PART I - LAND VALUE TAXATION

This part of the Report is focused on revenue raising in Britain from the taxation of land in its widest context. Starting with principles of taxation the Report then looks at the current system of rating/taxation of landed property and how it evolved. It then reviews the contributions to economic theory relating to land rent, the attempts to introduce land value taxation into Britain and finally evaluates their outcomes with a critical analysis.

I.1. PRINCIPLES OF GENERAL TAXATION

In the examination of any tax-raising proposal it is almost traditional to re-visit the precepts of one of the early instigators of taxation principles.

Adam Smith (1776) first systematised the rules that should govern a rational system of taxation. Taxes should be based on the individual's ability to pay in that there must be **equality of sacrifice** - as instanced by progressive taxes, **certainty** with knowledge of how much tax, when and how it must be paid and not be subject to arbitrary demands, **convenience** in collection as to form and timing, and **economy** in that costs of collection should be small in relation to the total revenue (Stanlake, 1989: 433).

Smith describes these maxims as having "evident justice and utility". So they may have, but the fact was insufficiently appreciated in Smith's time (Raphael, 1985: 83).

However the ability to pay was viewed by Smith as conditional on income **actually being received** *("revenue which they respectively enjoy"*), rather than potential income that could be imputed to the possession of a revenue-yielding resource (Harrison, 1983: 28). This point has later important implications in deriving a workable methodology for land value taxation.

But moving on from the initial precepts of Adam Smith it is pertinent to this review that modern criteria of tax systems also include revenue productivity and considerations of social justice. A tax system should provide adequate revenues to cover government expenditures and should be capable of producing more on short notice when circumstances require. Conceptions of social justice may require in addition that taxes be more or less progressively re-distributive of income or wealth or both. Furthermore, as governments have come to play a larger part in controlling their national economies, taxes have been used to moderate cyclical economic fluctuations, to promote a higher level of economic activity, and to affect the application of economic resources (Encyclopaedia Britannica, Micropaedia 15th Ed., 1997: Vol. 11, p. 584).

I.2. CURRENT RATING AND TAXATION SYSTEM IN BRITAIN RELATING TO LANDED PROPERTY

I.2.1. Overview

Historically rates are local taxes raised for local government revenues which are levied on the occupiers of landed property. The basis of assessment is the annual value of the land and buildings in occupation, apart from the more recent Council Tax assessments which are derived from the capital values of domestic properties **(see I.2.5)**.

I.2.2. Definition

Although a rate is a tax its distinguishing feature lies in the approach of the rating authority to the problem of raising revenue. With taxation by rates the amount of revenue required is first decided and this total liability is then distributed among the taxpayers, or ratepayers as they are called, according to some definite standard. The amount of rate was traditionally found by dividing the sum to be raised by the aggregate rateable value of the area. Thus the basis of assessment is the rateable value of land and buildings and with some exceptions, each property in a rating area has a rateable value which is derived from its yearly letting value.

Various kinds of rates have been levied on "special assessments" (e.g. water rate, sea defence rate, garden rate etc.), but historically it is the general rate which was meant by the term "rate" (prior to the introduction of the Uniform Business Rate **(UBR) - (see I.2.5)** and it was primarily a tax on the occupation of real property.

I.2.3. History of Rating

The history of rating goes back several centuries. The **Poor Relief Act 1601,** commonly known as the **Statute of Elizabeth**, is generally regarded as the foundation of the present rating system by which the "overseers" (the predecessors of the "rating authority"), were given directions to set the poor to work, and also:

> "to raise weekly or otherwise by taxation of every inhabitant parson vicar or other, and of every occupier of lands, houses, tithes impropriate or propriation of tithes, coal mines or saleable underwoods in the said parish, in such competent sums of money as they shall think fit, a convenient stock of flax, hemp, wool, thread, iron and other necessary ware and stuff; and also competent sums of money for and towards the necessary relief of the lame, impotent, old, blind, and such others among them, being poor and not able to work, and also for the putting out of such children to be apprentices, to be gathered out of the same parish, according to the ability of the same parish." **(43 Eliz.1, c.2)**

The Act provided for the rating of every inhabitant and of every occupier of lands, houses, tithes, coal mines, and saleable underwoods. Although inhabitants were required to be rated

on their real and personal estate *(Sir Anthony Earby's Case 1633)* it became the practice to disregard personal property owing to the difficulty of ascertaining its value and was evidently greatly ignored by the rating authorities. By the time the **Parochial Assessments Act 1836** was passed, the language used in the Act, and the form of rate prescribed by the Schedule, were made applicable only to the rating of corporeal hereditaments and personal property was clearly excluded from assessment.

I.2.4. Historical Context

In summary, the historical position on rating is that the basis of liability is the beneficial occupation of real property, the measure of that liability being the annual rent at which the property in question might reasonably be expected to let in its existing condition. It follows in particular that:

(1) liability for rates rests on the occupier and not on the owner;

(2) since real property includes any buildings on the land as well as the land itself the basis of valuation is the whole property, land and buildings taken together;

(3) since the rent was to be estimated on the basis of a tenancy from year to year without any security of tenure, or compensation for improvements made by the tenant, the valuation must be of the property in its existing condition and without regard to the possibility of improving it further. This principle is known to lawyers as the doctrine of *rebus sic stantibus*;

(4) many hereditaments occupied by public bodies such as the nationalised industries were not assessed on annual value at all, but by reference to statutory formulae.

I.2.5. Change in the Historical Situation

The provisions of the original 1601 Act were subsequently amended and extended, and with minor exceptions all general rating Acts (as distinct from local rating Acts) were repealed and consolidated in the **General Rate Act 1967**, which in turn has now been superseded by the **Local Government Finance Act 1988**.

Although the 1967 Act was thus repealed, with effect from 1 April 1990, many aspects of the law of rating have been carried through into the new legislation and so many cases decided at law in the previous legislative context continued to be relevant. The broad scheme of the 1967 Act involved a division of responsibility between rating authorities (mainly District and Borough councils) who had a duty to make and levy rates - now superseded by later provisions for the Uniform Business Rate (UBR), and the Valuation Officers appointed by the Commissioners for Inland Revenue whose duty it was to prepare and maintain Valuation Lists for each area, (now known as Rating Lists) including the assessment of the rateable values. Disputes over alterations were determined by Local Valuation Courts (now known as Local

Valuations Tribunals) with an appeal on fact and law to the Lands Tribunal, and a further appeal on law only to the Court of Appeal and, by leave, to the House of Lords.

Liability still falls on the occupier, but it was supplemented by the rating of the owner in certain cases in order to facilitate the collection of the rate, and by provision for the levying of rates on unoccupied or unused property.

There were various exemptions and relief from rates. In particular, hereditaments occupied by the Crown were exempt because the Crown was not mentioned in the 1967 Act; but nevertheless the Crown makes *ex gratia* payments towards the rates.

The **Local Government Finance Act 1988** introduced a major recasting of local government finance, and the main purposes of the Act included:

(a) the abolition of the previous rating system in relation to domestic property;

(b) its replacement by the community charge (poll tax), which in turn was superseded by the Council Tax; and

(c) the abolition of the local authorities' role in setting the rate applicable to non-domestic property, and its replacement by a Uniform Business Rate (UBR) applicable at the same level throughout the country set by the Secretary of State.

Thus this Act created a completely new system for the administration of business and other non-domestic rates together with the introduction of the, subsequently abolished, community charge (poll tax) and the exclusion from rating of residential properties. It now rides in tandem with the Council Tax legislation in the **Local Government Finance Act 1992**.

As previously indicated, the unpopularity of the community charge (poll tax) led to its demise in the passing of the **1992 Act**, whereby it was replaced by the Council Tax with effect from 1 April 1993. Liability to the Council Tax arises out of residence of a dwelling, or, where there is no resident, it falls upon the non-resident owner or long leaseholder. Dwellings are categorised into eight bands according to their capital value. The amount of tax payable is calculated according to the band into which each dwelling falls and the tax rates are determined by the local authority in relation to its required expenditure (Roots, 1993: A1-A9).

I.2.6. Summary

Local government revenues are now collected from two main sources. With domestic properties the revenue is collected by the Council tax. With non-domestic properties the revenue is collected by means of the Uniform Business Rate (UBR). Historically rating was a local tax forging through fiscal connection a relationship between an occupier of business premises and the local authority levying the rate. It is still collected locally and many ratepayers continue to view it as a local authority tax. There is little perception, even after six years, of the centralisation of the fixing of the Uniform Business Rate (UBR) in England and Wales, its redistribution and of the local authority's role as a collecting agent for central government and, in reality, there is no longer any local link. It has become, in effect, a central Government tax (Bayliss, 1996: 14).

I.3. ECONOMIC THEORY AND PRINCIPLES OF LAND TAXATION

I.3.1. Economic Theory

From consideration of taxation on land and buildings together it is now appropriate to focus on land as a particular source of taxation and the fundamental question arises: why tax the land as a major source of revenue.

The answer to this question has been heavily explored in economic theory over the last two centuries. It was favoured by the **Physiocrats** in 18th century France on the grounds that only in agriculture does a country have a surplus *and* source of wealth so that there is a case for levying an *impôt unique* on land rents (Prest, 1981: 8). In essence, they set out to exhibit the way in which products of agriculture (then considered the primary source of wealth) would, in a state of perfect liberty, be distributed among different classes of the community (Robinson, 1991: 6).

Following this stimulus the topic was explored, for both rural and urban land, by an array of classical economists as Adam Smith, the Physiocrats, Ricardo, John Stuart Mill, Marshall, Pigou and Henry George. Their views and conclusions are contained in **Appendix I.2** with additional commentaries derived from Prest (1981).

The theory, on the whole, is consistently in favour. But there are important variations. The total view can be briefly summarised here by referring to the historical analysis of the Simes Committee of Enquiry (1952: 6).

The case for taxation of economic rent rests upon the following propositions:

(a) that it is unearned income, brought into existence not by anything which the owner, as such, has done but by the activities of the community generally;

(b) that a tax on it does not curtail the supply of goods and services and raise their price as many other taxes do; and

(c) in particular that it is a means of relieving the burden imposed by rates as at present levied upon dwelling-houses, shops, and other buildings and improvements to land.

From these propositions the Simes Committee concluded that there may, therefore be a *prima facie* case for a tax on economic rent as a source of local revenue.

As an end note to this theoretical discussion, which admittedly will veer towards more practical issues, it is worth recording the forthright opinions of Wilks (1975: 10-11) when he reflects on his second pilot survey for land value taxation at Whitstable and the ability of land owners to pay such taxes. His clear view was that the ratepayer owners own the land out of which the tax emanates and it is up to them to see that the land is developed to its optimum so as to be able to pay the annual impost. If they do not, no one but themselves can be blamed. He regarded the assessment of annual site values as a practical and readier process as compared with the extant statutory valuation basis of combined hereditaments of land and buildings. As to the tax being a good base for producing revenue, Wilks was equally forthright in confirming that the general rate at present was held to be one of the most easily collected taxes, and was cheap to administer, but that under land value taxation there would be fewer taxpayers, easier recovery and even less costs.

I.3.2 Principles of Land Taxation

The fact that the total supply of land in a country is fixed, and the view that the income derived from the ownership of land is a kind of "unearned" surplus, continues to lend support for measures to tax economic rent. As Stanlake (1989: 284) points out in very many countries increasing population and rising incomes have increased the demand for land and landowners have benefited from rising land prices, although they may have contributed little or nothing to the increase in the value of their land. The main attraction of a tax on economic rent is the arguable case that the whole of the tax would fall on the landlords. Starting from the basic premise that the best price (i.e. rent) they could get for their land will be determined by demand and supply, Whitehead (1992: 413-4) then examines the effect of taxation on economic rents when a factor is in inelastic supply, as in the instance of land. Here the landlord owners are able to command economic rents and it is argued that the imposition of the tax will not cause any change in demand or supply. The tax will have to be borne entirely by the supplier, i.e. the landlords, and will reduce the benefits being enjoyed hitherto. So land owners earning economic rents cannot alter their position, which is already the most profitable one, and the tax will simply cream off their profits. Thus it is maintained that a tax on land values cannot change the market price - it must fall on the landlords and must, therefore, reduce the revenue they receive as landowners. However economic rent is not unique to land; it accrues to any factor which is fixed in supply and faces an increasing demand. The differentiation appears to hinge on whether these other factors can generally be increased in

supply over time as contrasted with the comparatively finite nature of land supply. If supply can over time respond to increasing demand then this must reduce the economic rent element.

Much of the increased value of land arises from the efforts and expenditures of the community as a whole. Public expenditures on the infrastructure such as that on roads, water, gas and electricity services will dramatically increase the values of land which is adjacent to such services. There is a strong case to be made out for much (or all) of the increase in the value of the land accruing to the community rather than to the landowners, and many countries have introduced a development tax which is levied on any increase in the market value of land.

The various arguments put forward to support land taxation are succinctly enumerated in the Encyclopaedia Britannica (1997: Vol. 28, p. 416). One argument is that much of what is paid for the use of land reflects socially created demanded and is not a payment to bring land into existence. The community can capture in land taxes some of the values it has created - including those resulting from streets, schools and other facilities. This, it is maintained, would be a more equitable way of financing local government. Another argument is that the revenue from a tax on land would permit a reduction of taxes on buildings, which tend to deter new construction. A third argument is that higher land taxes would make for a more efficient use of land.

Thus there is a great deal to be said in favour of increasing taxes on land and thus lowering its prices. Economically, of course, a "high" price for some land is essential to encourage the best employment of it. The user of land ought to pay the amount of its worth at best use; but the owner, facing no cost of production, need not receive all that is paid. Government can reasonably take part of the total paid by the user.

A heavier tax would change the conditions of ownership. The total collected from users would not change, but private owners of land would retain less, the public Treasury getting more. The price system would still allocate land use. Taxes on improvements could then be reduced greatly. The tax relief on dilapidated buildings would be slight, but for those of high quality the reduction could be large in relation to net return on investment. More buildings, new and better ones, would be supplied. Modernisation and maintenance of existing buildings would become more profitable.

Over the longer run, land owners would get less of the increments in land values and the public would get more. Socially created values would then be channelled into governmental rather than private uses. Taxes could be related more closely to the cost of governmental services.

However the opponents of land value taxation point out that the unearned increment in land value has been capitalised in the purchase price and question the fairness of imposing a heavy tax on present land values for which owners have paid in good faith. They doubt the ability of assessors to make fair enough appraisals to support much heavier rates on land. They also doubt whether land alone, excluding buildings, would be an adequate tax base.

There are naturally counter-arguments to these opponents as will be developed later in this Report.

I.3.3. Summary

The ethical arguments concerning the ownership and rights over land were pronounced in the 18th Century onwards when the French Physiocrats began the articulation of economic and moral rationales for land taxation. Land had been a recognisable target for tax-gathers since ancient times but more modern taxation rationales were developed from the thinking of the Physiocrats and refined by such exponents as Adam Smith, Ricardo, John Stuart Mill, Marshall, and Pigou. Henry George made the biggest emotional impact in the 19th Century with his plea for a single tax on land as a panacea for all economic and fiscal problems and despite peer criticism and academic strictures his influence remains extant. We now turn to this influence.

I.4. DISTINCTIVE THEORY OF HENRY GEORGE (1839-1897): THE SINGLE TAX

I.4.1. The Theory

Probably the best-known exponent of land taxation was a 19th century American, **Henry George**. His *Progress and Poverty (1879*) drew upon economic analysis in the tradition of Ricardo and Mill to argue persuasively for a single tax on land and the abolition of other taxes (then predominantly levied on other property) (Harrison, 1983: Ch. 15-16).

George's essential argument about land rents was that land values were exclusively due to general forces whether of a natural or social character. Landlords had no moral right to land values and so there was no case for their being allowed to retain existing rents or the increments which were likely to eventuate in the future as economies expanded (Prest, 1981: 13).

George originally advocated a single tax upon land values as the sole source of government revenues, intended to replace all existing taxes. Supporters of George argued that since land is a fixed resource, the economic rent is a product of the growth of the economy and not of individual effort, therefore society would be justified in recovering it to support the costs of government. They accepted the view of David Ricardo that a tax on economic rent could not be shifted forward. A second argument was that acceptance of a single tax would make other forms of taxation unnecessary, and eliminating taxes on buildings would stimulate construction and economic growth. A third advantage was the simplicity of administration of a single tax.

I.4.2. Impact of Henry George in Britain

During the 1880's George visited Britain five times, three on extended speaking tours. His impact was considerable amongst progressive thinkers. Testimonials by Bernard Shaw,

Sidney Webb and Beatrice Webb, H. G. Wells and other eminent Fabians explicitly credit George with being the most potent single instrument in the conversion of both individuals and the working class itself to trade unionism and socialism. (Lawrence et al, 1992: 57 and Prest 1981: 14). Lawrence goes on to point out the interesting paradox in the history of 19th Century ideas that Henry George, the apostle of frontier individualism and free trade, should have gone down as the godfather of British socialism (Lawrence et al, 1992: 83).

George's influence spread even wider and by the late 1880's the radicals of the Liberal party allied themselves with him in supporting land taxation, which had its legislative effect some 20 years' later in the Finance Act 1910.

However George had to contend with much adverse comment from current and later economic critics. Marshall dubbed him *"a poet, not a scientific thinker"* (Stigler, 1969) and Marx's opinion was *"theoretically the man is thoroughly backward",* (Barker 1955: 356) whilst J. M. Keynes conveyed his thinking to *"the underworld of economics"* (Prest, 1981: 21).

But the doyen of the history of economic thought puts George into a more generous frame. In recalling a "few of those men who helped to prepare the ground for developments from the 1980's on" Schumpeter states (1954: 864-865):

> *"But we cannot afford to pass by the economist whose individual success with the public was greater than that of all the others on our list, Henry George. The points about him that are relevant for a history of analysis are these. He was a self-taught economist, but he <u>was</u> an economist. In the course of his life, he acquired most of the knowledge and the ability to handle an economic argument that he could have acquired by academic training as it then was. In this he differed to his advantage from most men who proffered panaceas. Barring his panacea (the Single Tax) and the phraseology connected with it, he was a very orthodox economist and extremely conservative as to methods. They were those of the English 'classics', A. Smith being his particular favourite. Marshall and Böhm-Bawerk he failed to understand. But up to and including Mill's treatise, he was thoroughly at home in scientific economics; and he shared none of the current misunderstanding or prejudices concerning it. Even the panacea - nationalisation not of land but of the rent of land by a confiscatory tax - benefited by his competence as an economist, for he was careful to frame his 'remedy' in such a manner as to cause the minimum injury to the efficiency of the private-enterprise economy. Professional economists who focused attention on the single-tax proposal and condemned Henry George's teaching, root and branch, were hardly just to him".*

But despite such condemnation the influence of George's ideas in Britain has persisted. Lawrence et al (1992: 56) comment that *Progress and Poverty* had a dramatic impact upon then contemporary British economists and although George's theory did not shape economic theory his ideas were in the minds of those who did, and fundamentally his ideas on land

taxation persisted even into the minds of 20th Century economists. Evidence is presented in a publication contemporary with this Report (Brown (ed), 1997) which reviews the relevance of Henry George's work to contemporary issues in the United States and elsewhere, showing the wide scope of that relevance,

It is also interesting to note that even after a 100 years the supporters of the Henry George tradition, in various groupings of Societies and Foundations around the world, are still actively pursuing their founder's precepts on land taxation and arguing their case. As Lee (1996: 78) points out the hope for land taxers must lie in promoting their ideals to the general public and educating future politicians to appreciate the merits of such a tax. There are several bodies actively trying to do this in Britain. The United Committee for the Taxation of Land Values was founded in 1907 and operated, from 1991 under the name of the Centre for Incentive Taxation (it is now known as the Henry George Foundation). Their journal *Land and Liberty* celebrated its 100th anniversary in 1994. Other active groups in Britain are the Land Value Taxation Campaign and the Land Policy Council.

I.5. HISTORY OF ATTEMPTS IN LAND VALUE TAXATION IN BRITAIN

I.5.1. Background

A quotation from a Journal of the Land Value Tax Campaign (Issue No 64, July 1996) stresses the philosophical (and even the theological) arguments as regards land as a common rather than an individual resource:

> "Definition of the rights of ownership and of property determines the relationship of citizens to each other, and of the citizen to the state. Whether there was a Divine Creator or not, the Earth was certainly not made by man. It follows that all men have equal rights in the bounty of Nature. A man may not own what neither he nor any other man created. It is the exertion of labour that confers legitimacy on a claim to ownership. Those who would guide public morals must not think they may shrink from a stand on an issue of such fundamental significance. The Earth, we think, is not Caesar's to dispose of."

Despite this exposition of apparent natural law, however latterly expressed, the Romans were not averse to codifying a complex system of property jurisprudence, at the heart of which the control, transfer and ownership of rights over land were clearly evident [Institutes of Justinian (483-565 AD)].

The Romans also recognised land as a target for measurement and assessment by surveyors for taxation on a quinquennial basis (Gibbon, 1951: Vol. II, Ch. XVII, p. 124) which would have been a normal part of imperial taxation in Roman Britain during the four centuries of occupation in the first Millennium.

But even the Romans were following an earlier tradition of land taxation as evidenced in Persia, Egypt and the Maurayan Empire in India in 300 BC where there were two types of taxes levied, one on the amount of land cultivated and the other on the produce of the land (Encyclopaedia Britannica, 1997: Vol. 21, p. 41).

As for later land taxation, per se, in Britain there was no systematic appraisal of supporting rationales until the 18th Century although pragmatically various attempts were made to levy special taxes on land. For example in 1604, Robert Cecil, Earl of Salisbury, examined proposals to commute certain fiscal rights into an annual sum to be raised by a land tax. By 1610 there had been some progress but the Government eventually backed down believing the sum was too low, and the leaders of the Commons felt that a land tax would be too unpopular (Encyclopaedia Britannica, 1997: Vol. 29, p. 55).

However from Britain's past, Wilks (1975: 1) has summarised the fleeting remnants of what little remains of land taxation by confirming that there were one or two very minor residual taxes still existing based on the value of bare land. These were known as Danegeld, land tax and Queen Anne's Bounty. His view was that for all practical purposes these could be forgotten being the residue of a system that was in force 700 or more years ago.

The basic arguments for land value taxation were extensively debated in political and economic circles in Britain from the latter part of the 19th century. This resulted in many attempts, right up to the beginning of the Second World War, by municipal authorities to persuade Parliament to allow them to levy rates on land values. None succeeded.

There were also attempts by Central Government to introduce land value duties as taxation for national and local purposes in 1910 and again in 1931. Although enacted these measures proved to be unworkable and were eventually abandoned as unacceptable in practice. But the pressure for some introduction of land value taxation did not abate, and in 1942 and 1952 two Government appointed Committees (Uthwatt and Simes) reported relevant findings regarding the possible introduction of land value taxation.

Uthwatt Committee (1942)

Interestingly this Committee, (Expert Committee on Compensation and Betterment (Uthwatt) ECCB 1942) which reported on the compensation and betterment problem **(see II.2.2),** positively recommended a form of land value taxation in its proposal for a levy on enhanced annual site values as a practical method of recouping betterment. The levy was to run alongside the existing rating system and in the valuation lists made for rating purposes there should be provided an additional column in which should be entered quinquennially the annual site value of every hereditament separately assessable for rates.

Uthwatt also trailed the further possibility of linking the collection of local government revenues with the recoupment of betterment by suggesting that the ascertainment of annual site values would provide a basis for the differential rating of sites and buildings to the relief of improvements, should it be desired to introduce such system.

Very little comment on this proposal can be gleaned from later examinations of the prospects of introducing land value taxation, although a brief reference appeared in the Report of the Simes Committee (1952: 25) but without any evaluation of its possibilities. As a proposed solution it was never taken up.

Simes Committee (1947-1952)
Later in 1947 the Government appointed a Committee of Enquiry under the chairmanship of Erskine Simes with the following terms of reference:

"to consider and report on the practicability and desirability of meeting part of local expenditure by an additional rate on site values, having regard to the provisions of the Town and Country Planning Acts and other factors" (1952: 4)

It was subsequently confirmed that:

(1) the words "additional rate on site values" meant a rate levied upon a separate assessment of site values; and

(2) the expression "site values" included site values of agricultural land. (1952: 4)

The Committee took four and a half years to produce its Report, and was divided in its conclusions. A majority of six members found that meeting any part of local expenditure by land value taxation, having regard to the Town and Country Planning Act 1947, was neither practicable nor desirable. Three members dissented and submitted a minority report in favour.

The Simes Committee reported in 1952 and recorded in some detail the history of material relevant to site values, which wealth of material has been extracted and condensed into **Appendix I.1** of this section of this report: this Appendix also contains the Committee's summary table of the main features of the proposals for the rating of site values.

I.5.2. Findings of the Simes Committee (Majority Report)

> "We may summarise our findings by saying that insofar as we have been be impressed by the historical case for the rating of site values, we are nevertheless of opinion that this historical case and the evidence from overseas is not relevant to the conditions in Great Britain today.
>
> We consider that the impact of the Town and Country Planning Act, 1947, has altered the position by enforcing the claims of the community to the fruits of development of land as far as they can be foreseen. We do not deny the possibility of the rating of site values, but we have been impressed with the administrative difficulties, the prospect of litigation which would inevitably arise, the undesirability diverting much-needed

manpower for the purpose and the relatively small revenue likely to be obtained and can find no significant advantages in its introduction.

We accordingly report that the meeting of any part of local expenditure by an additional rate on site values, having regard to the Town and Country Planning Act and other relevant factors, is neither practicable nor desirable." (1952: 76)

I.5.3. The Conclusions of the Minority Report (1952: 97)

In addition the Simes Committee issued a minority report which found favour with land value taxation:

(1) the rating of site values is both practical and desirable. The arguments in favour of it stand unimpaired;

(2) the only event since 1939 having a material bearing upon the matter is the Town and Country Planning Act, 1947. This involves some changes in the method of application but does not affect the principle.

The recommendations of the Minority Report were (1952: 97):

(1) Local authorities should be required to raise a minimum rate in the pound on site values, and should be empowered to raise a higher rate if they think fit.

(2) Valuations of site value should be made by the Valuation Office of the Department of Inland Revenue.

(3) Valuation Lists should be open to inspection by the public.

(4) Scientific methods of valuation should be employed (e.g. in urban areas, land value maps).

(5) Objections to valuation should be dealt with so as to ensure a uniformity of valuation, and the tribunal dealing with them should be both expert in matters of valuation and familiar with values in the district affected.

The recommendations went on to include (1952: 98):

To deal with quinquennial re-valuations, that the primary valuation should be of the unrestricted site value, and this site value should be estimated as an annual site value (i.e. the yearly rent which might be expected to yield if let at the valuation date upon a perpetual tenure). Furthermore where the ownership of land is divided between several interests, each should bear its appropriate share of the site value rate by a system of deduction from rent. Furthermore the rating of site values should apply to agricultural land and other de-rated

hereditaments. The exemption from local rates given to buildings occupied for certain religious or scientific purposes should not extend to exonerate from site value rate those who received rents from such occupiers.

I.5.4. Subsequent Enquiries

Post 1952, with various changes in Government, the whole financial provisions affecting development value arising from the 1947 Planning Act were under review and in process of fundamental changes as described in detail in other sections of this report.

However, partly because of these changes, there was still a continuing consideration of the prospects of land value taxation from professional bodies and later from a Government appointed Committee and a Government Green Paper which are also summarised in **Appendix I.1.**

I.6. LAND TAXATION FOR REVENUE-RAISING PURPOSES: AN EVALUATION OF PAST PROPOSALS

I.6.1. V.H. Blundell's Findings

Blundell (1993: 16) provides a close analysis of the findings of the Simes Committee's work:

> "Although the Committee acknowledged the force of much evidence in favour of SVR [site value rating], it repeatedly came up against the instruction that it should have regard to the financial provision of the 1947 [Planning] Act - which effectively nullified the value of this evidence. The minority report attempted, with much difficulty, to reconcile SVR with the 1947 Act, and indeed a case of a kind was made out. But with the practical difficulties involved, the case was hardly likely to seem wholly convincing."

It is also interesting and pertinent to quote Blundell's findings (1993: 22) on the outcome of the various enquiry committees into land value taxation over the period 1952-1976:

> "During the period when these various enquiry committees have sat to consider site value rating, one or other of a succession of land reform Acts was in operation. These Acts were alleged either to inhibit the introduction of SVR, or already to be serving its main purpose. The confusion of a development tax with an ad valorem tax on all land values has persisted throughout. However, the financial provisions of these Acts have long been repealed, and therefore those objections to SVR which were based upon them are no longer relevant.
>
> The two Whitstable valuations [see Appendix I.1: Wilks, H. M. (1964, 1974)] have shown that most of the other criticisms were unfounded. Despite conclusive evidence

to the contrary, opponents of SVR continue to claim that the Whitstable site valuations would have "priced amenities out of existence", and to quote the Simes Report as though nothing had happened since."

I.6.2. Our Findings

What emerges from a study of these events is that despite the strength of social, economic and political pressures, since the times of the great Public Health legislation in the late 19th century, there has been a distinct lack of success with successive Governments in bringing land value taxation within their armoury of tax-gathering nostrums to supplement local and national revenues.

Why has this been so?

The evidence points to a lack of political will-power in the face of opposition from various professional groups and land-owners, each having their own taxation agendas. The modern economists have tended to rally against Georgist doctrines, although proposals under consideration by Parliament certainly did not embrace his root and branch single tax panacea. Rating Valuers and Surveyors have stressed the difficulties of site valuation (despite the findings of the Whitstable Pilot Surveys) and their traditional preference for the long established rating procedures for a tax on the occupation of combined hereditaments of both land and buildings.

What is now necessary is to consider what went right in these endeavour over the past century and what went wrong in order to seek lessons for future land policies. This task is undertaken in the following section of this Report.

To form a historical judgement of the achievements of the efforts to introduce revenue-raising taxes by targeting land values, it is helpful to try and identify some attempted aims and objectives of the instigators of these efforts and then to evaluate how far these aims and objectives were met or fell short of expectations.

I.6.3. Attempted Aims and Objectives

1. Pursuance of a more rational system of taxation for central and local purposes which would aspire to Adam Smith's canons. To reiterate the precepts enumerated in Section I.1, such taxes should be based on the individual's ability to pay, certainty, convenience and economy.

2. Extension of taxation to encompass hitherto untaxed sources. Whereas in Britain property taxes for local government revenues are levied primarily on the occupier on the basis of beneficial occupation of a combined hereditament of land and buildings, proposals for land value taxation are directed to the ownership of land and are assessed at site value.

3. Adherence to moral precepts in taxing land as source of wealth which was not created by its erstwhile owners but rather by the community. The ethical argument is that much of what is paid for land reflects socially created demand and is not a payment to bring land into existence. If the community can capture in land taxes some of the values it has created, it is maintained that this would be a more equitable way of garnering government revenues.

4. Adherence to recognised principles of sound economics in the neutrality of the proposed taxation and its distributional effectiveness. Thus taxes on economic rents from land, which is in inelastic supply, will not cause any change in demand or supply and cannot be shifted from the ownership of the land.

5. Promotion and encouragement of investment in improvements to land rather than penalising enterprise; in other words, the revenue from taxes on land would permit a reduction of taxes on buildings, which tend to deter new construction.

6. Promotion and encouragement of building development by taxing land at its value for highest and best use, thus penalising owners of undeveloped land.

I.6.4. What Went Right?

1. Focus on land values as a legitimate target which otherwise would be likely to escape taxation measures.

2. Focus on moral issues of fairer taxation - feelings of injustice that need positive fiscal action to achieve some redistribution of socially created values.

3. Focus on "sound" economic and taxation principles (i.e. via a tax on economic rent) being least intrusive and least distorting to the economy.

4. Focus on taxation of owners of land, as being the real beneficiaries of enhanced land values, rather than occupiers.

5. Focus on taxing basic land values rather than penalising investment by taxing buildings and improvements to land.

6. Focus on bringing land into "production" and a more efficient use of land rather than accepting delays by owners in anticipation of rising markets.

7. Focus on demonstrations that land taxation is a practical possibility; H. M. Wilks' double experiment in the land valuation exercises in Whitstable 1963 and 1973 showed that the valuation process did not constitute an intractable problem nor did the identification of ownerships.

8. Focus on taxing in legislative drafting with successive Parliamentary Bills culminating with the London Rating (Site Values) Bill prepared by the London County Council in 1938, which may well form a precedent for any future legislation

9. Focus on solution of previous technical difficulties over the "sanctity of contracts" as affecting the distribution of the land tax burden. For example, the Valuation and Rating Act (Scotland) 1956 provided for the abolition of owners' rates in Scotland and parallel reduction if rents in existing leases without any shattering legal, moral or practical consequences (Prest, 1982: 143).

I.6.5. What Went Wrong?

1. Most of the proposals were piecemeal and selective (see Schedule of Legislative Proposals in Appendix I.1) and were inspired more by individual or unilateral efforts rather than co-ordinated policies.

2. As a corollary to the preceding paragraph there was lack of overall national strategy for universal application to all land values throughout the United Kingdom.

3. Most of the proposals submitted by local authorities were targeted for local expenditures in their own local area. Some of the private member's Bills were drafted as adoptive measures for local authority pursuance although others had national expenditure in their sights.

4. No consolidation on a clearly defined raison d'être. The two Government proposals that were enacted, in 1910 and 1931, were originally drawn as national taxation measures for central resources. But under pressure from local authorities it seemed likely that if the Acts had become operative then some part of the tax collected would have gone into local resources.

5. In practical terms, perceived complexity was the chief stumbling block and this was the clear downfall of the 1910 Act (e.g. four different kinds of values had to be ascertained, improvements had to be valued, the taxes fell in an irregular and partial fashion, and the whole measure was complex and unworkable).

6. In political terms, a lack of Governmental will in the face of considerable opposition, from the lobbying by owners and their professional advisers, confounded the operation of the Government's own legislation and the enactment of any of the multitude of Bills originating from Private Members and Local Authorities.

7. The tax on land values was, in the main, regarded as an addition to existing rates, or in partial substitution. There was no clear-cut transference of the rates burden to owners via land tax to the benefit of occupiers.

8. The case for land taxation for revenue-raising purposes became entangled with the Development Charges under the 1947 Planning Act. The majority report of the Simes Committee of Enquiry (1952) used this as its principal reason for recommending non-pursuance of the rating of site values *per se.* But as brought out below (III.2), the abolition of these development charges in 1953 subsequently made this reason non-viable.