

SOME CONTENTIONS AND A REPLY

A CORRESPONDENT has invited us to reply to a letter he has received which is critical of the Taxation and Rating of Land Values and which raises a number of questions that are frequently met with in the general discussion of land and taxation reform. Believing that the Pros and Cons of the argument will be of interest to our readers, we give here the essential paragraphs of the interchange:

The critic wrote:

"Earnest consideration should be given to the fact that taxation of land values may be applied to such an excessive degree that it defeats its main object and invites retrogression. In Western Canada, rates have for many years been levied almost entirely on the periodical assessments of town sites, whether built-on or virgin. The depression, however, soon made this system inoperative, as unemployment came along; and relief first of all became a charge upon the municipalities, only very gradually shifted to the Provinces and the Dominion exchequer. In the meantime, of course, the land values had collapsed and the assessments became oppressive, with the result that thousands of acres were sold for taxes and became municipal properties. Of course, the main flaw was the absence of unemployment insurance or poor law relief; but the assessment system bore much of the blame for the chaos which resulted.

"After the war, the line of advance must be to secure, far more than at present, the actual ownership of freeholds by the Crown itself in rural areas; and by municipalities in built-up areas. The leasehold system would then become the rule rather than the exception (with the important difference that a public authority would be the owner and controller of cultivation or of building). In rural areas, Crown functions would be delegated to County War Agricultural Trusts, the Forestry Commission, the National Trust or National Parks Board, etc.; but in the cities, towns and fast-growing villages urban land development from start to finish (apart from actual building construction) should be part of the normal function of the municipality. There is no sense in the existing system of planning building estates with unmade roads the making up of which is postponed for many weary years until someone decides that the time is ripe for the ratepayer to take over the roads.

"The policy of municipal ownership of freeholds is, of course, a *sine qua non* in bombed areas and, indeed, everywhere if replanning of streets is desired, e.g., the areas round St. Paul's Cathedral, Coventry Cathedral, etc. In the vast majority of urban areas, however, whether new or old, the assessment of unbuilt and built sites within and beyond the municipal boundaries should be secured without abandoning the assessment of the building itself (though this assessment should be an alternative to a municipal income tax collected by the Collector who deals with the State Income Tax).

"There should be a clear division of public functions, revenue and expenditure, between: (1) the town site and (2) the person. Debt charges, maintenance and improvement of roads, sewerage, water-

supply, street-lighting, parks, esplanades, etc., should be a mortgage on the actual value of the land administered by the council, whether publicly or privately owned, and all expenditure should be charged by rates on site-owners whose holdings should be re-assessed at frequent intervals. These people would thus pay the cost of improvements and should benefit by the higher values resulting from this expenditure.

"Expenditure on education, health, libraries, concerts, and the like, will have to be increased very greatly after the war, if this country is to achieve the civilization we desire; and funds will have to be provided by the people who benefit from this expenditure. Rates on dwellings are a rough equivalent to an income tax and might be continued for these purposes unless it proves practicable to substitute the proposed municipal income tax. Obviously, subventions from the State will, as hitherto, be a large and growing proportion of the revenue spent on education and other functions imposed by the State on the municipalities.

"Fire insurance, and fire brigade charges should be combined and removed from municipal or company control altogether, the new bomb insurance organization being continued for this purpose in conjunction with the N.F.S. Water, gas and electricity and much transport, will be under national boards, and removed from municipal control, as these functions will be linked up and become independent entirely of municipal boundaries."

The Reply

"First, as to Western Canada, the allegation does not hold good. The real trouble there was that although the law said that rates were to be imposed on land values, there was much discrimination in favour of interests holding vacant land. Municipalities allowed the taxes to go into arrear; they did not apply the provisions for collection from defaulters. It was only after a time that this negligence in administration was in some measure corrected by the Provincial legislature. The story is significant and is told at length in the Report of our International Conference in Oxford, 1923.* This deals with many of the misapprehensions and misrepresentations that have been given out, especially by the political agencies concerned to support the landed interests in their opposition to land value taxation.

"Second, as to State or municipal ownership. How is the 'actual ownership of freeholds' to be secured? Is it by purchase? If so, what methods of taxation are envisaged to provide the money for the service and redemption of the debt incurred? What incidence is that taxation likely to have upon the trade and industry of the country? Or does the incidence of taxation matter? And what is the price to pay? The present price of land which is so largely inflated, especially in country districts, by what has been done and is being done to support agriculture? After the State or the

* One of the scarce copies of this Report was sent. Any reader may, on application, have a copy of the paper referred to.

municipality has made its purchases (which by the objects sought would have to be on a great scale) will the rents chargeable to occupiers be less than they are now? If so, why should the general body of taxpayers pay the piper to give the former landowners the capitalization of the former higher rents and then lose by renting or leasing the public lands at less than the former rents? If on the other hand, the public lands are to be rented or leased either at the same rents or at higher rents, who will pay them? Who can pay them and make a success of their business, seeing that obviously it was the high rent or price of land which prevented the development of industry? If that is not true, for what reason is there any talk at all of any kind of land reform?

"On the matter just discussed the article 'The Cost of Town Planning,' on page 44 of the July issue of *Land & Liberty*—also the Memorandum on 'Town Planning and Land Values' issued by the Land Values Group in the House of Commons, will repay reading.

"Third: with the State income tax now at such a terrific level, how could a municipal income tax be superimposed upon it? Is the Chancellor of the Exchequer to levy it and pass the proceeds by some rule of proportion to the municipalities? If the municipalities are to collect it, how can incomes be localised? Is the income to be assessed in the district in which the taxpayer earns it? Apart from these considerations, what is the ethic of imposing taxation upon the earnings of individuals, when—in the value of land—there exists a fund and a source of revenue which is not due to the work or enterprise or sacrifice of any individual but results from the presence and the activity of the population as a whole? Either that land value fund belongs to the public or it does not. That seems to be the test of the argument, of which such questions as 'benefits received' and 'beneficial versus onerous expenditure' are secondary issues. If in theory the income tax, either for the State or for the municipality, is sound, it must be sound up to 100 per cent, which means that if you took all the revenue by such means, you would leave all vacant land however valuable entirely exempt. You would put the greatest burden upon the most industrious shoulders. The local income tax proposition was examined by the Departmental Committee on Local Taxation (1914) which is well worth a study.

"Fourth: you approve the rating of site values to pay the cost of certain improvements, but apparently when the cost has been so covered the rating of land values would cease to operate. You do not envisage the rating of land values as a steady source of revenue for the general and regular maintenance of all the public services that make any place a convenient, healthy and efficient place in which to dwell and work. You overlook the fundamental case that is stated in favour of using land values (as distinct from the value of structures and other improvements) for the benefit of the public; and it would seem that the action that has been taken with regard to land value rating in many British Dominions

and in Denmark is by implication condemned!

"Fifth: it is stated in regard to expenditure on education, health, libraries, concerts, etc., that 'the funds will have to be provided by the people who benefit from this expenditure.' In proportion to the benefit received? You may be right so far as 'concerts' are concerned, which can be placed in the same category as a loaf of bread from the bakers or a suit from the tailors. But education, for example? Where does your principle lead? Parents enjoying for their children the benefit of education would have to pay the whole cost. The 'benefit' is absolute and so is the 'cost,' which by your rule would have to be found by the 'beneficiary' irrespective of his ability to pay.

"As for the fire brigade and water, gas, electricity and transport, who are really the 'beneficiaries' of these services? Is it the case or is it not, that in any place well served by good schools, good 'health' services, good sanitation, pure water supply, good security against loss by fire, competent police, and so on—that these services like *all* useful public services will be reflected in the price of

land? Will not rents in such a place be higher than where such services are absent or are inferior? The question is answered in the advertisement of almost any land for sale. You will find that the real estate agents are the most competent and persuasive advocates of the taxation of land values though they may be unconscious of it.

"The following is an example. It relates to the Southgate estate of 102 acres which was put up to auction in April, 1931, at about which time the electric railway was being extended to or beyond that district:—

Most suitably situated for residential purposes. Close to the railway with rapid transit to the City and West End. Frequent service of buses to Charing Cross and Victoria. Gently undulating ground. Good air at an altitude of 277 feet above sea level. Access to drainage, gas and water and electric mains, all ready to be tapped. A public park to be laid out by the local Council and new broad town planning roads. And other facilities including the main railway line to King's Cross with its station at Oakleigh.

"Facts are that the 102 acres were

withdrawn after £85,000 had been bid. Of the total area 96 acres were 'agricultural land' on which the rates had been £3 8s. a year; for the rest there were—a dwelling house, four cottages and an advertising station on which the rates were £135 4s. a year.

"Apply a local income tax, and the arguments in favour of a local income tax, to a case of that sort!

"Or let the question be asked: What were the vendors selling? A desirable situation? The proximity to a great city? The air above the sea? The speed and comfort of modern transport? The benefits of public enterprise? The amenities of civilized life? In general, all the advantages that attach to land by what nature and the community have done to make life worth living at that spot?

"The affirmative in reply is applicable to *all* land which has a value whether the land is built upon or not. There is no answer but the affirmative. The value of land is a public value and therein is the justification for the taxation and the rating of land values and the exemption of the 'work of man's hands' from the tax burden now laid upon it."

WHERE THE LIME SUBSIDY GOES

MR ARTHUR R. McDUGAL, Blythe, Lauder, in a letter to the *Farming News* and *North British Agriculturist*, 19th June, wrote: The recent announcement that a Free Grant of 75 per cent of the cost, including carriage, of lime applied to land is to be given for the summer months may well cause many farmers to think of liming.

Before doing so they should ponder well the following enactment, viz., Section 5, of the Agriculture Act, 1937, which says:—"In assessing the amount of any compensation . . . by reason of the improvement of the land by the addition thereto of lime, in respect of which a contribution has been made under this Act, the contribution shall be taken into account as if it had been a benefit allowed to the tenant in consideration of his executing the improvement, and the compensation shall be reduced accordingly. . . ."

This means two things:—

1. That an arbiter in assessing the value of the improvement to an incoming tenant, will award only one quarter of the total improvement effected.—Vide, Section 1 of the Agricultural Holdings Act, 1923.

2. That an arbiter in assessing the rent properly payable for the farm, in the event of an arbitration re rent, will only be bound by Statute to take into account one quarter of the value of the improvement, and he may compel the tenant to pay extra rent on account of the improvement effected by the three-fourths of the lime applied.—Vide, Section 12 (5) (b) of the Agricultural Holdings Act, 1923.

Briefly, an improvement has been effected by the subsidized lime. The 1937 Act says it shall NOT belong to the tenant. It does not say who it has to belong to, so it falls to the landlord, who may rackrent on it, or may say "buy or quit" on it.

The iniquity of this is clear. Here is an improvement carried out entirely as regards labour by the tenant, and it may be said, the labour costs of the application of lime are very heavy. The State has helped by providing 75 per cent of the lime free. The landlord has done absolutely nothing. Yet the Act declares in effect that 75 per cent of the improvement belongs to the landlord who did nothing.

Of course this has been the fate of ALL State aids to Agriculture usually boosted as "Helping the Farmer," but never before has it been specifically enacted. The £2 ploughing grant is in the same position as lime.

It is well to point out that all such free grants, as drainage, bracken cutting, etc., are exposed to the same dangers although not specifically enacted as in this case.

The remedy for the above injustice and obstacle to improvement is to repeal Section 5 of the Agriculture Act, 1937, and Section 40 of the Agricultural Development Act, 1939, and to enact:—

"That an arbiter in determining what rent is properly payable in respect of a holding, shall not take into account any increase in the rental value which is due to improvements executed thereon by or at the expense of the State, or which is due to State subsidies given to encourage food production or which is due to any other form of State aid, nor shall he fix the rent at a higher amount than would have been properly payable if these improvements had not been so executed, or these subsidies and other State aid not been given."

Why does Parliament allow the Government to obstruct improvements by such brazen class graft as the aforementioned Section 5, and why does our owner-occupier-ridden Farmers' Union do nothing about it?

The result of it all is that whilst Occupying Owners are now and will continue liming extensively, tenants, being afraid of the legal position, are liming only very little.

In fact, it is dangerous and foolish for a tenant to lime by aid of subsidy, as he will inevitably, sooner or later, be compelled to pay more rent on his own improvement, or a higher price for his farm.

"Haverhill," writing in the *Nottingham Journal* of 14th July, referred to an address given by Earl Manvers as President of the Nottingham Trustee Savings Bank. "On one vital question he (Earl Manvers) is wholly silent. I wish he had touched upon the land, and given us his opinion of such a proposition as the Taxation of Land Values and Land Nationalisation. Does he believe in the exploitation of land for the few to the detriment of the many? Does he believe that values created by industry, and the influx of population, should be used for diminution of local rates, or as at present, credited to the bank balances of fortunate land-owners? The old order, with all its stark, staring inequalities is plainly doomed. When Archbishops, leading Conservative journals, and great industrial leaders all agree that a great change is needed, it is striking evidence that the public conscience is at last awakening, and despite the opposition of vested interests, progress is well on its way. The coming fight will centre round the Land Question: When will Liberals marshal their forces? On which side will they stand?"

3d. A GREAT INIQUITY. By Leo Tolstoy.

6d. A BIOGRAPHY OF HENRY GEORGE. By Professor George R. Geiger.

4s. 6d. THE THEORY OF THE LAND QUESTION, by Prof George Geiger. Published by the Macmillan Company, New York.