

CHAPTER XII

EXCHEQUER GRANTS AND EQUALIZATION OF RATES

DISCONTENT with the present method of local taxation is evidenced by constant efforts to find some means of reducing the amount which has to be raised. The first instinct of everyone who approaches the problem is to demand that part of the burden shall be borne by the Exchequer. The agitation for this has already been so successful that according to the latest report of the Ministry of Health the total amount of revenue derived from local rates in England and Wales in 1958-59 was £579,000,000 including payments in lieu of rates and the Exchequer grants amounted to £658,000,000.

It is thus evident that the transfer of local taxation from rates to taxes has already gone a very long way. The political and administrative consequences of this are highly important. "He who pays the piper calls the tune." Every increase in subventions tends to increase central control. Although it may be strongly argued that such control is a means of raising the standard of service in backward authorities, those who value freedom and local initiative may well wonder whether the time has not arrived to call a halt.

Still more important is the economic effect of grants in aid of local rates. If one authority alone were to obtain such assistance, it is evident that some at least of the inhabitants of its area would receive a definite benefit at the expense of the taxpayers of the country. But when,

as must be the case, there is a general system of grants in aid, the inhabitants of each district will contribute much the same amount to taxation as they formerly contributed in rates. It is true, of course, that the grants may not be distributed to each district in the same proportion as it has contributed to the taxation out of which they are paid. It may also be said that the incidence of the taxation levied is not identically the same as that of the rates it replaces; but it must be remembered that nearly half the national revenue is raised from indirect taxes. The broad conclusion is true that the grants come mainly out of the same pockets as the rates. The apparent benefit to the ratepayers is largely illusory.

It is also necessary to consider the effect upon rent of a reduction in rates. Under existing conditions of scarcity there will be a strong tendency for landlords to demand and to obtain from tenants an increase in rent because of the reduction in rates. In this case the occupiers of property will not reap the whole advantage of lower rates, but the owners of property will benefit by their ability to secure higher rents.

Increase of Exchequer grants is, then, not a real remedy for grievances of ratepayers, but tends to aggravate some of the evils of the existing system. In fact it may be simply a subsidy to landlords, increasing the price of land, and encouraging land speculation.

It is noteworthy that the members of the Royal Commission on Local Taxation who signed the separate report on Urban Rating and Site Values said: "But the more the burden of rates actually falls upon them [the owners of site values] now (and some eminent authorities maintain that the entire burden falls on them), the greater will be the ultimate relief which will accrue to them from the increase of State aid. Accordingly, unless

the owners of urban ground values are to be relieved at the expense of the taxpayer (a course which probably no one would advocate), it seems most necessary to accompany the increase of subventions in urban districts by the imposition of a site value rate." The Commissioners took the view that a considerable portion of local rates tended to fall ultimately on the owners of site values, but even if one does not hold that view their conclusion is sound.

For similar reasons the Land-Values Group of Members of Parliament in the Memorandum of Evidence which they submitted in 1912 to the Departmental Committee on Local Taxation (Cd. 6303-II), while advocating the transfer to the Exchequer of part of the cost of services "preponderantly national" in character, such as Education, Poor Relief, Main Roads, Asylums and Police, suggested that "this should be done by levying a Budget Tax on all land values in order to provide a fund to be allocated towards the cost of those services." Since that time many changes have taken place, poor relief as such has disappeared and national assistance is a charge on the Exchequer, and the ratio of Government grants to rate revenue has risen from thirty-five per cent to over one hundred per cent. Whatever arguments there may be in favour of large subventions are accordingly much weakened, but if there is a case the argument in favour of deriving the necessary revenue from a national tax on land-values is not impaired.

If the view is accepted that land-value is a just source of local revenue, which will not impede and hamper industry or penalize the poorer ratepayers, there is no need to look to the Exchequer for more assistance. The local authorities need not surrender more of their autonomy. The values created by their expenditure and the

activities of their citizens will provide the revenue required.

Doubts have been expressed as to whether land-value rating would be adequate to defray the expenses of rural districts. In reply it may be pointed out that in whatever part of the world competent valuations have been made of the land apart from improvements, it has been found that the land-value is amply sufficient to provide the needed revenue. There is no reason to expect any other result in this country with its comparatively high density of population. Even if this were not so, it would still be desirable to raise a part at least of the rates by a levy on site values.

EQUALIZATION OF RATES

Another proposal which is somewhat similar in principle is the equalization of rates. This has been particularly popular in London, where the rates in the pound levied in the various boroughs have shown wide variations—the lowest rate being levied in the “richer” boroughs such as Westminster, Holborn, and the City, and highest rates in the “poorer” boroughs such as Poplar, Bermondsey and Shoreditch. The idea is that a portion of the revenue required by the boroughs should be raised by an equal rate in the pound over the whole county of London and distributed to the boroughs in proportion to their population. A rate of 6d. per £ for this purpose was in fact raised from 1896 to 1913. On the reorganization of local government services under the Act of 1929, this provision was repealed but, in fact, a greater measure of “equalization” was brought about through the new Government grants and the transfer of the responsibility for all poor law services to the

London County Council and this, in its turn, has been transferred to the Assistance Board.

The demand for equalization was based upon the plea that it is unfair that the rates should be so high in the poor boroughs and so low in the rich boroughs. But it is not boroughs which pay rates, but individuals. Some of the ratepayers in the rich boroughs are wealthy people; many of them are very poor. Although the rate in the £ is lower in the central districts rents are higher, and the poorer inhabitants of these districts may be paying in rates as much as or more than if they lived in the outer districts. Equalization of rates would therefore penalize severely a large number of people who live in the central area. Conversely, many of the inhabitants of the outer boroughs are comparatively well-to-do and will by equalization receive a benefit which they do not need. An equalization rate levied on the existing basis would fall upon the occupiers of property and not upon the recipients of land-value. The defect of the proposal is that it does not bring into contribution that fund which is the real distinction between the poor boroughs and the rich boroughs—the high land-values of the central areas. The solution is to be found in the rating of land-values.