

LAND & LIBERTY

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PLANNING, VALUATION AND TAXATION

THE PARLIAMENTARY debate on post-war planning of which we print some extracts cannot be said to have shown much agreement upon the essentials of the subject. It is recognized that the land question is the root of the matter. If land were not owned by individuals or if it had no value, the rearrangements which are needed to provide us with better roads, more open spaces, and a more agreeable lay-out of our cities could easily be effected.

We live in a world in which land is owned and in which most of the land in question is very valuable. What then is to be done? Some of the speakers evidently thought that the problem was to be solved by destroying private ownership of land by nationalizing it. But the state purchase of land involves the other difficulty of land being valuable. That is the crux of the matter. The existing law of town and country planning operates very slowly and imperfectly because of the cost of land. High sums have to be paid for purchase of land for street widenings and other public purposes, or as compensation for land "injuriously affected" by restrictions upon its use.

DANGERS OF LAND PURCHASE

Now, if the cost of compensation for some land (a fraction of the whole) so holds up progress, are we likely to advance more rapidly if the state is saddled with the cost of acquiring all the land in the country? It is far from self-evident that the answer to this question is, Yes. There used to be a school of thought which held that the rapid increase in land values would compensate the state for the cost of purchasing the land; it would be necessary to wait for a while, but ultimately the increase in value would wipe out the debt. At the present day we can no longer count upon one powerful cause of higher land values. Population no longer increases in the geometrical progression postulated by Malthus. The rate of growth becomes slower and slower. It is freely predicted that we are nearing a turning point when population will decline instead of increasing. One potent cause of increment in land value will disappear. There remains increase of land values caused by technological advance. It is true that in the past improvements in the arts of producing wealth have caused an increased demand for land. But to what degree should we base our policy for the future on this assumption?

There is frequently only an imperfect understanding of the fact that the price of land to-day takes account of future increases of land value, so far as those who deal in land can foresee them. If the owner of land expects that it will command more rent in the future than it does to-day, he will not part with it unless the price compen-

sates him for his loss of future expectation. The purchaser in like manner is prepared to pay more if he thinks that the land at a future date will bring in more than it does or can to-day. Thus the future increase in land value is discounted in the present purchase price. If the state buys it at present market value, it is paying for as much of the future increase as can be foreseen. Thus, the liquidation of the purchase price out of increment in value is a gamble on the extent to which the market has failed to foresee such increases. This is no firm foundation for public policy.

THE STATE AND LAND SPECULATION

There is a still more serious consideration. If, as is certainly true, the present price of land is a speculative price, and if the state buys the land at that price, it takes over the position of the speculator. It is then faced with the dilemma that it must continue to act as a speculator, namely hold land out of use and exact a high rent, or else it must allow unused land to come into use by reducing the rent which is asked for it. If the state adopts the latter plan, then it is faced with an immediate deficit in its accounts; and that deficit will continue to grow until the day arrives, if ever, when natural increase in land value begins to pay it off.

Thus, if the state nationalizes the land, it is faced with one or other of two unpleasant alternatives. It may continue to act as private owners have done, and keep rents high; or it may reduce rents, and meet the deficit out of taxation. And let it not be said that this argument is based upon an exaggeration, because only a portion of land is held for speculation. It is true that only a fraction is held deliberately unused in the expectation of a higher price, but the value of all land is affected by this. The artificial scarcity of land actually in use, caused by other land being held out of use, raises the price or rent which has to be paid for the land which is in use. To argue otherwise would be as ridiculous as to suggest that identical commodities could have different prices in the same market.

It is not the mere private ownership in the sense of legal ownership which is the great difficulty. It is the value of land and the private appropriation of that value that is the stumbling block. It is that which has to be tackled first. The way to do so is by means of a tax, or a local rate, on the value of the land. Such a tax would be imposed upon the value of the land only. The value of buildings and improvements would be exempt. The tax would be levied upon all land whether used or not. The owners of unused land would no longer find it economical to hold such land out of use, but would either develop it themselves or allow others to do so. Much other land, at present badly used and not producing what it should because it is encumbered with antiquated or unsuitable buildings, would be redeveloped. The available supply of land for building or other purposes would be increased and the price of all land would fall. Speculative values would be eliminated. The authority engaged in town and country planning would find its greatest obstacle being steadily removed.

NECESSITY OF LAND VALUATION

In any case it is necessary that we should know what the value of the land of this country is. Even those who do not see the full importance of land-value taxation admit this. The *Round Table*, for instance, in the first of a series of articles on "Problems of Reconstruction," says: "Many Chancellors of the Exchequer have failed to achieve a correct valuation of the land in this country, and any scheme of increased national control of land

means that a correct valuation must first be carried out. A scheme that is fair to the present owners of land and not unjust to the general taxpayer cannot otherwise be devised. When it is remembered, however, that roads and agriculture have also their problems to be fitted into the general post-war plan, it becomes plain that the immediate necessity is to settle the principle of land valuation."

The writer goes on to add: "One method of land valuation would be to compel all owners of land to place a value (at pre-war levels if necessary) on their own land; the government would reserve the right to tax them (under Schedules A and B and Estate Duty) or to buy them out at the value declared. By this method tedious appeals against valuation would be avoided." This statement fails to distinguish between land and the buildings or other improvements on the land. The income tax (schedules A and B) is levied on the value of land including improvements, and so is estate duty. What is required is the value of the bare land. It is only by valuing the land apart from improvements that accuracy and uniformity of valuation can be obtained. This is recognized in such places as New York where, although they continue to tax both land and improvements, for the sake of precision they value the land apart from the improvements. Undoubtedly it will conduce to accuracy if the valuation is accompanied by a tax; and as the valuation should be of the land only, the tax should be on the value of land.

UNEARNED INCREMENT

The *Round Table* says that "this is the right time for legislation that will remove unearned increment from private hands in the centuries to come." But "unearned increment" is increase in the value of the land, not of the houses and other improvements which in the long run wear out and cease to be valuable. The valuation must, therefore, be of the land and not of the improvements. The problem is not to be solved, however, by removing unearned increment which arises in the future. What we are suffering from and what is admittedly making all planning difficult, if not impossible, is the unearned increment that has already arisen. It is the value of land to-day which is the standard of compensation. That value, as we have pointed out, already includes all the future increment which can be foreseen. The future has been reduced to terms of present values.

It is fallacious to draw a distinction between present land value, future land value, or past land value. Land value is only in a remote and indirect sense due to what has happened in the past. It is really conditioned by what now exists and what people expect to exist in the future. The value of a particular site depends upon the means of access to it (by road, rail, or air), upon the facilities which it enjoys for purchasing the things which the user requires and for selling the things he makes (if it is used for industrial purposes), upon the public utility services which it enjoys (gas, electricity, water), upon the excellence of the street lighting and the fire brigade services, upon its proximity to parks and open spaces, and upon a thousand and one things which constitute its environment and which arise from the conscious or unconscious co-operation of the community around. Its value depends upon the existence of all these things and upon the expectation that they will continue to exist. Thus all land value is the creation of the day-to-day activities of the community, a surplus value which is continually being distilled from those activities.

The argument for the taxation of land values, all land

values and not part of them, is that this is a means of recovering for the community the value which it is now creating. Once this is seen, the attempt to distinguish future increment goes by the board, apart from the fact that increment taxation does not solve the problem that the *Round Table* and all of us wish to solve.

Finally, let it not be forgotten, that planning is merely a means to an end. We want to plan how our streets shall run and where our houses and factories shall be built and our open spaces located; but we also want to see the streets made, the houses and factories built, the open spaces acquired and laid out. Next to the high cost of land the greatest obstacle to building is the rates and taxes which are imposed upon buildings. These burdens are carried into the rents charged or the price of the goods made or sold, and so, ultimately fall upon users and consumers. If we really want to have more houses and better factories, do we do well to penalize them by heavy taxation? Surely not.

Thus land value taxation fits in with all the elements of the problem. It is the means of bringing the price of land to a reasonable level, enabling both the community and the individual to acquire what they need upon reasonable terms and the individual to be relieved of the burdens which the present system of taxation impose upon him.

THE HYDRA-HEADED MONSTER

THE JOURNALS *Municipal Engineering and Sanitary Record* and *Highways and Bridges* join in warning against the disasters attending the speculation in land values, the former (of 20th March) quoting the latter and making comment thus:—

"It is recognized at this early date," says *Highways and Bridges*, "that that hydra-headed monster, the speculator in land values, is already active. Does not, it is asked, the danger of this obstruction and the acknowledgment of its existence point to the imperative need that the country's domestic policy, amongst other things, shall no longer be dictated by vested interests? We have had too much of it. Agricultural policy, right up to the outbreak of war, was being dictated by vested interests. The Pig, Potato, and Milk Marketing Boards all had for their object the raising of retail prices in the interests of the great monopolists, and they have all had to be more or less abandoned in this greatest of emergencies. But the classic instance of vested interest dictated policy is that of transport, which has brought us to the very verge of disaster. If this vested interest incubus is permitted to continue after the war, it is pure waste of time and money to prepare any replanning scheme. It is the crux of the whole problem."

"It is unthinkable that the havoc caused by enemy bombing should have as one of its results the filling of already well-lined pockets. That the Government are aware of the danger is undoubted, but what is needed are active steps, taken well in advance, to circumvent the machinations of those who stand as foes to progress. When peace comes, it will be too late to take the necessary measures, and it is rather questionable whether then there will remain the desire to do so. Compensation for the compulsory acquirement of land for development on sound national lines will rise to enormous figures."

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