

## LAND VALUE RATING DEBATED IN "THE TIMES"

### Correspondence on the L.C.C. Proposed Bill

THE PROS and cons of the case for the Rating of Land Values were discussed in the following correspondence appearing in *The Times* of 8th, 9th, 16th and 24th August, the participants being Sir W. Harold Webbe, leader of the Municipal Reform Party in the L.C.C., Mr T. Magnus Wechsler, M.R. Member of the Council, and Mr F. C. R. Douglas, Vice-Chairman of the Finance Committee of the Council.

#### Sir W. Harold Webbe's Views

(*The Times*, 8th August)

SIR.—In view of the considerable publicity which has been given to the Bank Holiday speech of Mr Herbert Morrison\* in regard to the rating of London site values, perhaps I may be allowed to make certain comments.

Mr Morrison referred to the fact that one of my Municipal Reform colleagues on the County Council, in opposing the recommendation to promote legislation, said that it was almost certain that such legislation would be rejected by Parliament. Mr Morrison professes, for reasons of his own, to see in that statement an indication that improper influences had been at work to prejudice the issue, and that the statement revealed what he termed a most improper situation.

Surely Mr Morrison must be losing some of that self-confidence which is one of his most valuable assets, or he would hardly make such heavy weather of what was after all a very obvious comment. The position is quite simple. When a few months ago the Council, under Mr Morrison's leadership, promoted legislation for the rating of empty properties in London, the then Minister of Health, Sir Kingsley Wood, made it perfectly clear that if and when any fundamental change was felt to be desirable in the present rating system, the Government would consider the question should be dealt with on a national basis, and by national rather than by private legislation. There is no reason to suppose that the present Government have changed their attitude on this point of principle, and happily we have not to concern ourselves with the follies which might well be committed by a House of Commons controlled by Mr Herbert Morrison and his friends.

May I also take this opportunity of commenting on one or two points in the proposals which were before the Council at its last meeting before the recess.

(1) The proposed Bill is not, as Mr Morrison for political reasons would like it to appear, a means of exacting tribute from those persons whom he and his friends usually describe as the rapacious landowners. It is true that the actual proposals before the Council were somewhat slipshod and muddled, as is usual with Socialist proposals, but it was made quite clear in the debate that, although the rate would actually be levied on the tenant, it would be passed back through all the parties who derived benefit from the ownership of or interest in the site value, and that the ultimate incidence of the rate burden would be upon all such parties in proportion to their interest. Indeed, any other interpretation would in a large number of cases, some of which were quoted in debate, result in the landowner being called upon to pay in tax very many times as much as he received in income. In other words, the Bill in fact does seek to impose on a particular section of the community—namely, the section which is con-

cerned with freehold or leasehold interests in sites, a form of local tax which does not apply to any other section of the community.

(2) The whole scheme rests upon the common fallacy that it is possible to devise taxation so as to "get at" a particular group of people. It is, I think, a commonplace of political economy that the incidence of any taxation is ultimately determined by economic factors over which the Legislature has no control. Variation of prices, adjustments of profits, and so on are examples of factors which always have and always must modify and ultimately determine where a tax shall fall.

(3) It is entirely false to say that landowners and others interested in freehold and leasehold sites contribute nothing to the municipal treasury. It is true that under the present system rates are levied on the occupier of premises, but the value of the site is a most important consideration in determining the assessment for rating purposes, and by the operation of the economic factors to which I referred above the rate upon site values, which in fact is levied to-day under the present system, is passed back by adjustment in exactly the way it would be under the Socialist Bill.

(4) It is incorrect to suggest that increase in the value of land is almost always, or even mainly, due to public expenditure. Clearly private expenditure and private development are much more important, and instances could very easily be given where public expenditure, particularly under Socialist authorities, has led to serious depreciation in the value of surrounding property and of the site values relating thereto.

The Socialist Bill in fact is simply another attempt by the Socialist Party to cover up the results of their rapidly increasing rate borne expenditure by transferring some part of the burden from those to whom Mr Morrison in 1940 will appeal for votes to those sections of the community which either have no votes at all, as in many instances would be the case with the present proposal, or whose voting power is a less serious menace to his political ambitions than is that of the mass of ordinary citizens who are called upon directly to foot the bill, and who in any event will ultimately have to pay for the "privilege" of Socialist administration.

#### Reply by Mr Douglas

(*The Times*, 9th August)

SIR.—The London County Council is entitled to expect that its proposal for a rate on site values in London will be considered by Parliament on its merits, and Mr Herbert Morrison's Bank Holiday speech was no more than a perfectly proper plea that this should be so. Sir Harold Webbe's letter to you confirms the impression that an attempt will be made to avoid that consideration by raising the side issue that such legislation should apply to the whole country and should not be introduced by private legislation.

If the proposal is a beneficial one, the onus rests upon its opponents of demonstrating why it should not be applied to London whether or not the rest of the country enjoys its advantages, and no one has yet attempted that task. Indeed, when the point was put to Sir Harold Webbe at the last meeting of the Council he admitted that national legislation of this kind would be opposed by him as strenuously as he knew how.

As to the other points raised in Sir Harold Webbe's letter :—

\* This speech was reported in the August issue of *Land & Liberty*, page 122.

(1) It was not only made clear in the debate, but it was also made clear in the report of the Finance Committee, as it was in its previous report in 1936, that the proposed rate on site values would by a perfectly simple system of deduction from rent be apportioned between those who benefit from the site value, whether freeholders or lessees holding on long leases. This feature is common in similar legislation in the British Dominions, and it is evidently equitable that the burden should be so distributed.

(2) It is agreed that the ultimate incidence of any form of taxation is determined by economic factors. If there is one proposition in economic science upon which there is general agreement it is that a rate or tax proportioned to the value of land is ultimately borne by the recipients of the land value. The ultimate incidence may, however, be interfered with temporarily, and in this case for very long periods, by private arrangements made between individuals. It is in order to prevent such interference that the provision above referred to will be incorporated in the Bill, and in order to secure that the immediate incidence shall be the same as the ultimate incidence.

(3) It is true that the site value is one element in the fixation of the present values for rating, but the dominant element is the use made of the site. Thus in three adjacent sites of equal value, if the first is wholly undeveloped it bears no rates, if the second is badly developed it bears a low rate, and if the third is highly developed it bears a high burden of rates. The burden is proportionate to the development, and it is quite fallacious to suggest that the incidence of such rates is similar to that of a rate on site values or that the economic results are similar.

(4) It is not suggested that the value of land is entirely due to public expenditure, although that is an important and essential factor. Our report of 1936 is clear and definite on this matter. "Site value is pre-eminently a subject for local taxation as it arises from community causes. It is the measure of the commercial, social, and industrial advantages attaching to a site which arise from the existence of the community and community services provided out of the public purse. It is a value which has not occasioned any cost of production to the owner, and consequently the rating of site values is, in effect, a means of securing to the public a value which it has itself created."

In conclusion, may I hope that the discussion of this proposal will be conducted upon an impartial and scientific basis as it deserves and without tendentious references either to "rapacious landlords" or to "political ambitions."

### Mr T. Magnus Wechsler's Views

(*The Times*, 16th August)

SIR.—The confusion of thought and mixture of motives present in the minds of those who are advocating the rating of site values in London is well illustrated by a comparison between the statements in Mr Herbert Morrison's speech and those on the same subject and presumably from the same point of view in Mr F. C. R. Douglas's letter.

Mr Morrison says of landowners, "they contribute nothing to the public treasury," by which assumption he seeks to justify a transfer of the burden of the rate from the occupier to the owner. Mr Douglas, on the other hand, does not attempt to deny that the incidence of the present rate already falls partly on the owner of the site. No doubt he recalls the words of the Royal Commission on Land Taxation:—

"We also agree that the real as opposed to the

apparent incidence of local taxation in towns, falls upon the owner of the land, partly upon the house owner, and partly upon the occupier, and that it is impracticable to lay down any general rule as to the proportions in which the burden is distributed or to determine it in individual cases."

The ultimate incidence will, of course, be determined in each case by a well-known economic principle—*i.e.*, the ratio borne by the elasticity of the demand to the elasticity of the supply.

So Mr Douglas falls back on the argument that not the site value, but the use made of the site, is the "dominant" element in the fixation of present assessments, and this, according to him, is undesirable. Passing over his question-begging use of the adjective "dominant," it must seem remarkable to the ordinary mind that there should be objection to the fact that where land is subject to improvements the assessment is increased to the extent of the value of the improvements. Mr Douglas's arguments rest on the assumption that there are a large number of cases in which owners are deliberately and unreasonably refusing to develop their sites to economic capacity. No facts or figures are ever produced to support this dogmatic assertion; and, after all, it is contrary to common sense. If a man has money tied up in land he has every incentive to develop so as to make his capital earn an income rather than to keep it sterile, or if he has borrowed on the security of the land to relieve himself of the burden of mortgage interest. I know the cases, often quoted, where owners retain undeveloped land in anticipation of general development in the district, but surely in such cases premature development would not be in the interests of the community if a few years later it turns out to be not the best possible economic development having regard to the changed character of the district. Altogether, the argument that the rating of site values will further stimulate building development is a strange one. Whatever may be the needs of society in regard to building activity, and especially speculative building, one would not have thought stimulation to be one of them.

Then Mr Douglas, admitting that the value of land is not entirely due to public expenditure, attempts to justify the site value as a special target for taxation, because he says that it arises from "community causes"; but if the term "community causes" has any meaning at all it is true to say that there is not a single product or commodity, including labour, which does not owe its value to "community causes." So long as men live in communities the value of what they use or produce cannot be determined without the operation of "community causes," such as, for example, the influences of supply and demand—particularly demand. To single out a particular commodity for taxation on the ground that it exceptionally owes its value to "community causes," is neither impartial nor scientific.

Finally, to return to Mr Morrison, if, in fact, he only

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meant to say what Mr Douglas says he said, it is a pity that he did not simply say it.

On the 17th August, Mr Wechsler wrote further :

"Will you kindly allow me to correct a slight error which occurs in the printing of my letter in *The Times* of August 16? The quotation from the report of the Royal Commission on Land Taxation should read as follows: 'We also agree that the real as opposed to the apparent incidence of local taxation in towns, falls partly upon the owner of the land, &c. . . .'"

#### Reply by Mr Douglas

(*The Times*, 24th August)

SIR.—The charge against the present system of rating is that it imposes the burden wholly upon the occupiers of immovable property, that it generally falls most severely upon those who are least able to bear it, that it penalizes the erection of buildings and the making of improvements, and that it exempts valuable land which might well be called upon to make a greater contribution towards local expenditure which so particularly benefits it.

Mr Wechsler apparently agrees with the Royal Commission on Local (not Land) Taxation that "it is impracticable to lay down any general rule as to the proportions in which the burden is distributed." If this were true it would in itself be a strong condemnation of our existing methods of local taxation. The opinions of a number of eminent economists submitted to that Commission did not leave the matter in so indeterminate a position. Mr G. H. Blunden, for instance, said that the real incidence of rates on dwelling-houses "is normally and generally upon the occupier. The essentials of the theory may be very briefly stated. Houses are (1) commodities and (2) necessities of life. The occupier is the consumer. There appears to be no reason for supposing that he is any better able to shift the tax on his house than he would be to shift a tax on corn or bread." He added that "the real incidence of the rates on shops and other business premises would appear to be mainly upon the consumers of the goods made or sold therein."

I did not say that "owners are deliberately and unreasonably refusing to develop their sites to economic capacity." What I do say is that the present system of local rating makes it reasonable and economic for them in their individual interests in many cases to leave sites for a time undeveloped or badly developed. The rating of site values, by proportioning the burden of rates to the economic capacity of the site and by *pro tanto* freeing the improvements from rates, would bring the individual interest of the owner of land and the general interest of the community into coincidence.

It is no answer to the case for the rating of site values to say that if there were no community there would be no values of any kind. The distinction between the value of land and the value of commodities which have been produced by human exertion has been made by every economist of repute from Adam Smith onward. The distinction between the effects of taxation levied upon these two differing classes has also been a commonplace of economic science since Ricardo. But this is no longer a matter of abstract economic theory: the rating of site values has during a long period stood the test of experience in many countries and under diverse conditions.

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#### OTHER PRESS PUBLICITY

THE IMMENSE number of newspaper clippings received relating to the London County Council's proposals shows impressively the interest that is being taken in the matter. Editors bestirred by the fact that the greatest municipality in the world has so emphatically registered its protest against the inequity of the present rating system have realized again that the matter is of the greatest public importance. They have opened their columns, lifting the Press boycott; and in all the published reports, editorials, contributed articles and correspondence, they have rendered a very valuable educational service. The demonstration belies one curious comment, by the *Land Agents' Record*, that the L.C.C. decision "raises an old and dying issue" and is a waste of time. But that comment can be excused by the source from which it comes. Landed interests would like to think that Land Value Taxation is outside the political field; and they make much pretence that what they wish is the case.

Opponents are already engaged in the debate; it appears from the word-for-word similarity of some leading articles against the proposition that a syndicated press bureau is at work. But the campaign is only beginning. We can anticipate the use of much space to repeat plausible objections and contentions, and the advocates of our policy, with a pen to command, may prepare themselves for a valiant part in the controversy.

Long and descriptive articles appeared in the *Manchester Guardian*, in the *London Evening Standard* and in the *Oldham Evening Chronicle* contributed by informed reporters. Many papers gave in whole or in part the Press statement issued by Mr Latham, the Chairman of the L.C.C. Finance Committee explaining and justifying the proposals. Two statements issued by the Labour Parliamentary Land Values Group had similar publicity, and the declaration by Mr Herbert Morrison, the leader of the L.C.C., that the Council meant to press this reform had wide publicity all over the country. In the matter of Press correspondence, many letters have had hospitable columns, a letter from Mr R. R. Stokes appearing to our knowledge in no fewer than ten newspapers in and around London, and in the provincial Press also.

We have not space for extracts from or comments upon this Press matter, except to quote the following from the *Manchester Evening News* of 4th August, which ably expresses public sentiment in the matter and does not overlook the power of the forces which stand athwart the reform: "Manchester and many other local authorities will watch with the closest interest the fate of the Bill to provide for the rating of site values which the London County Council is to promote during the next session of Parliament. If the Bill is passed there is no doubt that many other Bills of a similar nature will be promoted. And to Manchester the matter is of special concern because such a measure might help to solve one of the city's acutest problems—the desolate areas which have been left waste because the Corporation and the landowners have been unable to arrive at agreement about price. . . . The London County Council's Bill will be, as all such Bills have been since the beginning of the century, violently opposed by the forces of vested interest. And in a Government constituted as the present Government is constituted its passage is something of a forlorn hope. But the country should be made aware that this is a case in which the interests of the comparatively few are directly opposed to the interests of the community."