

P. E. P. ON THE LAND QUESTION

RECENT ISSUES of *Planning*, the "broad-sheet" of P.E.P. (Political and Economic Planning), have contained a discussion of certain aspects of the land question. No. 180 had a survey of public ownership by the state and by local authorities and of the methods of management adopted. This was mainly factual, and calls for little comment. It concludes by saying that "the public ownership of land implies certain conditions of trusteeship, the chief of which are: (a) No exploitation in the interests of ratepayers, taxpayers or tenants as distinct from the citizens as a whole; (b) No selling or long-leasing without the consent of the local, regional or central planning authority." The first of these conditions is unexceptionable. The second raises the question of how publicly owned land which is not required by the authority for public purposes should be dealt with. The object of selling or granting a long lease is to ensure security of tenure to the would-be user and especially to secure his property in the improvements or goodwill which he acquires and attaches to the land. On the other hand, it is essential that the value of the land itself should go to the community, and this is inconsistent with sale and with letting on a long lease at a fixed rent—the method which is customary in this country. The authors of this broadsheet do not appear to know that this problem has been solved in Denmark in respect of certain lands acquired by the state for small holdings. These are let upon a species of perpetual tenure under which the rent is revised periodically according to the variation in the land value; but so long as the tenant pays the rent (which is assessed by reference to the general valuation made of every plot of land in the country), he enjoys security of tenure and property in his improvements and goodwill. The principle involved is important and deserves the attention of all who are interested in the land question. A similar principle is embodied in the land legislation of Northern Nigeria.

Some Pros and Cons

The broadsheet adds that, subject to the two provisos mentioned above, "the main advantages and disadvantages to the community that are claimed for municipal ownership of land may be summed up as:

Pros:

- (i) Increments of land value due to community action go to the community and not to private individuals.
- (ii) Use of surpluses to relieve the rates, develop the estate or acquire land for improvements in other parts of the town.
- (iii) The ease of transferring land from one public purpose to another, without any tiresome legal complications or costs and risk of prices being puffed up.
- (iv) The possibility of being able to offer special terms to new industries coming into the town.
- (v) Absolute control of method and class of development, including protection and maintenance of amenities.
- (vi) Cancellation of all questions of compensation and betterment.
- (vii) A local authority as ground landlord

is more likely to be able to exercise the landlord's powers and duty of maintenance.

Cons:

- (i) Loss of value of land, e.g., in mining areas becoming derelict, would have to be borne by a relatively small community.
- (ii) The tendency to use unsuitable land for public purposes, just because the local authority happens to own it.
- (iii) The possibility of living from hand to mouth and not to bother about town planning, just because the local authority owns most of the land.
- (iv) The tendency, not very marked, for land management policy to vary according to the political party in power.
- (v) The use of municipal land as a bribe to attract new industries to a town without due regard to their suitability.

This statement omits two points of prior and fundamental importance. The one is: how does the land become municipally owned? The other is: can any of the advantages of municipal ownership be secured in any other fashion, and if so, is it a better method?

The Cost of Municipal Ownership

If the land could be acquired without cost, there would be no doubt of the advantages of municipal ownership. If, however, the debt created in acquiring it were to outweigh the economic advantages of having it, then nothing would be gained. This consideration impinges upon items (i), (ii) and (vi) of the *Pros*.

If the land is purchased at the market price, and the market price takes account (as it will do) of all the increment which dealers in the market can foresee, then the chance of obtaining any net increment of value becomes much more remote, and so does the prospect of having any surpluses with which to relieve the rates or for any other purpose.

The Burden of Debt

It is true that all questions of compensation and betterment disappear for the future, once the land has become a debt-free asset, but the question of compensation arises in an acute form when the local authority purchases the land. The burden of interest and redemption of debt may continue for many years. The broadsheet gives some interesting examples of local authorities which possess lands acquired many generations ago which yield considerable revenues, but an examination of the financial position of local authorities in relation to recent purchases of land would be more to the point.

Our Natural Resources

The subsequent broadsheet (No. 181) deals more generally with land policy. It very properly points out that discussion of the land question has too often been conducted on the basis that the only kind of land which need be considered is agricultural land. "Land is the chief of our natural resources, being the platform of all human activity. If it is mishandled, whether by unsound building development or by neglect of cultivation or destruction of amenities, part of its value is either currently wasted or permanently reduced, to the hurt of the nation. The proportion of land, both urban and rural, in Great

Britain which can be said to produce anything approaching its full potential contribution to the national well-being is relatively small. . . . It follows that we and our children must suffer to the extent that we allow our land to be misused or neglected." This statement is hardly adequate, and it is noticeable that throughout there is no discussion of land value or economic rent. The emphasis is all upon planning and land management.

Land Registration

There are, however, some useful recommendations. One of these is that "registration of title to all land, which is already required in some areas under the Land Registration Act, 1925, should be made compulsory everywhere, with effect as soon after the war as administrative convenience permits." Another is that "as soon as possible after the conclusion of hostilities all land should be valued, and an Open Register of land values compiled. . . . The valuation for the Open Register, when established, should be repeated at intervals."

Taxation Proposals

The proposals regarding taxation on land are as follows:

Taxation on land should be amended in accordance with the principles that:

- (i) land should not be denuded of the capital necessary for its maintenance and improvement;
- (ii) since fluctuations in land values must be increasingly due to public policy, taxation should aim at minimizing the harmful effects of such fluctuations in both directions;
- (iii) income derived from land should be taxed like any other income.

These principles imply that:

- (i) Inheritance taxes on the value of land and agricultural buildings should no longer be payable where the amount of the tax is invested under public supervision in approved capital improvements over a period of ten or fifteen years, provided that the full tax would remain payable on any such land sold.
- (ii) When land is sold there should be a levy of, say, 75 per cent of the value of any increment, excluding expenditure on genuine improvements (and a grant of 75 per cent of the amount of any depreciation) as compared with the value shown in the current Open Register, or pending preparation of the Register as compared with 31st March, 1939, but Town and Country Planning Authorities should have power to grant an indefinite postponement of such levies in return for covenants which have the effect of preventing the betterment from being privately exploited.
- (iii) Local rates should not be levied on land as such.
- (iv) Schedule A Income Tax should be maintained.

Land and Improvements

These proposals show a complete lack of comprehension of the economic issues involved. It is in a sense true that taxation should be levied in such a fashion that the "land should not be denuded of the capital necessary for its maintenance and improvement." Taxation does not

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denude land of capital already fixed on it. What it does do is to prevent the replacement of that capital as it wears out. Taxation has this effect so far as it falls on the value of the improvement. The first requisite of any reform of taxation is to distinguish between the value of the land and the value of the improvements. For that purpose it is desirable that there should be a valuation which shows the value of land apart from improvements, and here the recommendation for an Open Register of land values, periodically revised, is much in point.

While it is desirable that taxation on improvements should be abolished, it is highly undesirable that the value of land itself should be relieved of taxation.

P.E.P. on Local Rating

The proposal that local rates should not be levied on land as such is just the reverse of what should be done. Local rates ought to be levied upon the value of land, and the buildings and improvements should be disregarded.

P.E.P. does not indicate where the revenue is to be obtained if the local rates are abolished. The suggestion is heard from time to time that there should be a local income tax. It is, however, quite preposterous to suggest that the machinery of the income tax should be duplicated for local purposes. In any case it is impracticable to define a local income. What is the locality to which an income from an investment in government stocks is to be assigned? If it is the ratepayer's domicile, then those who are wealthy will establish their domicile in places where the rates are low. It is unnecessary to spend time on this idea, which is rejected by almost all practical people.

If the idea is that in place of the rates, the whole revenue shall come as grants from the National Exchequer, then the entire principle of local self-government and autonomy disappears.

The Right Attitude

What is wrong with our present system of local taxation is precisely that it does not fall on the land (or rather the land value) as such, but falls predominantly upon the buildings and improvements. One striking feature is that unused land, no matter how valuable it may be, makes no contribution to local expenditure; yet its value exists and is maintained by reason of the activities of the community, and particularly by the public services which make life in a community possible. Neither does unused land contribute to national taxation (for the income tax, Schedule A, does not affect it) except that it may become liable to death duties if held by an individual and not by a company or corporation.

This exemption of land value from local and national taxation encourages speculation and the holding of land out of use; and this in its turn leads to the creation of speculative values. Speculation is the main cause of unhealthy fluctuations in value, which P.E.P. rightly deplors; but the way to prevent speculation is not to exempt land from taxation, but to tax its value, and that whether the land is used or not.

IN OUR December issue we criticized a proposal that all immovable property should be assessed for Income Tax Schedule A on the basis of its selling value, a proposal which, on examination, has nothing in its favour except that it would increase the assessment of unused or under-used land and exact more taxation from that. Counterbalancing the anticipated effect of "forcing vacant land into use" would be the levy of the tax on the selling value of all buildings and improvements, an opposing factor, working to destroy any inducement to develop. As we said, "it is well known that the burden of the taxation so levied upon improvements is such that the building of them is frequently discouraged and sometimes they are pulled down," and we repudiated the idea that a proposal of the kind (even though it "taxes vacant land") has anything whatever to do with the taxation of land values. Factual confirmation of the economic and social injury done by taxing buildings, whether on annual rental as in Great Britain or on capital value as in America, which is still worse, is given in the following statement that has been sent us by Mr Harry Weinberger of New York. In that city, local taxation is at the rate of 2½ per cent of capital value. Granted that this means a tax of, for example, £275 a year on a piece of vacant land worth £10,000; but, if to develop that land as it should be (or would be) developed, a building worth £20,000 would be erected, where is the inducement to do so if the tax on the building is £550 a year plus the tax of £275 on the land? It is only in good times and in circumstances of a pressing demand for building accommodation and ready tenants that the enterprise would be undertaken. But in slack times, with a possible—and an escapable—burden of £550 a year on a building that may stand empty, what is likely to happen? Mr Weinberger illustrates the operation of taxation of that nature.

At Broadway and Murray Street, New York City, there stands a framework of a building, part of the steel structure of a bank torn down very many years ago, to save taxes. It faces beautiful City Hall Park, stares into the busy office of the Mayor—who runs so fast and does so many jobs that he will not take the time to look and seek to understand the skeleton haunting his front door.

Just as a bone of some prehistoric animal gives its secrets to the anthropologist, so does this skeleton at City Hall disclose its case history to the observing passer-by. The rest of the buildings on that Broadway block facing City Hall are little more than minimum taxpayers. Each lot owner hopes to have his holding bought at a fabulous price to be assembled, perhaps for a new Woolworth Building.

This year, the owner of the lot on which the skeleton stands is seeking a buyer for the site which is 25 feet on Broadway by 103 feet on Murray Street. It is assessed by the city for \$15,000. Now, the owner, having torn down the building, is waiting for Park Commissioner Robert Moses' projects and the additional growth of the city to give him unearned increment on his land. And Mr Moses, the genius and the greatest creator of city land values,

cannot see that this public creation of values is given into the pockets of the owners of the land in and around his park improvements, and that those lot owners often hold their land out of use or without proper improvement, waiting for fabulous prices and often pulling down the buildings to save taxes meanwhile.

City or State legislatures sometime get a glimmer of understanding and exempt improvements to old buildings from taxation. Or when there is a tremendous shortage of homes as in 1920 they pass a law exempting new buildings for ten years. If the people of the United States were permitted to build houses, or repair them, build factories or barns, office buildings and all other improvements without having their taxes increased, there would be hardly any unemployment, even after the war.

Look around City Hall Park and see the private office buildings—most of them decrepit places—with here and there a building having its face lifted to hide its age and obsolescence. Back of the skeleton is a small automobile parking lot, which formerly bore a building that was also pulled down to save taxes. This lot is a symbol of what is happening in all parts of this city, a trend that is turning parts of New York City into areas as blighted as "ghost towns" in the mining regions.

Untax all buildings and take the full rental value of land and there will be no skeleton at City Hall or anywhere else. Land everywhere would be used in all probability to its fullest economic extent, and people would cease razing buildings to save taxes, leaving gaping holes, or erecting hot dog stands, gas stations, or parking lots. This argument also applies to farms and farmlands and farm buildings. Proper and full use of the earth will be insured by the non-taxing of improvements on land, and it will help abolish unemployment.

Does anyone know a greater tragedy than the destruction of the Hippodrome Theatre on Sixth Avenue and 43rd Street to make way for an unsightly parking lot? The old Hippodrome was the home of plays, operas, public mass meetings. Yes, there could only be one greater tragedy—to have Carnegie Hall torn down to save taxes.

From a broadcast address by Dr. David de Sola Pool, President of the Synagogue Council of America, in the Transatlantic Discussions series: "When the fever of war subsides and leaves us in a state of utter economic exhaustion and demoralisation, we shall have to issue not national declarations of independence but a world declaration of interdependence. For the Bible reminds us that the heavens are the heavens of the Lord, but the earth is given to the children of men. Though the earth is the Lord's, and the fulness thereof, he has given it and its resources, not to the few, but to all the children of men. All men alike must eat of the gifts of the table of God. With our newly achieved vision of the world as a whole, we can, if we will, achieve a co-operative sharing of the world's economic riches, which will unite mankind. We can make the whole world man's *Lebensraum*."