

CHAPTER VII

THE VIEWS OF THE ECONOMISTS

MANY citations could be made from writers on political economy from Adam Smith downward in support of the view that the value of land is especially fitted to bear the burden of taxation.

The basic principles of the economic theory on which the proposal rests were laid down by David Ricardo, and it was he who explained why a tax on the value of land is not shifted. Subsequent writers elaborated the details. The movement for the practical application of taxes on site value received a great impetus from the writings of Henry George.

Particular interest attaches to the replies given by a number of financial and economic experts to a series of questions addressed to them in 1897 by the Royal Commission on Local Taxation. These answers were published in 1899 in a Blue Book (C. 9528).

Question 10 was: Should ground values be separately rated for local purposes, and if so, on what principles?

Of the sixteen persons to whom the questionnaire was sent, two did not deal with this particular question. Lord Farrer expressed doubts as to the feasibility of the proposal. Sir Robert Giffen held the view that local rates as now levied really fall upon the owners of land. Professor Bastable, although not definitely opposed, thought that there was no important advantage to be gained because he considered that present rates tended to fall on site values. Mr. C. H. Sargant was strongly opposed to site-

value rating, mainly because he considered that it would be "confiscatory". Mr. (afterwards Professor) Cannan was also opposed but gave no specific reasons.

The remaining nine approved in greater or less degree of the proposal, and the following extracts may be quoted from some of their replies.

Professor Marshall said that some wish the burden of rates on rural land to be diminished by Exchequer subventions, while others "wish the burden of rates to be transferred from man's action in improving and developing the land to his privileges in holding for private use a part of nature's free gifts: they do not wish much of it transferred to the public exchequer, where it would be borne, in a more or less disguised form, chiefly by industry". After saying that he inclined to this view, he continued: "I propose that a preliminary rate for the purpose of poor relief be made of the public value of agricultural land, that is, of its value as it stands after deducting for any buildings on it, and any distinct improvements made in it at private expense during, say, the preceding twenty years. This rate might be large or small. I should prefer it to be considerable, say a penny in the pound on the capital value of the land, *per se*. I regard this as practically public income reserved to the State rather than as a tax." In regard to urban land, he said: "I think that its site value should be assessed to a rather heavier preliminary poor rate than I have suggested for rural land; and in addition to a 'fresh air rate' to be spent by the local authority" upon widening streets, providing pleasure grounds, etc.

Professor Gonner said: "The particular benefits accruing to land from public expenditure and national growth are given as grounds for a particular liability to taxation.

This argument acquires additional force in the case of local taxation, which is raised largely in view of expenditure which affects the value of the land. This is increased by the growth of population, by the development of various resources, and by improvements in the opportunities for leading comfortable lives and earning an adequate living. . . . Speaking generally, the objections urged to such special rating and taxation of ground values seem directed not so much against any injustice in this particular mode of taxation, as against its adoption under existing circumstances. They certainly indicate the need of great care in its imposition. But I think they are insufficient to deprive the community of the particular revenue to be derived from a fund so well suited to local taxation, and which owes so much of its present extent to general growth and public expenditure."

Mr. L. L. Price, after advocating that a part of the existing rates should be collected from owners instead of from occupiers, said: "Similar considerations . . . would point to the desirability of explicitly and directly imposing a portion of the burden of local taxation on ground values; and they derive some additional strength from the argument that these ground values afford a conspicuous illustration of 'unearned increments,' which it is desirable to reach by taxation, wherever it is possible". It is proper to add that Mr. Price thought that the difficulty of separating the value of the ground from the value of the building upon it might turn the scale against this proposal. He does not appear to have been aware that this alleged difficulty had already been solved in practice in Australia and New Zealand.

Mr G. H. Blunden said: "The separate rating of ground values is, in my opinion, extremely desirable,

provided that the practical difficulties can be sufficiently overcome to allow of successful administration."

It is not possible to quote as much of the extremely able memorandum submitted by this author as one would wish, but the main points he makes are these :

Rates on dwelling-houses are a tax whose real incidence "is normally and generally upon the occupier. The essentials of the theory may be briefly stated. Houses are (1) commodities, and (2) necessaries of life. The occupier is the consumer. There appears to be no reason for supposing that he is any better able to shift the tax on his house than he would be to shift a tax on corn or bread." He goes on to say : "The real incidence of rates on shops and other business premises would appear to be mainly upon the consumers of the goods made or sold therein."

In support of the rating of ground values, he says : "I am of opinion that this class of property at present escapes, in the great majority of cases, all share of contribution to local taxation. This exemption appears to be unintentional and accidental, as well as inexpedient and unjust, and therefore to require revocation. . . . I think there are special reasons for making the contribution to be exacted from this class of property a substantial one. I need not dwell on the arguments which have become familiar in relation to 'unearned increment'. But I would like to suggest that a very considerable portion of the increase of value usually referred to under this description is directly due to the expenditure of local public funds raised by rates. This happens in two ways : (a) When a building site in a town or its suburbs is sold or leased, it is sold or let with an endowment of advantages and improvements created by successive generations of inhabitants, acting as an organized society, at great cost. This

cost has been borne by a long succession of occupiers, but the advantage largely accrues to the owners, who have contributed nothing. The endowment consists of some or all of the following items: street improvements, bridges and approaches, ferries, open spaces and parks, sewers and sewage disposal works, waterworks and gasworks for public purposes, markets, municipal buildings and estates, museums, art galleries, libraries, schools, baths, fire stations and equipment, and cemeteries and streets repaired, improved and lighted since their first formation.

(b) The site is sold at a price which also includes the value of the expectation that all these advantages will be maintained at the public cost for ever."

The Right Hon. Leonard Courtney said: "The owner of the land sees his property ripening without any additional burden put upon him, though, as he would argue, without any immediate addition of income, and whilst he, with his improving property, escapes rating those who do pay the rates have so much the more to defray. This view suggests a strong argument for the separate rating of ground values, so as to secure an otherwise neglected growth, and the natural course would be to rate the ground upon an assessment, representing what might be reasonably expected to be got from it if about to be let."

Mr G. L. Gomme, Clerk of the London County Council, in addition to giving evidence officially on behalf of the Council, was asked to answer the questions in his individual capacity. His answer to question No. 10 was: "I think that ground values should be rated directly for *all* local services, and for this purpose the valuation lists should contain only the site value of each property, together with the names of the owners of such site value and the amount held by each owner, so that the taxation

should fall upon each owner in proportion to the amount held by him".

Many other references to writers on economics could be given but it has been thought best to confine the citations to these answers to the specific question: Is the rating of site values advisable in this country?