

ANSWERING OBJECTIONS TO LAND VALUE TAXATION

ONE OF the most common, though in fact quite irrelevant, objections made to shifting taxation on to land values is that if people are taxed on unearned increment they should be compensated for unearned decrement. This argument might be pertinent to a proposal such as that made by John Stuart Mill for taxing increases in the value of land which take place after some given arbitrary date. Taxation of Land Values, properly understood, is not of that nature; it is a proposal to levy taxation according to the whole value of the land as it may exist at the time when the tax is imposed, with subsequent periodic valuations which will take account of changes in value, whether upward or downward.

This subject is examined in a recent issue of the *American Journal of Economics and Sociology* by Professor Harry Gunnison Brown. He says:—

"It cannot be pointed out too often that the socialization of the rent of land—brought about through the method of taxation—is utterly different from the taxation of future increments in Land Values. Indeed, the philosophy on which the former is supported is, ordinarily, a different economic philosophy altogether from that of those economists who, after rejecting the proposal to appropriate the rent of land, or most of it, in taxation, yet profess themselves not opposed to a tax on future increases in Land Values. For most of this latter group are believers in 'the ability theory of taxation,' and either accept the taxation of future increments in Land Values as supplementary to taxes based on 'ability' or consider that such increment taxes are themselves justified because of the increased 'ability' to pay of the owner of the land which has become more valuable.

"The point of view of those who favour public appropriation of the annual rental value of sites and natural resources is that taxes should be so levied as to further the common welfare and that taxes based mainly on 'ability' will not do this. They stress the annual rental value of land, regardless whether the rent, or the sale price for that matter, is rising or is higher this year than in some previous year, and regardless whether the owner has received more than the usual gain per cent. on the price he paid for the land or, indeed, any gain at all over his outlay. They stress the fact that the annual rent of land is a geologically—and socially—produced value; that the individual is not responsible for it, and that it is socially undesirable for the private individual to enjoy it. They insist that when individuals enjoy the rent of land as private income, the rest of the community has to pay for permission to work on and to live on the earth, in those locations which geological forces and community development have made comparatively productive and livable. They point out that the private enjoyment of rent

makes for a high sale price of land, makes relatively difficult the acquisition of ownership by the hardworking and ambitious tenant and makes for the continuance and increase of tenancy. They note the wide extent to which land is held vacant and unused, or in only partial use, and maintain that this involves economic waste and decreased productivity of labour and greater crowding in slums. They call attention to the fact that not to take the rent of land as a first source of public revenue compels drawing more heavily on the earnings of labour and thrift. And they conclude that a society in which the annual rent of land geologically produced and community produced, is taken in taxation for public needs, in which monopoly gains and the gains from unfair business practices, etc., are eliminated, and where, therefore, the incomes of individuals are in some reasonable relation to the services rendered by them, would be a far better society for the ordinary person to live in than the economic society we now have."

It might be said in fact that the case for Land Value Taxation would still stand even if a condition of affairs were to arise in which the value of land as a whole became stationary or even showed a tendency to decline. It would still be true that the value of land is individually unearned but communally created. It would still be true that it was uneconomic and detrimental to tax buildings and other improvement and allow the communal value to escape contribution. A condition of stationary or declining Land Values may not be immediately probable, but it is conceivable that such a state might emerge if the tendency for reduction in population became accentuated.

Even if Land Values in total became stationary, it is inconceivable that there would not be local increases and decreases due to shifts in the location of homes and industry. In that event the application of the proposal to levy taxation only upon future "unearned increments" would produce the strange result that some communities would enjoy revenues from Land Values and others would not, and the differences between them might in time become acute and striking.

Another point which should be borne in mind is that future increases in land values are already included in present market values, so far as they can be foreseen. The value of land always looks to the future and not to the past. Selling price is the present worth, or discounted value, of the anticipated future revenues from it. Taxation of future unearned increment only extends, therefore, to such increases as are not foreseen.

When people lose money in land speculation, they do so because they have overestimated the future. But the fact that some gain by land speculation and others lose is no reason why the community should not enjoy the

annual rental value of land which the community itself has created. To quote Prof. Gunnison Brown:—

"That anticipated future rents of land are capitalized into present sale price, and that the sale price of land is as much subject to the influence of persons who over-anticipate the future as of those who under-anticipate it, are opinions held quite widely by advocates of the socialization of rent as well as by opponents of it. But the former do not consider the fact of capitalization a conclusive argument against this basic reform, any more than they consider such an argument conclusive against tariff reduction, abolition of monopoly extortion, or other changes in public economic policy."

In fact, the argument against Land Value Taxation appears to be in essence an extreme form of the "vested rights" doctrine. And if that argument is to be decisive no reform of any kind can ever be carried out. The whole object of economic reform is to alter the system of legal rights now in existence in order to bring into existence a new system of rights which is considered more equitable and beneficial. In particular, every alteration in taxation alters the system of rights already in existence. If incomes are taxed more and commodities less, a change in economic rights is effected. It is true that in the case of Land Value, the "vested right" to its present exemption from taxation registers itself in capital value or selling value. But is that circumstance entirely unique? Do not special privileges conferred by protective tariffs, quotas and other restrictive devices also register themselves in the same fashion? Are we to conclude that no mistake in public policy, that no privilege given to some at the expense of others is ever to be corrected?

In conclusion Prof. Gunnison Brown says:—

"And many years ago in *A Perplexed Philosopher*, which most modern economists, even if they have chanced to read his *Progress and Poverty*, have never read, Henry George discussed carefully and rather completely this whole question of the right of society to socialize land rent. His discussion in this book seems to me a more thorough and searching one than the discussion of the same topic in *Progress and Poverty*. It is perhaps unfortunate that so few have read it.

"Yet most of the text-books in the 'principles' of economics, whose authors deign to give any attention at all to Land Value Taxation, conclude on the note of its 'wrongfulness,' on the note that 'society' would be guilty, in making such a change, of 'injustice,' of an act of 'bad faith,' of 'changing the rules of the game while the game is in progress.' Such considerations in reply as have been presented above are not even mentioned. . . . The student, if he follows his text-book, is left with

the definite impression that no reply can be made and that, therefore, the Land Value Tax reform need not be taken seriously. . . . There has been too little in the college teaching of economics to give them the vision of what an economic system based on free markets and free enterprise might be, if so reformed as to make it consistent with the principles on which it is commonly defended. For then incomes would be received for *contributing* to production and not at all for *permitting* others to *use the earth*."

On the Agenda for the Annual Delegate Meeting of the National Union of Distributive and Allied Workers, in London, 3rd to 5th May, there is the following proposition submitted by the Preston Branch: "This Annual Delegate Meeting believes that social security for the workers after the war depends upon the prevention of mass unemployment such as occurred after the war of 1914-1918; that low wages and grinding poverty are inevitable where there are more men than available jobs; that the remedy is not to be found in the 'finding' or 'making' of employment by Public Authorities, but in first breaking down the legal barriers which prevent the people from using the natural opportunities for employment in the agricultural, building and mineral lands of the country, now unused, and that the first step to this end can be effected most easily by means of the taxation of all land, used and unused, on its unimproved selling value."

IN A letter appearing in the *Western Mail*, 18th February, Mr. C. A. Gardner writes: "At an election meeting in the Allensbank School, Cardiff, Sir Herbert Hiles gave many instances of the high prices the corporation had to pay for land. A questioner asked: 'What do you propose to do to remedy this?' Sir Herbert replied: 'Tax the land on its value.' At last Monday's meeting of the Cardiff City Council Alderman Sir Herbert Hiles told his fellow-members, according to the *Western Mail* report, that 'it is a mistaken idea to believe that taxation of land values would make land any cheaper.' It may or may not be a mistaken idea that the effect of a land value tax would be to reduce rent. (It would be levied on land held out of use, and to the extent that owners of such land were impelled to allow it to be used thus increasing the available supply, the level of rent would tend to fall.) But is it any wonder that the rank and file become cynical when their leaders tell them one thing at election meetings and then say the very opposite in the council?"

1s. A BIOGRAPHY OF HENRY GEORGE. By Professor George R. Geiger.

2s. 6d. LAND AND FREEDOM. A new, comprehensive and up-to-date treatise on Land Value Taxation. By Frederick Verinder.

2s. 6d. LAND VALUE RATING. Theory and Practice. A handbook for all interested in municipal finance and the rating question. By F. C. R. Douglas, M.A., L.C.C., M.P.

CARDIFF CORPORATION AND RATING OF LAND VALUES

AT THE meeting of the Cardiff City Council on 14th February it was moved by Councillor Morgan Davies and seconded by Councillor C. G. Moreland—

"That this Council, recalling the consensus of opinion of local authorities in Wales in favour of the rating of land values as exemplified at the Conference of such authorities convened by it in September, 1935, urges that this policy must be an integral part of any post-war reconstruction because it will ensure:—

"(a) that the land values created and maintained by public expenditure and the general activities of the community shall make a just contribution to the revenue required by the community;

"(b) that houses and other buildings and improvements shall be relieved of the heavy burden cast upon them by the present system of rating;

"(c) that valuable land shall not be withheld from use, but shall be

offered on reasonable terms; and
 "(d) that the necessary valuation will afford a standard by which the price of land needed for public purposes may be equitably determined, and that a copy of this resolution be sent to the Prime Minister, the Minister for Reconstruction, the Members of Parliament for Cardiff and the Association of Municipal Corporations."

After an hour's debate, in which the resolution, was supported by Alderman James Griffiths (ex-Lord Mayor), Sir W. R. Williams (chairman of the Finance Committee) and others, it was carried on a show of hands by 40 votes to 4.

The Cardiff Council has long been prominent in its support of land value rating. One of its most noteworthy contributions was the calling of a Welsh municipal conference in Cardiff in September, 1935, at which 50 local authorities were represented, and a resolution in favour of the rating of land values was carried with but one dissentient vote.

MANCHESTER CITY COUNCIL

ON 9TH NOVEMBER the Manchester City Council appointed a special committee to consider and report on the recommendations of the Uthwatt and Scott Committees and on the advisability of acquiring powers to rate land values. An Interim Report was presented to the Council on 1st March stating that the Uthwatt Committee's recommendations (with regard to State purchase of development rights and periodical levy on increases in land values) should be supported as offering the best means of solving the compensation-betterment problem.

As regards the rating of land values the Report says: "We were asked to report upon the 'advisability of acquiring powers to rate land values,' but as the Uthwatt Committee's recommendations are to some extent aimed at the same objects as those of the rating of land values, we prefer to await the Government's proposals on those recommendations before reaching a decision upon the question of the rating of land values." This is far from being an adequate or accurate statement of the position.

The objects of the rating of land values are (a) to secure for the community some or all of the value of land as it exists at any time for public revenue, (b) to relieve buildings and improvements from the rates now levied upon them, and therefore (c) to discourage the holding of land out of use, or badly used, whether for speculation or otherwise, (d) to eliminate speculative value and bring land values down to a normal level, and (e) to encourage the development of land.

It is far from correct to say that the Uthwatt Committee aims at the same result. Its proposal for State purchase

of development rights does not aim at eliminating speculative values, but at their purchase by the State, so making them a permanent burden upon the community. Its proposal for a periodic levy upon increases of site value does not aim at securing any of the existing value of land for public revenue, but would at best merely secure in some cases a portion of the increase in site value over some datum line yet to be fixed. The revenue to be expected from it within any time in the near future is negligible, and even if that revenue went to the local authorities (on which the Uthwatt Committee made no recommendation) it would not be sufficient to afford any substantial alleviation of the burden of rates levied under the existing system of rating.

The Report of the Manchester City Council's Special Committee, like the report of the Uthwatt Committee, makes no serious attempt to examine the economics of the existing system of land tenure and taxation. Such an examination can alone provide the basis of sound and constructive remedies for the evils with which we are admittedly confronted. The recommendations of the Uthwatt Committee, if they were adopted by the Government, would merely set up an elaborate and complicated administrative machinery which would obstruct and impede the transfer and development of land without producing counter-balancing advantages. Neither would they lay the foundation of more effective and comprehensive reforms, but would rather tend to delay such reforms. For these reasons, which we have elaborated at the time, the Uthwatt proposals are not satisfactory to those who wish to see an effective solution of the land problem.