

Is There A Better Way?

R. & V.A. PRESIDENT DISCUSSES LAND VALUE RATING

IN his presidential address to the Blackpool Conference of the Rating and Valuation Association, Mr. H. Howard Karslake posed the question: *Are there better ways of distributing the cost of local services over the community?* He examined and discussed a local income tax, concluding:

"I do not believe that there are any substantial arguments—either on grounds of desirability or practicability—in favour of local income tax as a supplement or alternative to rates. Even if practicability is conceded, the future problems of duplication, at national and local level, of the work of assessment and collection would undoubtedly be noted. This in turn would lead to the substitution of a new exchequer grant structure for local government's own independent source of finance. The tax would cease to be local: the financial integrity of local government would have been whittled away."

Of greater interest were Mr. Karslake's remarks on the rating of site values, here quoted in full. They fall short of what we would have liked to have read but, nevertheless, they are of interest and some value to those who are campaigning for root and crop reform. Mr. Karslake said:—

"The economic and moral bases for the taxation of site values are recognised:

"The economic basis, flowing from the Ricardian theory of rent and recognising the differences in the value of land due to fertility, mineral content or position; the varying product from land from the equivalent application of capital and labour to the land, the differences representing the relative rental values; and the existence of rental value whether or not it is represented by a payment from one person to another;

"The moral basis, that land is neither created nor can be destroyed by individual effort; but is the gift of nature, whose value is created by social activity and should accordingly be shared by the community.

"Economics and morals must of course be important factors in the consideration of any system of taxation. But if the rating of site values is to be canvassed either as a substitute or a supplement to the present system, it must stand up to the overriding practical tests: Will it provide for an improved or more equitable sharing of the cost of local services and will it afford a more efficient or economical system of local taxation?"

"The present system of course has its roots in two different concepts—first ability to pay in respect of the personal social services, derived from the old poor rate; and secondly the payment for the less personal com-

munal services (including what are called the "protective" services) in line with those covered by the old general district rate. It could not be claimed that the system is an ideal combination of these two concepts, but on the whole it is a workable and acceptable compromise and one which, above all, can provide a financial basis for the healthy operation of local democracy.

"Can the somewhat different basis which prompts the support of site value rating be allowed to supplant the present system or to be assimilated with it?"

"The economic aspects may not be so different as they at first sight appear. The site value is already included in the rating assessment and in central areas forms a substantial part of it. A site value rate would undoubtedly change the geographical incidence of rating by transferring the burden from the outskirts to the central areas. It would of course also alter the personal or class incidence of rating: but perhaps not as much as some would imagine. When property is let in a stable open market at current economic rents, a change in taxation affecting the occupation can in fact also affect the ownership: other things being equal, an increase in outgoings depreciates the investment value to the owner. All economic trends are of course considerably blurred in real life because they are never isolated, and the simple relationship of landlord and tenant is the exception rather than the rule. The fact is therefore that owners are affected by a change in the burden of any taxation of property even though, with rates, it is initially the statutory liability of the occupier. What therefore appears superficially to be a further tax on land owners may in fact not cause quite the effect which is expected, especially where owners are also occupiers and in times like these when land values are soaring.

"It is easy therefore to over-estimate the economic differences between the present system based on 'improved values' and the rating of site values alone.

"It may be that the taxation of site values can be supported on wider political grounds—the enforcement of the better (or more economic) use of land; the recovery by the community of socially-created values; the restraint of land speculation—but, if so, such ends would only be achieved by a violent change in the present incidence of rates and by considerable hardship on those ratepayers (be they householders or shopkeepers) whose property becomes ripe for development but who themselves are unable to develop.

"Failing some comprehensive pilot scheme from which the effects could be judged (and there is I think no

colonial or foreign experience in circumstances truly comparable to contemporary social and economic development in Britain) the rating of site values can only come as a supplementary form of rate income. To be successful even within these limits, it must be based on the established rating conceptions of existing use (*rebus sic stantibus*) and not upon potential or prospective values, however much one may desire to exploit recent speculative values in the interests of local finance. **There would be administrative and technical problems, but there is in my opinion nothing on the assessment side which would exceed existing assessment problems and nothing on the collection side which could not be overcome, possibly by borrowing a little from income-tax recovery procedure.**

"It would I think be unfortunate if the possibilities of site value rating as an additional source of local revenue remained unexplored and unexploited merely because of the support it is given by the adherents of doctrines with political objectives going far beyond the necessities or requirements of our rating system."

"Rating System Creaks — Give It A Fair Trial"

ANOTHER contributor to the R. & V.A. conference slammed shut the door which the president had left ajar. Mr. W. Myles Richardson, a chartered surveyor, concluded his paper, "Rating Symposium, 1960" with these words:

"Finally the great question is the question of the complete scrapping of the existing rating system and the substitution of taxation of site values or a local income tax, which are not new suggestions. Indeed I well remember when I began in this profession that one or other of these alternatives was prophesied to be coming into force in a very short time. I am told by my older and more experienced colleagues it dates back longer than that. There are societies to aim at the implementation of such methods and many papers have been prepared both for and against them.

"The first conclusion of the Sorn Report was that: 'Neither a local income tax, taxation of site value nor a poll tax is practicable and provided it is not overloaded, the existing system of levying rates on heritable property should be continued, modified as proposed later.'

"To a certain extent alternative methods of local taxation have proved workable elsewhere, but they have not stood the test of 350-odd years in times of industrial revolution, war and its aftermath. The rating system may have creaked from time to time, but it has worked and does work, and I for one remain to be convinced that any other method would be practicable here, and even more that it would be an improvement to our own system. Even if such schemes were introduced,

they could not come into effect for several years yet, whilst revaluation, we are assured, will be brought into effect in 1963.

"A new method of local taxation would need a very long period of adjustment and litigation until it got working smoothly. To indulge in this at such a stage would involve an unwarranted effort on the part of the Rating Valuation Department of the Inland Revenue, which has only been with us a comparatively short time although it has made great strides forward in that time. It seems that it would be far more useful to improve upon what has already been done and to modify the system and stream-line it rather than to introduce something completely afresh and start from scratch again. Let us at least give it a fair chance."



We offer three brief comments. *First*, the Sorn Report (on Scottish local taxation) is irrelevant. It merely echoed the Simes Committee's conclusion that it was neither practicable nor desirable to introduce land value rating but omitted to add the all-important qualifying phrase, "*having regard to the Town and Country Planning Act and other relevant factors*"—in other words, the Development Charge which, anyway, has long been abolished. Our comment at the time (October 1954) was:

"Lord Sorn and his estimable colleagues should not have allowed themselves to be misled or to mislead others by what amounts to controversial trickery. The citation is garbled and by that it is in fact dishonest. The Simes Committee did not say what is here attributed to them."

Second, the "test of time" argument reeks of reaction: chattel slavery and horse-drawn transport passed the test with flying colours but one succumbed to political action and the other to economic progress.

Third, scarcely less reactionary is the plausible, sweetly reasonable plea that the present system, marginally modified, should be given a fair trial. Thus might upholders of slavery have countered Abolitionists' propaganda: "slaves' living conditions have been improved; postpone all thought of emancipation until the improved conditions have been given a fair trial."

Nothing can disguise the inequity of basing liability to local taxation on the values of improved property or the economic folly and social harm of making buildings needlessly dear to occupy. The practice has had a fair trial for 360 years: it is time now for a change.

CHRISTMAS GIFT SUGGESTIONS

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