this Easter. They are entitled *Local Government Reform* and *Land Ownership* and are obtainable from the Co-operative Party, at 56 Victoria Street, London, S.W.1, by post 8d. each.

Taxing Incomes now Exempt?

In *Local Government Reform* the national committee condemns the present rating system as unjust and at the same time makes suggestions designed to patch it up. Three different kinds of Treasury grants are recommended, one of them being intended to correct anomalies resulting from the distribution of other grants! Acknowledging the objections to, and difficulties inherent in, any scheme of local income tax, the committee yet recommends a thorough examination of the case made for such a tax by some who wish to see the present rating system abolished. With unrivalled callousness these Co-operators assert that such a tax, if introduced, "would need to be levied upon incomes which are at present exempt from income tax." The enormity of this outrageous suggestion cannot be exaggerated. Quite simply it means that the very poorest members of the community would be required to contribute towards municipal expenditure.

The committee recommends that the rating of site values should be re-examined, remarking that while it does not believe such a rate would provide an alternative to the present rating system "it might prove a useful supplementary source of income." Thus the abundant evidence from overseas where a number of municipalities raise all their revenue from a rate on land value is ignored.

Two utterly conflicting policies are mooted: in one document, the reimposition of rates on agricultural land, which is now exempt; in the other, the land nationalization proposals, buying the land from those rate-exempt privileged interests.

Paying Ransom to Land Monopoly

Land Ownership makes nonsense of the call for a re-examination of the rating of land values, for the committee categorically rejects the taxation of land values and adumbrates a scheme for purchasing the land of Britain from present freeholders. Riddled with inconsistencies and bristling with unanswered questions this tortuous and equivocal document nevertheless makes two points abundantly clear—the national committee of the Co-operative Party would make a gift of hundreds of millions of pounds of public revenue—community created land value—to private interests and consequently taxation would have to be maintained at least at the present level for a generation or more. These policy-makers have no very clear idea of what would be the cost of their proposals, nor do they appear to consider it important, remarking with brutal frankness that, "in any case, the question to be asked is not what national sum is involved, but what the community as a whole will have to forego in the way of goods and services in order to compensate the existing landowners for being deprived of their ownership rights." Present recipients of economic rent from rented land, urban and agricultural, would be handed annuities bearing an undetermined rate of interest for an unspecified number of years, at the end of which period they would be paid the "capital sum itself," presumably the selling value of their holdings at the time of nationalization. (In the case of agricultural land, the term "rented land" includes buildings and fixed equipment.) Naïvely the committee pretends that this immense and costly operation could be financed by the State collecting annually the rents—*not* land value as properly understood—which tenants at present pay to landowners, although it is implied that the cost of estate management would be thrown on to the Exchequer. Owner-occupiers of urban and rural land would be left free to appropriate annually the full unimproved land value of their holdings until such time as they might "decide to move"; then they would receive compensation equal to the capital value of their sites. "The Treasury should be able to meet its obligations in this regard without too much strain," remark the authors. In a similarly off-handed manner they suggest elsewhere that valuation for compensation *might* be based on Income Tax (Schedule "A") assessments where possible. The matter is not further pursued.

The Better Advice

Land Ownership has been prepared at the instruction of the 1953 Co-operative Party Conference which severely criticized various aspects of the national committee's proposals then submitted under the title *The Public Ownership of Land*. The Conference formally accepted those proposals on the understanding that the committee would re-examine its recommendations in the light of delegates' objections and would present an amended policy statement to the 1954 Conference. The most important

criticism came from those within the Party, led by MR. J. H. HUDSON, M.P., who advocate the taxation of land values. The national committee is less than fair to those members. The taxation of land values is made to appear to be a halting partial measure, and its advocates, including by implication the United Committee for the Taxation of Land Values, are caricatured as timid reformers who would be content to leave 80 to 90 per cent of the rent of land in private hands. The economic effects of collecting the rent of land for public purposes are ignored, the national committee feeling on safer ground in criticizing the figure of £20,000 million which some estimators declare would be the cost of the land purchase.

It is to be hoped that the 1954 Conference will reject the proposals to misappropriate public revenue and to inflict new municipal taxes on the poorest members of the community, and that it will pour proper scorn on those responsible for these ludicrous, vicious suggestions.

Published criticisms of this proposal appear on page 32. Resolutions by Co-operators in favour of land value taxation appear on page 31.

Landlords, Leaseholders and Tenants

The Landlord and Tenant Bill aims to amend the law relating to leasehold property, although to a very minor degree. It replaces the temporary legislation passed in 1951 by which leaseholders were enabled to remain in possession beyond the term of their leases paying the same ground rent as heretofore and being relieved meanwhile of their contractual obligations under the lease. The new Bill provides for permanent legislation. It deals separately with ground leases of houses and leases and tenancies of business and professional premises. As for houses, only those houses are affected that come within the limits of the rent restriction acts, that is to say houses having a net rateable value of not more than £100 in London and than £75 in the rest of England and Wales; and only those leaseholders will have the benefit (such as it is) of the Bill's provisions who are actually in occupation of their leasehold houses; but if the leaseholder has sub-let to a tenant, then it is the sub-tenant and only he who has consideration. To take the last-named first, he is to come under the protection of the rent restriction acts whereby, subject to such security as those acts afford, he remains in occupation paying no more than the rent-restricted rent. His immediate landlord, the leaseholder, unable to resume possession of the house or to raise the rent has to face all the financial obligations attached to the contract of lease. In an unenviable position, he stands outside the scope of this Bill, as do all leaseholders who are not in actual occupation of their property. For the resident leaseholder, the Bill provides that the ground landlord shall give him the status of a " statutory tenant," the tenant being relieved of his responsibilities under the ground lease but the landlord can, at the end of the ground lease, carry out what the Bill calls "initial repairs" and he can recover the cost from the tenant to the extent that the repairs are needed because the tenant has failed to carry out his contractual obligations, the cost being paid either in a lump sum or by instalments. Then the rent to be paid will be based on the condition of the house after the initial repairs are done and it will be related to the repairing and other covenants of the statutory tenancy itself.

Part II of the Bill, which applies to all occupying business and professional tenants holding under ground lease or any type of tenancy, provides that if at the end of the tenancy the landlord needs to occupy the premises for his own business or pull them down and rebuild, the landlord is entitled to refuse a new tenancy; but if he is going to re-let the premises anyhow, then the sitting tenant has a prior right to remain, but if he stays on he must pay a fair and up-to-date rent. If a new tenancy is refused because the landlord requires the premises for his own purposes, the tenant is to be compensated, the compensation to be the amount of the net rateable value if the business has been conducted for less than 14 years and twice the rateable value if for 14 years or more. This appears to be the allowance for " goodwill." Provision is also made for giving compensation for tenants' improvements, but only if the improvement has increased the letting value of the premises and this dispensation is not extended to residential property. All in all, this is tentative legislation merely trimming the leasehold system at some of its edges and many overruling conditions are embodied for safeguarding the landlord interest—which is, of course, the privilege of appropriating to itself the publicly created and ever increasing value of land.

Claiming What Belongs to Neither

In the Second Reading debate, the Opposition moved the rejection of the Bill because it made no provision for leasehold enfranchisement; that is to say, it did not arm the leaseholder with the legal power to enforce the sale of the property and thereby himself become the freeholder. Illustration after illustration was given of ground landlords enriched at the expense of their vassals who at the end of leases are expelled from their homes which they themselves have built and must surrender as a landlord possession, or at best be allowed to remain only on agreement to pay an enormously increased rent. Contracts of the kind made under duress 100 years ago and particularly in South Wales revealed a gruesome picture of land monopoly in the raw. We give elsewhere extracts of some of the speeches. But what is the moral of all this? Surely not that the rent of land is the perquisite of the leaseholder rather than of the ground landlord and yet this leasehold enfranchisement is more often than not regarded in those terms. The community at large is not interested in the leaseholder compounding with the man who holds him to ransom. That quarrel is between two individuals who each want the better share of what belongs to neither. The rent or value of land is earmarked for the good of the community and when it is taken in taxation, and not before, will the leaseholder—nay, every would-be user of land—be truly enfranchised; and he will understand the meaning of the word as he comes to be relieved of the rates and taxes he now bears with such docility.

The Argument Clinched

The whole discussion in the House was remarkably summed up and disposed of by one of the most resolute Conservatives, MR. RALPH ASSHETON, saying, " It is frequently suggested that the landlord is going to inherit unearned increment which has accrued without his having 'toiled or spun' to use the expression of MR. DONNELLY, but the occupier has no more right to that unearned increment, if there is any, than the landlord." A Saul among the prophets, indeed! A statement to be remembered, implicitly admitting that this "unearned increment," this land value belongs wholly to the community. Labour speakers missed the opportunity to drive that home. All

the instances and all the arguments they adduced pointed irrevocably to the Taxation and Rating of Land Values and the abolition of taxation on the work of man's hands as the sure and certain solution to their problem.

The Intolerable Purchase Tax

The recent changes in the rates of the purchase tax were debated in the House of Commons, February 9. By 269 votes to 241 the increased rates embodied in the Purchase Tax (No. 1) Order, 1954, were approved. Prayers for the annulment of the two Orders (Nos. 2 and 3) reducing the rates of tax levied on some commodities which the Opposition had tabled so as to secure discussion of the changes were debated at the same time.

The debate illustrated once more the extraordinary anomalies and harmful consequences of this universally condemned tax. For instance, MR. JOHN BOYD-CARPENTER, the Financial Secretary to the Treasury, said that due to a technical error in the 1948 Purchase Tax Schedule, plain elastic fabrics have enjoyed exemption. By a "rather curious error" in the same Schedule gold-plated containers of food and drink had been accidently exempted although silver-plated containers—teapots, for instance—had not been overlooked and have continued to pay tax at 25 per cent.

Another anomaly had been that while gold- and silver-plated articles had always been taxed at the rate appropriate to the article, rolled gold and rolled silver were treated as jewellery. Henceforth rolled gold and rolled silver will receive the same treatment as plated gold and plated silver, the rate of tax being appropriate to the article. A helpful provision had been made to avoid "the sillier anomalies which exist under this tax."

Ornaments and fancy goods in the form of a figure will no longer be charged at a higher rate. The classical example had been the corkscrew with a handle in the form of a dog—"the dog can now have a corkscrew emerging from its anatomy at any possible angle without attracting any higher rate of tax as a result."

Floor coverings generally were subject to tax, but since 1948 tiles, strips and blocks had been exempted. As a consequence "time and energy were being wasted in the process of cutting up perfectly good linoleum and rubber flooring to make it tax free." Because the Government could not afford to forego the revenue yielded by the tax on floor coverings, which in 1953 amounted to £17 million, it had decided to tax tiles, strips and blocks to ensure fairness "as between manufacturer and manufacturer, and worker and worker."

Mr. Boyd-Carpenter told the House that the tax system should not adversely or unfairly affect competition nor should it encourage wholly wasteful processes. Among those who had been adversely affected by high rates of purchase tax were the mirror trade, umbrella repairers, jewellers, and manufacturers of electric space heaters, immersion heaters and geysers. There was some evidence that the tax on these electrical appliances had led to lowered quality and, therefore, "perhaps to lowered safety." High rates of tax had encouraged certain forms of tax evasion; reduction of the rates made tax avoidance no longer profitable.

By Fractions of an Inch

Speakers from both sides of the House presented many similar facts and arguments against specific aspects of the purchase tax, SIR ROBERT BOOTHBY (Cons., Aberdeenshire E.) making one of the most interesting and devastating attacks. The purchase tax was a rotten tax; he hated it although he was prepared to concede that it should be imposed on all real luxuries.

Criticizing the imposition of tax on flooring materials, Sir Robert said that a most frightful mistake had been made. In 1948 a factory was specially built at Andover, and machinery was imported from Switzerland, to produce a remarkably cheap substance known as Windsor Flooring. Although only three-eighths of an inch thick it had a wearing surface equivalent to three-quarters of an inch of wood-block flooring and used only 50 per cent as much timber. But now, to avoid the tax imposed by Purchase Tax Order No. 1, manufacturers would have to increase the depth—without increasing the wearing quality—and so use 66 per cent more material. Yet the Windsor Flooring factory had been established in this country solely to economize in the use of imported timber.

Purchase tax stands condemned no less by the legislators and parliamentary representatives than by the manufacturers, traders and consumers. Parliamentarians themselves show the inequities, anomalies and restrictions of the tax for which they and their predecessors are responsible. They admit that it is costly and cumbersome; many of them acknowledge that despite its graduations it bears more heavily on the poorer section of the community than upon the more prosperous. They quote examples of unemployment and lost markets which are directly attributable to its imposition.

Indifferent to the Harm Done

Two days later at Question Time, February 11, MR. R. A. BUTLER, the Chancellor of the Exchequer, announced in a statement to the House that, subject to any unforeseen development, he would make no further changes in the Purchase Tax Schedule in or before the Budget. He took this unprecedented step because, he said, the House had expressed itself in favour of ending the uncertainty which many trade associations and Members of Parliament had represented was causing, or might cause, interference with normal trade. Mr. Butler said that he realized that his statement would cause disappointment but he had made considerable reductions in his last two Budgets and had recently made some small adjustments to remedy certain defects in the tax.

In reply to MR. HAROLD WILSON (Lab., Huyton), who said that the announcement would be received very hardly in Lancashire, especially after the trade agreement with Japan, Mr. Butler said that the total burden of the tax on Lancashire was some £40 million on a wholesale turnover of £1,000 million. He did not think that the burden was any greater than other trades had to bear.

Manufacturers and traders, while welcoming the ending of uncertainty, at least for the next few months, expressed understandable disappointment that their enterprise, standards and turnover are to continue to be limited by the operation of this impost. In their own interests they would be well advised to link future representations against the purchase tax with the positive proposal that a tax on land values should be introduced to make possible the remission of existing taxation on the work of men's hands.