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THE FINANCE OF PUBLIC WORKS AND RECONSTRUCTION

IN ALL countries consideration is being given to the development of public works after the war, either as a means of relieving unemployment consequent on the cessation of war industries or generally as a means of improving the conditions under which the people live. A valuable survey of the economic principles involved is contained in a report on The Financing of Development Works made to the Parliamentary Public Works Committee of the State of Victoria by Mr. Lewis R. East, M.C.E., the Chairman of the State Rivers and Water Supply Commission.

Monetary Notions

In his report Mr. East remarks that the urge to undertake public works will be all the more insistent as many members of the public believe that such undertakings can be financed by "low interest" loans or by "costless" national credit or "interest free" money, and that the only limit is the availability of man-power and material.

On this he observes that "it should be clearly understood that, whatever the system of finance, the community actually 'pays' for all work at the time it is actually carried out, in that it has to provide the food and clothing and other requirements of all those engaged on non-reproductive work and their dependants. No production is or can be borrowed from the future. Even though works may be financed by 'loan,' they can be constructed only by the use of existing labour and existing materials. The greater the proportion of the population engaged on non-productive work, the less must be the proportion producing food and clothing and other consumers' goods and services and, therefore, the lower the standard of living."

The Real Cost

"Unless there are very complete statistics of production, the lowered standard of living will be evident to the public only by high prices or scarcity of goods—as during the present war emergency, when so many workers have been diverted to the fighting services and the manufacture of munitions. Wages may appear high at present, but the real standard of living—including all sorts of items such as heating, lighting, travel and recreation, as well as goods such as tea, sugar, confectionery, tobacco, clothing, toys, etc.—is much below pre-war standard. No increase in wages can increase the quantities of goods available if the whole working population is employed as it now is."

This leads to the conclusion that "if the object of post-war development is to raise the general standard of living of the whole community—and it should be—then it is essential that men should be engaged upon non-productive works only to the extent that they cannot be employed on the production of consumers' goods and services, or on developmental works which, although temporarily non-productive, will, upon completion, result in the continuing production of new wealth." In fact, the real cost of carrying out any work is "the diversion of men and material from some other work which might have been undertaken, and which might actually be much more desirable or much more reproductive. People are apt to urge the expenditure of millions of pounds in the interest of 'development' projects which appear desirable, because they do not realize that the carrying out of such projects would deprive the community of equivalent other works which might be much more desirable."

The Value of Public Services

In other words, a public works project is only justified if there is no other direction in which the labour and materials required could be more advantageously laid out. To form such a judgment in the case of hospitals, schools, swimming pools, and other non-reproductive work is extremely difficult because of the lack of any system for measuring the relative advantages of such projects. In the case of things which are bought and sold—food, clothing, recreation, etc.—the consumers appraise the relative advantages to themselves by their willingness or unwillingness to pay a certain price. As it has been said, there is in such cases a continuous plebiscite taking place, in which the voting papers are pieces of money, to ascertain the wishes of the consumers. This test is completely absent in the case of public services which are provided "free," that is to say, are paid for out of the public revenue.

Reproductive Public Works

With directly reproductive public works the case is different. If they render a service such as the supply of gas or electricity for which a charge is made, the usual commercial tests of profitability or otherwise can be applied. There are other cases, however, of more difficulty. Public highways are not usually in these days provided with toll gates, but are for reasons of convenience freely open to all. So

far as they are used to transport persons to and from their work and goods to the places where they are needed, highways are directly productive. In so far as they are used for other purposes, they are not productive. It would certainly be extremely difficult, if not quite impossible, to assess the productive advantages yielded by a public road by any direct method of evaluation, and still more difficult to measure the other advantages it affords.

Measuring the Benefits

An undertaking which yields more advantage than loss to the citizens as a whole may be described as advantageous to the community. But, as Mr. East points out, "it may be that the distribution of costs and benefits is far from just. The cost of public works is seldom shared by individual taxpayers in proportion to the benefits they receive from the construction of these works."

It is a matter not merely of academic interest, but of great practical importance in a time when the field of state activity is rapidly expanding, to consider how far any project can be justified by the plea that on balance it produces more advantage than disadvantage. If, for example, it gives an advantage to only a small number of the community although the advantage which it gives them, measured in terms of money let us say, is greater than the detriment to the rest, can such a project be justified?

Experience in Victoria

In the course of his report Mr. East gives some account of the water supply and irrigation in the State of Victoria. In 1905 an attempt was made to put the undertakings upon a firm basis. The Water Act of that year proposed that the revenue from both irrigation and waterworks districts was to be raised by a form of rating upon the unimproved value of the lands supplied. Unfortunately this plan was alleged to be difficult to apply, and it never was put into operation because an amending Act was passed making the charges on a quantitative basis of so much per acre foot.

The Hon. George Swinburne, the Minister in charge of the 1905 Bill, stated on the second reading that the increase in revenue consequent upon increase in land values would enable the Goulburn-Loddon scheme to pay its way by 1917. Mr. East adds that it is possible that "this result would have been achieved, for land values in these

areas have been more than doubled and revenue would have increased proportionately. One of the advantages of Swinburne's system would have been its tendency to prevent excessive rises in land values, and would, therefore, have reduced speculation in irrigable lands."

The Farmer's Position

On the question of land values Mr. East remarks:—

"Contrary to the general belief, high land values for farming land are a very great handicap to the farming industry. So serious has been the effect of rising land values over many years that it is hardly an exaggeration to say that the farmer or grazier who has to purchase his land at the ruling market price for the district and has interest to meet on more than two-thirds of the purchase price can never make more than the barest living.

"There can be no stability in rural areas while farmers look for their profits to increased land values instead of to the proceeds of the soil. Many farmers have in the past been content to accept this condition, and have struggled for 20 or 30 years in the confident expectation of being able to retire in due course on the proceeds of selling their farms at increased values—passing on the struggle to their successors."

An Unjust Charge

The flat rate method of charge results in the farmer with poor land having to pay as much as the farmer with good land. The poorer farmer is unable to meet the full cost of the service. In the result the original intention that the full cost of constructing and operating the works should be met by the water users has not been achieved, and the State has had to accept responsibility for four-fifths of the capital cost. "Including operating and capital charges, it can be said that for every £1 the water user is required to pay, the State contributes £2, which, of course, is met by the general taxpayers of the State."

On the other hand, "the market value of the fertile land rises very much beyond what it would have reached had the water charge been based on land values—and the whole of this increase goes to the owner as soon as he sells the property. The Water Supply Authority gets no portion of the unearned increment, and the incoming farmer is usually so burdened with debt that he cannot afford to develop the farm properly and also has difficulty in paying for the irrigation water without which the land is almost useless."

Appropriation of Land Values

A somewhat similar story is told of the Victorian State railways, which in some cases were constructed at the request of the adjoining proprietors and on an undertaking by them to pay "betterment rates." The owners were from time to time absolved of this liability and the State took on the burden.

Summing up his argument Mr. East says:—

"Land values are not wealth in the economic sense, although increases in land values may serve as an indication that an undertaking is profitable to the community. The ownership of land consists of the legal right to receive a share of the wealth which can be produced by labour on that land, present and future, and Land Value is simply the capitalized value of that share. The carrying out of public works such as roads, railways and water supply, makes possible increased production from land, or more intensive use of land, and, as practically the whole advantage goes to the owner—as distinct from the worker engaged on production—this advantage is capitalized in increased land value."

Existing Tax Methods

Referring to the usual methods of taxation to finance such works, Mr. East says: "Taxation to meet the cost of public expenditure lowers the standard of living of the taxpayers, and it would be unreasonable if those who received the benefits were enabled to reap excessive profits at the expense of the community. . . . Practically all taxation is in the last resort paid from production, so that it would not be incorrect to say that any subsidy made by the Government to encourage or increase production in an undertaking—public or private—which is actually unprofitable to State revenue involves an equivalent burden on other industries engaged in production, and usually increases the price of the products of those industries as, with most forms of taxation, the taxes are passed on to the consumer."

An Equitable Plan

As practical proposals for post-war development Mr. East recommends that all the State developmental works, past and future, might be grouped into a single account to be known as the State Development Account with appropriate sub-divisions for the various activities, and that the interest charges should be met from a special tax distributing the cost as equitably as possible over the owners of properties benefiting both directly and indirectly from the works. He concludes by saying:—

"If all developmental works were included in the proposal, then a uniform tax on land values without graduation and without exemption would effect the fairer distribution of cost. Such a tax would be properly called the State Development Tax.

"It would be simple to assess and impossible to evade. It would not penalize industry or increase the cost of living, but it would reduce land speculation and it would transfer a good deal of the burden of taxation from rural industries and farms where land values are relatively low, to the cities where land values go to thousands of pounds per foot frontage or hundreds of thousands of pounds per acre. . . .

"The outstanding advantage of a State Development Tax is that revenue from the tax would automatically

expand to meet the increasing cost of financing new developmental works, expenditure on which, if they were truly developmental and profitable as already defined, would be reflected in increases in land values in town and country at least equal to the total expenditure."

WHAT LANDWORKERS SAY

THE NOVEMBER issue of the *Land Worker* (Mr. Arthur Holness, Editor) reports and comments as follows:—

"One result of the war has been the rush to buy land, particularly agricultural land. Millions of acres have changed hands since the outbreak of war. The price of land has gone up rapidly owing to higher prices for farm produce under Government guarantees and subsidies. Land is fetching up to three times as much as it would have done in peace time. It is quite common for good farm land worth about £30 an acre in peace time to fetch up to £80 an acre. There have been a number of sales at which land has realised from £100 to £150 an acre. At Gillingham 34 acres of plantations sold for £17,000, at Brenchley 28 acres sold for £14,000 and re-sold the same day for £15,000. These are one or two examples of the rush to invest in farm land. The Press reports that in a number of districts the demand exceeds the supply, and that there are long waiting lists of prospective purchasers, many of them tenant farmers.

"The process by which landowners enriched themselves at the expense of their tenants towards the end and immediately after the last war is being repeated. Agricultural land doubled in price between 1914 and 1918.

In 1920 farmers in this country owned 4,102,556 acres of land. In 1927 they owned 9,225,734 acres of land. Thus after 1920 farmers bought 5,123,178 acres of land. According to a Parliamentary reply given on 8th December, 1930, about 36.6 per cent. of the total farms were then owned by their occupiers and covered approximately 25 per cent. of the farming area.

"When the Agriculture Act was repealed immediately after it became law, the duped farmers found themselves saddled with heavy burdens, in addition to falling prices. They vented their resentment on the workers and the cry went up that wages must come down.

"Unfortunately the farmers do not appear to have learnt any useful lessons from their past unhappy experiences. They apparently do not realise that the high prices being paid for farm lands must increase the debt under which agriculture must henceforth labour. They are again allowing landlords to reap a harvest which they have not sown. They cheerfully pay the big increases of rent demanded or buy their farms at speculative values, and pay exorbitant prices for dairy cattle and farm machines and implements, but kick strenuously against the demands of their workers for a reasonable standard of life."