

LOCAL TAXATION REFORM

MENDING THE PRESENT SYSTEM, BUT ON LAND VALUE RATING—SILENCE

A STUDY of valuation for local rating by Professor and Mrs. Hicks and Mr. C. E. V. Leser has recently been published by the National Institute of Economic and Social Research.* It is mainly devoted to the question of under-valuation and how that is to be remedied. By way of introduction, however, the authors give their reasons for holding that although "rates as at present administered are a bad tax," the rating system should not entirely be swept away. "There are very substantial reasons why a system of local government on the traditional British model—freely elected local authorities with important duties but limited powers, yet encouraged to show initiative within those limitations—has to be financed by a tax more or less similar to a local rate. It is not possible to sweep away rates altogether without fundamentally altering the whole basis of local government, and altering it in a way which few people would regard as desirable."

Rates are by their nature a local tax and so suited to be a source of local taxation. They have also the advantage of being "a very stable source of revenue. At least in peace time, the land and buildings in any area can be relied upon to be there; they are unlikely to be much diminished in quantity, though they may be increased. So long as they are valued according to their normal value, temporary fluctuations being disregarded, their rateable value is affected to a minimum extent by fluctuations in trade." As many of the expenditures of local authorities are not liable to much fluctuation, it is desirable that they should be met from a source which is also not liable to rapid variation.

In answer to the argument that rates are a regressive tax (the poor man paying a larger fraction of his income in rates than the rich man), they say that this is not important if the tax system of the country as a whole is not regressive. In answer to the criticism that rates "are a tax on housing—a tax, that is, upon a form of expenditure which it is a matter of social policy to encourage, not to discourage like expenditure on alcohol or tobacco," they say that the repressive effect can be counteracted by housing subsidies.

They also point out that a local income tax (which is from time to time advocated as an alternative to rates) would have serious disadvantages. In particular, in poor districts with a small number of wealthy income tax payers sufficient revenue could only be obtained by imposing a high rate of tax "and a high rate of income tax would be vastly more effective than high rates in driving people out of the

district." Thus the last state of the poor district under local income tax would be worse than at present.

The major part of this work is devoted to an examination of the inaccuracies of the existing valuation for rating. The statistical examination has been made with the aid of numerous returns obtained from local authorities by the Ministry of Health in 1937-38 for the use of the Departmental Committee on Valuation for Rating (the report of which has not yet been published). The main results of this enquiry will not be surprising to those who are practically familiar with local government. It is shown that under-valuation is widely prevalent, but the degree of under-valuation varies from district to district. Even in the same district the degree of under-valuation varies, as between houses of different values, and as between houses of different ages—those built after the last war being generally valued at a smaller fraction of the true value than those built previously.

The causes of this state of affairs are various. One is the dislike of local authorities to increase the valuations of their ratepayers, members of the council no doubt thinking that to do so might adversely affect their prospects at the local elections. Another is that in many cases the staff and organization was inefficient, and there was reluctance to incur the expense required to put things right. This has been partly remedied by the reforms introduced by the Rating and Valuation Act, 1925. By the time that Act came into effective operation the discrepancy between the existing valuations and the true values had become so great owing to lapse of time and the alteration in the purchasing power of money caused by the last war, that the changes needed to achieve full valuation were too great for most valuation authorities to face. Another reason for under-valuation was the operation of the Rent Restriction Acts, the view generally (but quite illegally) taken being that the values for rating ought to be based upon the restricted rents and not upon the rent obtainable in a free market. This had the further consequence that the valuation of new houses, which were not subject to these Acts, was made low in order to bring it into conformity with that placed on the rent-restricted houses. In so doing a greater degree of under-valuation of the new houses was brought about by disregarding the better standard of comfort and amenity which these usually contained.

The investigation relates only to dwelling houses, because the particulars of rent actually paid in comparison with the assessment made were only obtained for that class of rateable property. There is, however, little reason for believing that the valuations of shops, factories and other properties are any more accurate than those of houses. In certain cases, such as rail-

ways and other public utility undertakings, which are not mentioned by the authors of this study, they are probably even more inaccurate.

One result of under-valuation is that the ratepayer is left without any effective remedy if the property of other ratepayers is under-valued to a still greater degree than his own, thereby throwing upon him an undue share of local taxation. The Courts cannot reduce his valuation because that of his neighbours is low, for the law is that valuations should be the full value. Theoretically he could secure redress by appealing against all the other valuations, but such a task is far beyond the capacity of any ratepayer. Thus there is no effective redress for under-valuation.

The writers are thus brought to the conclusion that the only remedy is to secure that all properties are valued at their full value. This would require such drastic changes that they do not consider that the existing rating authorities would incur the odium of making them. They propose, therefore, that the valuations should be made by a central department free from local influences, and even so the change might require to be brought about gradually. They do not mention the existing valuation department of the Inland Revenue, which has a large body of data and experience relating to valuation in general, and which, with adequate reorganization, might provide the best machinery for making all valuations for public purposes. Such valuations are at present required for the income tax, Schedule A, for death duties, for public acquisition of land and for assessment of compensation in connection with town planning. The advantages of entrusting one body with all these functions appear to be indubitable.

Reference has already been made to the undervaluation of new (i.e., post-1914) houses as compared with old ones. The writers regard this as having been a considerable stimulus to building, and estimate that it has resulted in relief of rates to new houses amounting to between £8 and £9 millions a year, as compared with the official housing subsidy, which amounted to about £15 millions for the year 1938. In spite of their suggestion that the same result could be achieved by increasing the subsidies, they propose that there should be a rate rebate in respect of new houses for a definite period of 20 or 30 years.

No mention is made in this of one of the indirect results of subsidising housing, whether overtly or by means of reduction of valuations, namely, that the stimulus to housing results in a greater demand for land, and unused land being free of rates this leads in turn to speculation and an undue increase in land values.

Neither do the authors consider the possibility of reform of the rating system by means of the rating of site values, although this is in successful operation in a number of countries. This would, in fact, have the virtues which the authors claim for the exist-

* *The Problem of Valuation for Rating.* By J. R. Hicks, U. K. Hicks, and C. E. V. Leser. Cambridge University Press. 7s. 6d.

ing system but without its defects. It provides an essentially local source of local revenues, and one which has the required stability. It encourages the erection of new houses and other buildings, while at the same time (as it falls on the value of land whether the land is used or not) it discourages speculation and tends to reduce land values to a more reasonable level. The *Manchester Guardian* (13th September), in a leading article reviewing this publication, says that "the rating of site values instead of buildings has a strong claim to serious reconsideration." It does, in fact, provide a logical and feasible solution of the problem of local rating as well as assisting the solution of various problems of town planning, betterment and compensation on lines which we have explained in detail on other occasions.

Following the leading article on Rating Reform in the *Manchester Guardian* of 13th September, Mr. D. J. J. Owen wrote in the same paper, 16th September: "I welcome the comprehensive survey in your leading article to-day of the various proposals for correcting the anomalies of our local taxation system, and your conclusion that in the absence of a more satisfactory plan the rating of site values instead of buildings should be given serious reconsideration. As one of those inclined, as you suggest, to be over enthusiastic for this reform, and possibly to exaggerate its results, I may say that we have an excuse in the success attending the adoption of the device in cities like Sydney, Johannesburg and Pittsburg, to name but a few. It has been suggested to me that these are modern cities free from the entail of complicated titles and interests in land, but against this there is the fact that the London County Council has investigated the merits of site-value rating and has decided that it is not only workable but essential to the solution of London's problems. The L.C.C. Bill for Land Value Rating, disposed of by Parliament without discussion on its merits, stands as a model for its detailed application, worthy of the unprejudiced examination and support of all municipal authorities and reformers."

On 26th September, Councillor Needoff carried on the discussion in a letter answering Lady (Shena) Simon's advocacy of a local income tax.

2s. 6d. PROGRESS AND POVERTY. An Inquiry into the Cause of Industrial Depressions and of Increase of Want with Increase of Wealth—the Remedy. By Henry George. Complete edition. Paper covers, 2s. 6d.; in special binding, 3s. 6d.

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.

3d. THE LONDON COUNTY COUNCIL AND SITE VALUE RATING. Debates on the Bill and discussion in the Press.

JAMAICA—Official Commission Recommends Land Value Taxation

IN OUR issue of February last we reported the evidence given by Mr. F. R. Williamson, on behalf of the People's National Party, before the Valuation Commission appointed by the Governor of Jamaica. The Commission which sat under the chairmanship of the Hon. Simon Bloomberg, Collector General, was asked to inquire into and report upon the incidence and collection of taxation upon real property. It has recommended that all existing taxes on real estate be abolished and be substituted by taxation of land values, all the revenue going to the local authorities. The report is summarised in the *Kingston Daily Gleaner* of 28th July, for copies of which we are indebted to Mr. F. R. Williamson, Mrs. D. Simmons and Dr. S. Vere Pearson.

The Commission also recommends the setting up of a permanent Central Valuation Department as distinct from the Collector General's Department, which will remain the collecting agency. The annual cost for staff, etc., is estimated at £9,582, but it is suggested that secondments and transfers from the Collector General's Department will reduce the cost. For the general revaluation, however, the Commission estimates that additional staff will be necessary for one year at a cost of £27,465, and it suggests that the services of a Valuation Commissioner, who has had experience of the practical administration and application of the unimproved value system, should be obtained.

Reasons for the recommendation that taxation be levied on the unimproved value are thus stated:—

(a) As any improvements to the property are exempt from taxation, it is an incentive to energy and initiative in development, whereas the present basis of assessment is a deterrent to building and improvements, because any additions in the way of buildings or improvements increase the taxable value of the property.

(b) It is a tax on "undeveloped" land in the sense that used and unused land of the same "unimproved" value pay the same taxation, thus inducing development for economic reasons.

(c) "Unimproved value" of land does not fluctuate to the same extent as the gross value, as it is not directly affected by the type of cultivation, the addition of buildings, and other improvements.

(d) Land taxation based on the gross value operated prior to the introduction of income tax and thus money spent on improvements to land was only taxed once, that is, when the taxable value of the land increased consequent on the improvements. Since the inception of income tax, however, money spent in improvements to land is subject to double taxation, it being taxed when it formed part of the income of the landowner, and it again being taxed when it is utilised to increase the taxable value of the land.

The evidence given before the Commission was almost unanimously in favour of the the adoption of the "unimproved value" system.

There is one recommendation to which exception must be taken, namely, that the first £10 unimproved value of all properties be exempted, provided that where a person owns more than one piece of land the exemption applies to the aggregate and not individually. This is a departure from principle, and it cannot be justified. On this proposed exemption Mr. L. C. Hill presented a minority report.

Mr. Williamson has since sent later issues of the *Gleaner* with a full text of the Commission's Report and a commendatory leading article. Fuller details will be given next month.

A Special Correspondent of the *Manchester Guardian*, 6th September, writes on War's Legacy of Economic Problems in Egypt. Clearly inflation on a huge scale has taken place, and he speaks of the steep rise in living costs. "The war bonus scale fixed by the Government," he says, "varies between 5 per cent. and 50 per cent. according to wage or salary, but since the cost of living is nearer 300 per cent. the vast majority of the population have barely a living wage even with bonus. Thus although landowners have benefited from the rise in agricultural prices, farmworkers have not shared in the prosperity." The italics are ours.

Sicilian patriots are not separatists; Sicilian landlords and a good few peasants in their pay are, because they dread the inevitable land reform which a free Italian Government will introduce when we have left the country. The poverty of the peasants who have next to no land is still astonishing. Many Sicilians are in England now as prisoners of war, and it was among them that the highest percentage of illiterates were found.—Sylvia Sprigge "In Liberated Italy," *Manchester Guardian*, 30th August.

Information Service is the weekly publication of the Department of Research and Education of the Federal Council of the Churches of Christ in America, 297 Fourth Avenue, New York. The issue of 25th March was given to "Incentive Taxation, a Review of Current Publications," to which the first of the contributions was made by Miss Margaret E. Bateman, director of the Henry George School of Social Science in New York. It described the movement for Land Value Taxation and its progress in a number of countries, and is based on material to appear in Miss Bateman's forthcoming book *Whose World?* published by Ideas Unlimited, 60 East 42nd Street, New York.

6d. LAND VALUE TAXATION IN PRACTICE. Review of what has been done in a number of countries. By A. W. Madsen, B.Sc.