

Francis Neilson fulfilled the mission towards which his inner drives and faith directed him. If his goal of economic justice has not been reached, he most assuredly brought it nearer to the thousands of people all over the world who read his books and share the logic of his inspired convictions. There are those, too, who will remember in another way. These are the nameless men and women with whom he shared some of the good

fortune that finally came to him. They will revere not only his great mind, but the great heart and generous spirit that found expression in many unsolicited and welcome deeds.

At his own request, Mr. Neilson's body was cremated and his ashes placed in a niche of Liverpool Cathedral in recognition of his service to the Cathedral and the Choir School so dear to his heart.

## INDUSTRY AND THE RATES

LETTERS REPRINTED FROM THE FINANCIAL TIMES

**From P. R. Stubbings, General Secretary, Rating Reform Campaign, May 23.**

A VERY simple adjustment would transform the rating system to the satisfaction of all progressive firms, industrial and commercial, as well as most householders.

As now levied rates fall partly on site values of developed land and partly on the development. Vacant sites and farm land are rate-exempt. As a result, every improvement made attracts an increased assessment. Yet sound municipal government makes sites, not buildings, more valuable.

The solution, then, is simply to exempt all buildings and other improvements from assessment and rating, and to rate all land, whether used or vacant, urban or rural, on its current site value. Besides reducing the rates liability of all well-improved properties, land value rating would squeeze much of the speculative element out of land prices and promote general development and improvement. It works well overseas. A trial land valuation and survey of one or two suitable sample areas would show how it would work here. Such an investigation need cost little and could be quickly made. Mr. Donald Wade, M.P., tabled an Amendment on those lines to the Rating and Valuation Bill but, unfortunately, it was not taken.

**From G. H. Webster, May 23**

IT IS significant, to my mind, that your leading editorial of May 16 decrying the rating system, had nothing better to offer in its place.

While agreeing that the rating of annual property values is in certain respects anomalous, I would submit very strongly that it is the only prac-

ticable method of financing local authority expenditure.

Various alternatives have been canvassed—the two main ones being (1) A local income-tax; this method falls down at once solely on the grounds of allocation and collection. The people to be taxed would frequently move in many cases, from one rating area to another. How are the authorities to keep track of them?

(2) Rating of site values: Apart from the fact that many dispute the so-called "beneficial economic effects" of such a tax, one is faced with more complex valuation problems than in the case of the present system. How does one, for example, without resort to very arbitrary "rules of thumb," ascertain the site value of a flying freehold?

The rating system has been with us since 1601, and over the years a comprehensive body of case law has been built up. As the article points out (political objections apart) preferential treatment could be given to hard-pressed areas. Far better to improve the system than to throw the whole thing overboard and start afresh with something completely untried.

A start might be made by relieving the rates of the huge burden of certain national services (for example, education) which should be met entirely out of central government funds. Then perhaps the rates could be devoted to purely local purposes and local industries would not be so concerned about what the rate poundage is going to be on their new assessments.

**From J. A. Cunnington, May 27**

MR. G. H. Webster takes you to task for decrying the present rating system without offering anything better in its place. He dismisses

a local income tax as being impracticable but ends his letter by recommending the transfer of certain heavy expenditure to the Central Government which, as I see it, would mean more on the normal income-tax. He rejects Land Value Rating for several various reasons which, collectively, suggest that he has not gone into the subject very thoroughly.

Mr. Stubbings pointed out in his letter on the same day that Land Value Rating works well overseas. I will add that it is used with success in both old and new countries.

In this country it would provide increased revenue for hard-pressed local authorities, would bring into use additional land, so easing the chronic shortage (much more artificial than most people realise) and by generally reducing land prices the community would not have to pay so much for public buildings, roads, bridges, etc.

While the present system penalises improvement, encouraging only the speculator, land value rating is an incentive measure and a tax on inactivity.

Let the Government make a test survey and see for themselves that the 1601 ruins can be cleared away and replaced by a structure more suited to the 60's.

**From P. R. Stubbings, May 27**

PERFECTION in human affairs is unattainable and some complexity is unavoidable however local government is financed. Overseas experience suggests, though, that Mr. G. H. Webster is mistaken in believing that valuation for site value rating would be more complicated and arbitrary than for the present rating system. The contrary is the case.

If each owner in a block of five freehold flats paid one-fifth of the total rate on the site beneath none would have cause for complaint.

Many areas are "hard pressed" because acres of buildings are shabby or inadequate and hence rateable value is low. Often the land is enormously valuable. Such places stand to gain considerably under site value rating.

**From G. H. Webster, June 3**

IT IS apparent from the letters published on May 27 that my objections to Land Value Rating have not found favour with some people. Perhaps therefore I may be permitted to explain in more detail?

I have taken it as read that it is desirable to have some form of independent local authority finance; I have little to say therefore about the letter written by Mr. L. J. Little (May 27) who apparently does not consider that local authorities have any part to play in our domestic scene—apart from refuse collection.

I do not consider that industry would fare any better under the rating of site values. Mr. P. R. Stubbings, said that the introduction of a site value rate would help the "hard pressed" areas where the land (not the buildings) was "enormously valuable". It might increase the flow of revenue into the local authorities' coffers, but it certainly would not make the industrialist's plight any better if he happened to own the site along with his "shabby and inadequate" buildings. The rate would in fact make his position worse, and the area might become even more depressed if other firms could not be attracted to take the place of those closing down.

My main objection to site value rating is concerned with its practicability. The valuation problem is immense. Either one values according to one's knowledge of sales of comparable vacant sites (which are few and far between compared with sales of land and buildings together) or one employs the residual method. The use of the latter entails a huge extension of the element of hypothesis. In addition one would have to forecast what kind of building the local planning authority would permit on the site in question. It would seem to be necessary to apply for

planning permission every time a rating valuation was made.

I myself do not believe that any basis exists for dividing the value of a property, with any accuracy, between site value and building value. An owner of a reversion in land and buildings together, say in 20 years' time, cannot be said to own the full value of the site if it were cleared of buildings now. Clearly it is necessary to apportion the site value rate among the owners of the different interests. This would demand the use of some arbitrary "rule of thumb" and, more important, contracts made in the past would be upset as regards the liability of rates, as between landlord and tenant. This is of particular relevance when the term is a fairly long one and there is no rent revision clause.

The fact that a site value rate works elsewhere, as both Mr. Stubbings and Mr. J. A. Cunningham point out, does not mean that it works any better than our own system, or that the rating of annual values does not work at all. It does work, and the new Bill will make our system more efficient and more equitable.

The rating of site values would introduce the further complication of having to take account of improvements, restrictive covenants and easements, all of which could lead to a flood of litigation—Mr. Stubbings airily suggests that improvements are to be ignored.

The attraction of ground rents would be destroyed since the income would fluctuate with each change in the rate poundage, or the site value. It would be yet another blow to those with fixed incomes. In addition if the site value rate were to be allocated among the different owners of interests, the uncertainty of income accruing to superior landlords would be increased and the cost of funds for new building would rise, since investors would demand a higher rate of return than before. If the Rating Reform Campaign people had their way this latter objection would not arise, since only the owner of the freehold interest in the site would be rateable (except in the case of long building leases, in which case the liability would be apportioned). To imply that a tenant with a term of, say, twelve years, does not benefit from

the authority's sewers, and therefore should not contribute to the rates seems to me to be complete nonsense.

Mr. Stubbings also says that "sound municipal government makes sites, not buildings, more valuable". Surely both benefit, and the relationship between the two is so tenuous as to be indistinguishable.

A site value rate would also increase the pressure on the agricultural land on the fringe of towns, since the farmer would find the increase in his assessment far in excess of what he would be prepared to pay for purely agricultural value (assuming, of course, that agricultural land was rateable—a policy which most of the protagonists of site value rating support). Indeed, it would increase the "speculative element" in land prices, for it is in these areas that the so-called "speculator" operates today, and more and more pressure would be applied to local planning authorities to permit building in the green belts.

Moreover, it is quite possible that the price of land might rise rather than fall, and although the extra expense of the tax might force some owners to sell, a developer might consider it worthwhile bearing the burden of the rate until such time as the site was ripe for development. The returns from good development are well worth waiting for, and, indeed, if site value rating were to be substituted for the present system, the return on development would increase, since the site value rate would have no effect on the additional income accruing from the development. A possible effect, therefore, might be to cause a rush of "shanty-town" development on vacant sites, the income from which might offset the site value rate, until such time as the developer considered that the undertaking would not be precipitate.

**From P. R. Stubbings, June 10**

MR. Webster's June 3 letter bristles with points demanding refutation so may I tax your generosity yet again?

The average industrialist, one imagines, seeks the maximum return from his plant, machinery, materials and labour. Given an incentive system of local taxation he would similarly fully exploit the potential

ities of his site or sell it for a fortune to someone with the means and gumption to do so. "Plight" is the wrong word to describe his condition. Provided the valuation accurately reflects a site's worth, there is no possibility of a land value rate causing or increasing depression. Precisely the opposite is the case.

The Rating and Valuation Association appears to believe that the valuation of land is practicable for, according to its president, Mr. C. D. Bailey, it has recently taken preliminary steps to secure support for a trial valuation of a representative area. Mr. K. J. Kristensen, former chief valuer in Denmark, has stated: "If planning provisions and their bearing on different areas are definite and open to common knowledge they do not present special difficulties either to the determination of prices in the market or to the assessment of land values for taxation". The Australian Planning Institute, Sydney Division, in evidence to the N.S.W. Government Inquiry Committee, 1959, argued that land value rating "serves to reduce scatter and obsolescence in our urban areas." On *planning grounds* it called for a fuller application of this rating system.

One means of apportioning the site value rate among owners of different interests may be found in the abortive London Rating (Site Values) Bill, 1938-39. Parliament is supreme and has power to make absolutely void any existing or subsequent contract which would frustrate its intention. The provisions of the Commonwealth of Australia "land tax" legislation and the ruling of Lord Finlay (*Marshall's Township Syndicate v. Johannesburg Consolidated Investment Company*, 1920 A.C. 420) are relevant.

Where overseas ratepayers may choose their rating system the move is almost invariably from rating buildings on the British pattern to land value rating. Surely this indicates the superiority of the latter system?

I must reject the charge of airiness; improvements would indeed be ignored by valuers. The London Bill, for instance, provided that land units were to be valued on the basis of the rent they would command in the

open market if offered in their virgin state upon a perpetually renewable lease. Full account was to be taken of easements, planning restrictions and the like, and, of course, of the value reflected by neighbouring improvements. Why should this unleash the flood waters of litigation?

Most fixed income people are groaning under their present rating burden and would benefit if their houses were relieved of rates. They far outnumber the particular few whom Mr. Webster has in mind.

By making it unprofitable or less profitable to hold land idle or under-used, a rate on land values tends to increase the market supply of land and to reduce its price, to promote a more intensive use of urban land and thus lessen the pressure on farm land, and to make available for investment in buildings money which otherwise would have been locked up in land. The theory is impeccable, and practice, even in vast Australia, proves it.

Some speculative withholding would continue until the stage was reached where the certain cost roughly equated with the anticipated gains. The tax-dodge "shanty-town" developments Mr. Webster fears seem unlikely. Who would buy or rent such structures if more suitable buildings were abundantly available?

#### OREGON — From Page 122

holdings. They believe Americans do not sufficiently appreciate the economic benefits of *ad valorem* land taxes which, operating throughout the United States, constitute at least a measure of encouragement for proper land use. They called it a national scandal that unearned increments in land are classed as capital gains and so taxed no more than half as much as ordinary earnings.

The students distributed leaflets quoting housing authorities, bankers, economists and real estate experts to show that the "undertaxation of land" has led to inflated land prices, putting a squeeze on builders. Signatures from passers-by were collected on a petition to the City Council asking it to seek power to give tax relief to improvements, making up the revenue by higher rates on land.

#### EXHORBITANT LAND PRICES Extracts from letter by Mr. Robert Miller in the 'New Daily,' June 16

HOW truly you state in your leader that the problem of fantastic land prices will have to be tackled. All sorts of remedies have been put forward by so-called experts, and the latest comes from the Labour Party, who advocate that the State should own all freehold and lease out the land to whomsoever it decides.

PUTTING aside all the intricacies and complications which this sort of bumbledom would inevitably produce, not to mention the enormous cost to the taxpayer of running it, the experts seem to pay little or no attention to the cause of high land prices.

GRANTED that the demand for land in the right places exceeds supply; that a rise in prices must inevitably follow — a fundamental law in a free economy; and that speculation as such is a normal and healthy activity responsible for the creation of wealth and progress, does it not seem obvious that upon these bases many landowners, particularly those of idle and poorly developed but urgently needed sites in urban areas, quite naturally hold what they have in expectation of yet higher prices, thus automatically aggravating the situation and, in fact, operating a system of rationing, to the few which can never be increased in supply; and while they do so, being under no obligation to pay any form of tax. It is unfair to condemn people who do this; they are merely taking advantage of an outmoded and perfectly ridiculous system.

SURELY the solution lies under Mr. Brooke's nose. All he has to do is to allow local authorities to rate site values only, so that no enterprising speculator, be he building contractor, business man or house purchaser, need fear being penalised for every brick and tile he lays, while those who chose to continue to keep valuable land idle would at least be compelled to pay for the privilege, to the benefit, to some extent, of the community who alone have been responsible for creating that value. And how many landowners would continue to pay for the privilege of growing weeds and keeping eyesores?