

CHAPTER IV.

THE GLASGOW BILL : ITS PRINCIPLE OF VALUATION.

I AM not sure that a bill is always to be condemned unreservedly because it is badly drafted, or even because it is impracticable. Some bills are not intended to be passed. They are perhaps *ballons d'essai*, or they are in fulfilment of pledges to electors, or, more creditably, they are tentative schemes meant to attract the notice and criticism of the nation. The latter, I presume, is the intention of the present bill. As a fact it challenges this reading, inasmuch as it is not a local bill, but a bill which is to apply to all burghs in Scotland, and it must have been intended that all burghs, sufficiently interested in this serious change in their local taxation, would have something to say before they accepted the Corporation of Glasgow as their mouthpiece.¹ Even, then, if one thinks that the

¹ An objection at the very threshold is the limitation of its provisions to Burghs. "It is not apparent why exemption should be granted to the landowners of populous places not yet formed into burghs, such as Broxburn, with a population, in 1891, of 5898, or those of suburban districts in the neighbourhood of many of our larger towns beyond the

present bill presents so many difficulties and attacks so many powerful interests that it has not a chance of passing into law, criticism becomes a public duty.

The first difficulty which appeals to me—I suppose because economic science is built round the theory of value—is the basis of the proposed valuation. The proprietor is asked to separate between the capital value of his ground and that of his buildings; and, having done so, to “fix” the value of the former according to a canon which, I venture to say, is a new one alike in the theory of value and in the practice of valuation—namely, “the price as between a willing seller and a willing buyer.” The ratepayer, so far as I know, has never been asked to do anything like this before. In the case of the income tax, we are asked to assess ourselves, but that is because we have the necessary information, and we alone have it. But here the ordinary ratepayer—who is not usually an economist—is asked, not to give figures which he can easily and honestly give, but to make a calculation which would do credit, as regards difficulty, to an examination paper for honours in economic science.

If this seems an exaggeration, be it remembered that in economic science we have been accustomed to cost of production price, supply price, demand price, equilibrium price, market price, normal price, burgh boundaries. Again, if the owners of agricultural land in landward parishes are not to be charged with this new assessment, it appears to be unfair that the owners of similar land should be taxed in burghs, like Renfrew and others that could be named, which contain within their boundaries large tracts of agricultural land that are not likely to be feued for many years to come—perhaps not even within the next century.”—Mr. James Reith, Burgh Assessor of Paisley.

price as determined between marginal seller and marginal buyer. But under which of these categories are we to put the "price as between a willing seller and a willing buyer"? If the commodity in question were a manufactured article, similar in quality and produced in large amounts, and was being sold constantly and frequently, we should have some idea of its cost of production, of its market price, and of what is known as its short and long period normal price. But, as regards the commodity called land, which is not manufactured, which has no supply price, which varies in desirableness of situation from portion to portion, which is sold rarely and in most cases by private bargain, and which is then sold with and inseparable from another commodity, namely, buildings erected thereon, all such information is absent. I repeat that the valuation is one which economic science knows nothing of; it is to me as vague as the "fair price" of the Middle Ages.

The bill applies to "proprietors or reputed proprietors of any land or heritage in any burgh in Scotland," and thus covers a very wide field of differing circumstances. As personal cases, however, are always more interesting than abstract ones, and as the difficulty of the task may excuse a good deal of simplification, let me instance first my own case. I own and occupy a villa standing on about one-third of an acre of ground, and I pay a feu-duty of £17 to the Church of Scotland. The house was built some fifty years ago, and I know nothing of what it cost. The entire locality was built over about the same time, and consequently I cannot find what would now be the feuing price of similarly situated ground

round about me ; and, not being an inquisitive man, I know nothing whatever of what my neighbours pay for their feus. And now I am asked, in a blue paper which carries all the impressiveness of a summons, what price I would put on my ground "as between a willing seller and a willing buyer."

The obvious answer is (1) that I have never been "willing" to sell it, and that no one, so far as I am aware, has ever been "willing" to buy it ; (2) that if I were willing to sell and found another man willing to buy, it would be the house and ground as a whole that we should consider ; (3) that it is not likely that my willing price and his willing price would be the same without some considerable higgling.

In this difficulty, I suppose I should ask what other people round about have been getting for their property. Here again I find that very few houses have been sold since I came to the locality, and, as they have been sold privately, I must trust for information to hearsay. What I do know is that several houses have been in the market more or less for some years, but that the proprietors were never willing to sell at what others were willing to give them. But suppose I had the amplest information on these points, I have still to do what these people never thought of doing, namely, to separate the two items of house and ground, and I am not much nearer what I want than ever.

It may be replied that building is still going on not three hundred yards away from my house, and the feus there charged are ascertainable. Well, I am tempted to reply that these after all are feus, not "land values," and that no one who has read the

evidence before the Royal Commission would show his ignorance by confusing a feu with a land value ! Is a present feuing rate not the price obtainable by a landowner who has been "keeping back" his land till the necessities of the people make them give an exorbitant price ? If so, I am not going to return my land value at this "exorbitant" figure, especially when I am to be taxed on it.

But suppose that there is some resemblance between a feu and a land value, I should hesitate to agree that the value of ground three hundred yards away was an adequate indication of the value of mine. On the one hand, the buildings being erected are terraces for which a higher rental can be obtained relative to the extent of ground covered, while I and my successors are restrained by our covenants from building anything but villas. On the other hand, I am higher up the hill ; I am surrounded with other people's gardens and trees ; I have an open view to the setting sun ; in other words, the "amenity" of my situation is greater. One has only to consider the difference in rental between the north and south side of any square to know that.

All the while there is one—what I may call—baser motive in the background. If I return my land value at the same as or less than my feu-duty, I roll off the entire payment on the superior. Would not every "average man" send in this as his return to the assessor ? And, things being as they are presumed to be by the reformers, would this not mean a struggle between proprietor and assessor at every valuation ?

Suppose, however, that I am in the position a

man may be in once in a lifetime or so, of being willing to sell the house where he has spent the happiest years of his life, the situation is no easier, but is complicated by another group of interests. It is that the valuation to which I consent will be a strong factor in the sale. To get as good a price as possible, I want to show that my ground is very valuable, and I am disposed to return it at a high figure. But if I rate it too high, I frighten the buyer by the knowledge that he will have to pay a high tax in my stead ; and, if I do not manage to sell, I have taxed myself at the high rate.

Take, again, a case which is typical of a great many. A neighbour of mine has about an acre of garden and lawn round his house—enough to build another house or couple of houses on. That extra ground would undoubtedly be very valuable for such a purpose. Is he to assess himself according to its building value? If so, the burden will be very heavy, and will probably “force the land into the market”—to the great loss of those who enjoy the sight of his trees and grass almost as much as he does, and who think that a bit of open space in a crowded district is a common and not a selfish possession. But this, I suppose, is “vacant ground,” which the proposers of the bill had most in their minds—at least, no provision is made for exempting any but “open spaces held and enjoyed by the public.”

In these circumstances, what could a man do but leave the valuation to the assessor? And it is interesting to observe that this is just what the Scottish witnesses before the Commission proposed should be

done ; indeed, they never seemed to dream of any man assessing himself. "I would leave that to the assessor," is the ordinary answer when the witness finds the problem too difficult. But if the valuation is left to the assessor, it seems to me to defeat the very canon laid down ; for the assessor knows nothing of my willingness to sell any more than he knows of other people's willingness to buy. All he knows about is my willingness to accept his valuation. I think it may safely be said that this would certainly have the effect of putting the land valuation pretty high, as comparatively few people have the courage, or energy, or time, or information to appeal—particularly as an appeal involves that they are able to advance reasons which I have just shown to be exceedingly difficult to arrive at.

Turn now to the second group of cases, where the proprietors and occupiers are different people. Here the proprietor uses his buildings—say tenements, warehouses, or shops—as capital, and rents them out. The present basis of his taxation is simple enough ; it is the rental obtained : and the proprietor is not asked whether he thinks he gets too much or too little. Now he is asked what is the capital value of his ground as distinct from the buildings, "as between a willing seller and a willing buyer."

But capital value in such a case has no meaning but capitalised value, and capitalised value means simply a multiple of the income value, and the only income value of which he knows anything is the income he gets from the tenants who occupy the buildings. He is asked, then, apparently, to divide

the rent he draws into two portions—one credited to the buildings, the other to the land, and to capitalise the latter; in other words, the basis of his valuation is not capital value but income. Well, I do not see how he can do this without instituting comparisons with feus and sales of ground in the locality, and here he meets all the difficulties already discussed, intensified by this, that the rents in business quarters for similar property will vary as much as 50 per cent. or so within the one street and from side to side of the street.

This, however, would be a simple calculation compared with what the witnesses before the Commission declared was the intention of the bill. The proprietor, it seems, is not to take his rental as the sum divisible. The land value required is not limited by the rental he receives minus the rental of the buildings. It is the value which would be obtained if the ground were fully utilised and, moreover, were put to its best use. This is stated again and again in the evidence. "Take the University of Glasgow," said Lord Burleigh, "and the land round it; what would you do in that case? Would you assess the University upon all that value as building land—all the land which is laid out as ornamental ground?" "I think," replied the witness, "the assessor would approach it in the very same way as he would approach the land of any other owner, and would take this land at its value if it were utilised to the best advantage, and assess it upon that." It may be supposed that I am prejudiced as a professor in alarm about his salary, but the next question and answer show that a still more august

body than the University has something to be alarmed about. "Take the Queen's Park, Glasgow; how would you deal with it?" "In the very same way." "Who would pay the rates upon that?" "The Corporation of Glasgow would pay them to themselves." It is a fine thing to have a logical mind and the courage to express it.

I confess that I am unable to conceive where such a valuation would lead us. If this is the canon to be applied, the assessor will be bound, in each case, to consider the uses to which each piece of ground might be put: to tax a man heavily when he owns a two-storey building when he might have a five-storey one on the same plot, or when he is conscientious enough to let his shop for a grocery when he might have made it into a public house. It is evident that, in every city which has grown, there are buildings which do not "fully utilise" their sites, but which nevertheless would not repay the expense of pulling down and rebuilding. We know a good deal of the high pressure of modern life: what will it be when a man is to be taxed out of his property because he is unable or unwilling to put it to the other use, which, the assessor may think, is a more lucrative one?

A third group of cases is that of the so-called "vacant ground." Here we deal with an entirely different class of proprietors from those already discussed. They are to be taxed directly, instead of through a third party; they cannot shift the burden on to any previous owner; and, unlike superiors, they have something to say on their valuation. It is at the same time the class which has fewest friends;

the best that is ever said for them is that sometimes their interest has coincided with the public interest, inasmuch as they have laid down feuing plans and prevented property from being planted down higgledy-piggledy. There is probably not a proprietor in the West End but has cause to thank the late Mr. Montgomerie-Fleming for the amenity of Kelvinside as a residential suburb. But, as Kelvinside is west and not east, this does not carry much weight with those who think mainly about the congestion of the working-class districts, and the desirableness of making the most of the limited area on which working people must live. But even in the worst case, that of persons who speculate in land and, by restricting the supply, raise adjoining rents till the value of their vacant ground, rises to the figure at which they are willing to feu,¹ the bill must lay down canons of valuation which can be applied. Is the willing seller and buyer canon any clearer in this instance? It seems a simpler case in this regard, that it is not complicated with considerations of actual buildings rental. But this does not go very far; for not only is the "willing seller," if I may say so, unwilling to sell, but the willing buyer bases and must base his offer on the rental he can get from the buildings he proposes to erect. Thus it comes back to calculations of buildings rental after all. It is interesting to note how circumstances here alter

¹ "Is it the practice at the present time for land to be held for the rise?" "I know people who do it." "Do you approve of that?" "People have to do what the circumstances demand of them." "Do you think it is a proper thing?" "I am doing it myself."—Mr. Peter Burt, *Royal Commission on Local Taxation*, vol. iii. of Evidence, p. 64.

cases. When the compulsory purchase of such land by a Corporation is in question, we hear a great deal to the effect that the price given should be "prairie value." But, when it is a question of the same Corporation assessing similar land for taxation, it is discovered that its value has no relation to prairie value!

The "agricultural value" of land within a city can, indeed, be easily ascertained by advertising it for grazing—it is not usually fit for anything else—but is not this, in all probability, the value which the owner has been getting; the value which the assessor will certainly be expected to disallow? The feuing value can be ascertained, so far as I can see, only by putting it up to auction, and this is compulsory sale. If, however, the assessor puts a value on the ground, and taxes the proprietor on this, it will be awkward if the owner has finally to dispose of it at a lower price, and will, one would think, suggest claims of compensation.

The more it is studied the more, I imagine, shall we find that the assessor's task here is just as difficult as in the other cases; that he gets no assistance from the canon of the willing seller and willing buyer; and that the lawyers will, in this as in the other cases, find a new and lucrative department added to their business in the framing and advocacy of appeals.

It will be answered, I suppose, that in all this I am making difficulties: I am assuming that the bill means what it says, and that every proprietor is to be asked to make these calculations, whereas everybody understands that it is the assessor who will have

to make them. Well, I grant that, if it were an easy matter for the assessor to make them, there would be less objection. I imagine that the provision for the proprietor assessing himself was put in because of the enormous injustice that might arise from the fiat of an incapable valuator: the person concerned should at least be able to claim the initiative. But I submit that the difficulties I have tried to present are inherent in any valuation which departs widely from actual return or income.

To anyone who has really grasped the difficulties, it is nothing short of amazing to witness the airy way in which those who are determined to tax land values dismiss the question. "It is done every day," they say, and, when asked where it is done, they instance the case of new railways, as if new railways were continually being cut through our crowded streets. One witness before the Commission, when asked how he would revalue Buchanan Street, said: "It is a very common occurrence for an insurance or other company to purchase a block for the purpose of taking down the old buildings and erecting a new one; they really purchase the ground at ground value and no more, and that would be a very good guide to the assessor in determining the value in the neighbourhood of the block sold." "You would agree with me," said Lord Burleigh, "I suppose, that the land fronting Buchanan Street would be much more valuable than that adjoining it but not fronting it?" "Yes." "And there would be gradations of value according to the distance it was from the good street frontage?" "Yes." "Would that not introduce so many and so difficult

problems that it would be scarcely possible to arrive at a decision that would be accepted?" "No, I do not think it," replied the witness!¹

On the other hand, Mr. James Henry, the City Assessor of Glasgow, said: "It is very difficult indeed in cases where a railway scheme is being promoted, and the railway company are taking ground for the purpose of the railway—they have arbitration cases going on for days over the price of a very small piece of ground in order to arrive at the value." And again: "When you attempt to separate the value of the land from the rental, from what the subject as a whole is producing, it is altogether a matter of opinion as to what the value of the land is."²

In short, Lord Farrer's words seem to me to be absolutely true: "I doubt whether any such scheme is practicable. In the first place the land and the house have not, for purposes of valuation, any separate existence. Valuers, no doubt, say they can value them separately, and Mr. Chaplin's Agricultural Rating Act may be quoted as a precedent, if, indeed, that unfortunate Act can be quoted as a precedent for anything. Valuers will, no doubt, put a valuation on anything, whether they know anything about it or not, but the question is what real basis they have for their valuation. The only ultimate basis of a valuer's knowledge is his experience of actual market values; and as the land and the houses upon it are sold and let together, no such basis can exist for a separate value of the two things. A valuer's judgment is limited by his experience, and where

¹ Vol. iii. of Evidence, p. 19.

² *Ibid.*, p. 38.

there is no experience his judgment is untrustworthy."¹

But surely a more fundamental difficulty remains. Hitherto the statement has passed without question that each site *has* a value independent of the buildings, and that the difficulty is only in ascertaining it. But building land, after all, is subject to the same economic determinations as other land; that is to say, the value of no piece of land is inherent, but varies according to the price of what is grown or built on it. The particular crop which building land produces is buildings; but we are expressly forbidden to accept the price of the product—the actual rental—as a basis of valuation. The only other way is to take it as determined by the rack-rent of the building which most fully utilises and makes the most of the site. This is hypothetical enough, but even a hypothetical value does not hang in the air; it must, at least, be determined by some actual value—the income which the best possible tenant earns. Thus our assessor is asked to find out what some person—he knows not who—could make of the ground in circumstances

¹ *Memoranda presented to the Royal Commission on Local Taxation*, p. 82. Compare also Mr. G. H. Blunden:—"If sales of sites, with or without buildings, were sufficiently frequent and sufficiently distributed as to locality, to afford a good basis of fact in arriving at the capital values of all sites at all times, there would be no need to object to a selling value basis for the new tax. But I am bound to say that I do not believe these conditions anywhere exist, and that they are distinctly absent in London and other leasehold towns. The alternative of hypothetical valuations by experts appears to me inadmissible, having regard to the astounding disparities constantly revealed in evidence of this class in the law courts and elsewhere, and in view of the costliness of such a method."—*Ibid.*, p. 194.

at which he can only guess. In these difficulties we may freely extend our sympathies to the assessor who finds such calculations thrown upon him, has to make a different set of calculations for almost every case, and has to be prepared, on appeal, to defend and give reasons for every calculation.¹

It will be observed that, up till this point, I have expressed no opinion on the general principle of the taxation of land values. Even if the taxing of land values were a recognised economic heresy, we have learned, in questions of taxation, to be tolerant of many things inconsistent with strict economic theory. Like most professional economists, I have been anxiously watching if from the present agitation would emerge any practical scheme of redressing the anomalies which undoubtedly exist in our local taxation according to rental. But when a bill bearing the great name of the Municipality of Glasgow assumes the policy of taxing land values and lays down a canon for ascertaining them, it affirms not only that such taxation is theoretically sound, but that it is practically workable. Now, while the principle of taxing land is accredited by many honoured names in the past, and the policy of taxing

¹ "To apply one's mind to the consideration of the many questions involved in ascertaining the selling price of even one site in Argyle Street, or any other of the leading business streets in Glasgow, would require time and thought; but when it is remembered that in Glasgow this operation would have to be repeated many thousands of times, it would appear that one hundredth part of the work could not be overtaken in any single year together with the other duties that have at present to be performed by the assessor. Indeed, life itself would appear to be too short for a work of such magnitude."—Mr. James Reith, Burgh Assessor of Paisley.

land values has many influential advocates in the present, this is the first scheme which has worked it out in detail, and the Corporation of Glasgow is the first body which has applied for powers to carry it out. But in looking closely at the canon of valuation laid down it seems to me to raise the greatest possible difficulties. These difficulties cannot be ignored, even if one is convinced as to the general principle. To mix up redistribution of incidence with increase of revenue and accredit it by the bribe of reducing rents; to tax one class in order to repair anomalies created by taxing another; to lay down for individuals and assessors a new basis of valuation in a hypothetical price unknown to economists, seems to me enough to discredit the best of causes.