

# LAND & LIBERTY

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TWO SHILLINGS

An Opponent Hits Out 67 Editorial

Notes and News 70

Whitstable — the Debate

Continues 72 U.C. Conference

Collecting the Rent

of Australia 74 E. P. Middleton

The Proper Remedies 76 A. J. Carter

"Welfare's" Feet of Clay 79 Frank Dupuis

The Landless of Sicily 80 Julia Bastian

Miscellany 82

Letters 83



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## EDITORIAL

### An Opponent Hits Out

THE REACTION to the publication of the Whitstable Report has been most satisfactory and support for the rating of site values has shown a marked increase.

It was to be expected, however, that renewed opposition would be forthcoming from certain quarters — this apart from the very natural desire on the part of others to have their questions answered and doubts dispersed.

The discussions on site-value rating and the Whitstable Report over the last few weeks provoked Mr. J. D. Trustram Eve, past President of the Rating Surveyors' Association and a signatory to the majority report of the Simes Committee, to present a paper on the subject of site-value rating to members of the Rating Surveyors' Association. This very lengthy attack on site-value rating was reprinted in the *Estates Gazette* in the issues of April 4 and April 11.

In his opening remarks, Mr. Trustram Eve argues that the present rating system has been retained in the absence of a "workable alternative" and asks: "is there any change of circumstances at the present time which would lead one to discard the annual value system for that of site-value rating?" But it is not a question of changed circumstances. The question is: does the evidence contained in the Whitstable valuation support the case for site-value rating?

Mr. Eve refers to site-value rating advocates as "dedicated missionaries taking as a tenet of their religion that rates, and indeed taxes, should be based on site values and that buildings and other improvements on a site should be free of tax." Presumably this is intended to discredit the advocates of site-value rating by associating them with religion! Mr. Eve then makes references to Henry George and

the Single Tax, which he erroneously says its supporters claim would solve all social evils. We are used to this accusation, made, we presume, because the more exalted the claims for site-value rating the easier it would appear to demolish them.

#### "Failure" of LVT

Of the Lloyd George Act 1910, Mr. Eve says: "Lloyd George in 1910 introduced a form of taxation on sites which proved to be technically so impossible that it was eventually defeated by the zeal of a handful of professional men and land owners sponsoring selected test cases in the courts where they laughed the whole thing out of court. The *failure of taxation of site values* led this dedicated coterie to turn to the rating of site values, which really is a different thing, though they still argue along the same old lines." (Our italics.) This is indeed a new way of using the Lloyd George Act, which of course was *not* the taxation of land values, to discredit the advocates of L.V.T. We cannot believe that Mr. Eve with all his knowledge and professional experience does not understand the nature of the Lloyd George Act. But so long as there are people who are ignorant of the true nature of this Act, it will continue to be used as a stick against land-value taxation.

Mr. Eve argues that what is true in theory would not work out in practice; he accepts the statement of Ricardo that a tax on land values could not be shifted on to the tenant and then says that in practice it would be. If this is so it is difficult to understand why Mr. Eve and the interests he represents are so concerned about the "injustice" of site-value rating.

Then comes this remarkable statement: "Denmark . . . makes no pretence at arriving at the economic rent of their farm land, but bases the assessment on a basic cultivation value which could have no application in this country where there are so many variations of land and methods."

While it is true that in Denmark valuations are made on a capital basis and not on a rental basis, this is no justification for ignoring the fact that the economic rent of land is the basis of capital values, that it is fully regarded in selling value, and is directly related to it. Mr. Eve cautiously refrains from explaining what the "many variations of land and methods" in Great Britain are that would render the Danish methods of valuation non-applicable. Agricultural land in Denmark is valued as if in a normal state of cultivation, having regard to the differences in natural fertility and other natural elements which give agricultural land its varying values. Mr. Wilks had no difficulty in understanding these simple principles—applicable in any country.

#### Cheap Land Not Wanted

Mr. Eve makes a number of questionable statements of which the following are examples:

"There are also of course the owners of undeveloped

land who at present probably pay very little or no rates at all."

Owners of undeveloped land pay *no* rates.

"It is no part of a rating system to have the indirect effect of forcing owners to develop."

All systems of taxation have indirect effects on society. The point is whether or not under any specific system of taxation or rating the indirect effects are good or bad.

" . . . in many places, particularly in south-east England, the pressure for development is too great and development has to be restrained and controlled. Any rate upon undeveloped land, therefore, might be an embarrassment to the local authority rather than an advantage."

Mr. Eve should tell that to the homeless.

" . . . all sites that are not now fully developed could not be fully developed immediately, indeed should never be fully developed; for there would be insufficient demand to take up all the newly developed sites."

If this were the case, land values would fall and land would be cheaper, but this, of course, Mr. Eve and his friends do not want, and no doubt Mr. Eve is fully aware of the difference between actual need and effective demand, the latter being brought closer to the former by cheaper land.

In any case, were there insufficient demand for new development this would be reflected in the value of sites and consequently in the official valuation. The valuation of land reflects the development potential within the town plan and there can be no question of pressures to develop other than those engendered by economic self-interest.

"Great stress is placed by the advocates of site-value rating upon the rating of owners and not occupiers. It is, however, widely accepted I think that it makes no difference which you rate for the incidence of the rate would ultimately be the same."

The Whitstable Report shows completely and conclusively that under site-value rating this would not be so—indeed how could it be?

#### Confusions as to Value

Mr. Eve, referring back to the Simes Report, quotes as follows:

"Where a valuer wishes to ascertain the existing use value of a developed site, there are two distinct values at which he might aim:

- (1) the site may be valued as though it were a bare site, but with the right to put upon it the development actually there, without payment of development charge.
- (2) the site may be valued as covered by the development actually on it at the valuation date.

"The difference between these two values would represent the difference between the value to a purchaser of the *possibility* of using a site for the erection of a particular structure and the certainty of having that structure on the site. The second value should, therefore, generally speaking, exceed the former." (Para 114).

Commenting on this, Mr. Eve says: "It is not clear which of these two values is intended by advocates of site-value rates, but the former seems to fit best into the site-value theory."

This is confusion indeed. Existing-use value has *nothing whatever to do with the matter* in spite of Mr. Eve's attempts to fit his theories of existing-use value into site-value rating. Mr. Eve knows perfectly well the basis of valuation under site-value rating and his ostensible ignorance will not deceive those who prefer to do their own thinking.

On the subject of agricultural land, Mr. Eve says: "Broadly speaking the value of agricultural land is due to nothing but its improvements throughout the years."

Continuing this confusion between land and the improvements upon it, Mr. Eve says: "it is truer today than ever before that the value of a farm depends upon its fixed equipment, its drainage, means of access and cultivation over the years," and he adds significantly, "assisted for many years now by government financial support."

Having decided that improvements to land and land itself are the same thing, he says that if the advocates of site-value rating wish to rate agricultural land, they would "in almost all cases, arrive at a nil assessment."

To support this extraordinary argument, he contrasts two qualities of land in the north of Bedfordshire. One has been heavily fertilised and the other consists of very heavy, cold, clay land, "the capital value of which in the 1920s and 1930s sank in some cases to £5 per acre". (So that land has some value without improvements after all!)

Mr. Eve professes to understand the Ricardian theory of rent but nevertheless shows that he does not; for he asks: "What is today the economic rent of these two areas?"

Mr. Eve certainly makes difficulties for himself and would, we are afraid, make little progress if he sat his exams again today. But then, he would not be trying to defend outworn and obviously fallacious arguments.

#### Upside-down Argument

Dealing with the shift of incidence under site-value rating Mr. Eve says: "... it becomes apparent that under site-value rating the shift of burden would be from the less valuable sites to the more valuable sites, which, generally speaking, would be from the periphery of towns to the centre. There would also be a shift from properties whose sites were of less value than others on account of the potential use. Finally, there would be a definite shift from fully-developed sites to so-called less fully developed sites and in the extremes, to undeveloped sites."

But all this is in vain, for the burden would ultimately be borne, says Mr. Eve, by the consumers.

"There is another aspect of the shift of burden which should not be overlooked. Shopkeepers might receive a shift of burden from residents and might well be forced

to shift this burden on to consumers, who would, by and large, be the ratepayers from whom the burden of rates had originally been moved."

In his first paragraph Mr. Eve treats properties *individually* when speaking of the shift of incidence of the rate under site-value rating, as he should do. But in his second paragraph he treats shops as a *class* in order to prove that the site-value rate would be passed on to consumers. Ignored is his own statement that some shopkeepers would pay more and some less.

In presenting the subject of site-value rating, Mr. Eve says he finds it difficult to ignore the Whitstable Report; no doubt he tried hard nevertheless. He goes on to congratulate the Rating and Valuation Association for "proving what has already been assumed," namely that it confirms all that has been said against site-value rating!

Mr. Eve complains that land has been valued far in excess of its present use in contemplation of development "which may not and probably never will be carried out." He then produces a table which purports to show "existing use" value of sites as compared with "full site values," which according to him are non-realizable. From all this he concludes that there will be a heavy burden to be borne by the ratepayer of houses and flats when it is unlikely that much of this "excess value" would or should ever be realised. All this, according to Mr. Eve, puts the protagonists of site-value rating in a quandary!

#### The Main Objection

Cutting through the half truths, distortions and misapprehensions, it appears that Mr. Eve's main complaint is that the site valuation presumes maximum permitted development of all sites at the same time. Now apart from the fact that development is going on all the time, if the supply of development potential were to exceed the effective demand, then supply and demand would tend to equate. As more land came on to the market (because additional development was being encouraged by the site-value rate) then the *price of land would fall*. This would increase the effective demand already latent but stultified by higher prices, and supply and demand would equate to the advantage of the landless.

It would be idle to pretend that the introduction of site-value rating would not give rise to certain problems; for although the principles are straightforward enough they would have to be applied against the background of town planning, rent control, municipal housing, new towns, etc. But that is not the fault of site-value rating; rather does it indicate the mess we can get into with patchwork legislation and with economic and social palliatives. In any event the problems would be far fewer than those experienced under the existing system, and we would be without its most obvious and crippling disadvantages.

By all means let us have discussions on these problems but let no one be misled by the specious arguments of those who put their own narrow interests before the good of the community.