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LAND VALUATION AND RATING REFORM.

“It is no wonder that in England the movement for the tax on ground values assessed on the owner should now be making such rapid headway. For the English system . . . is of all systems of direct local taxation perhaps the most inequitable.”—Professor Seligman, *Shifting and Incidence of Taxation*.

NATIONAL valuation of land has been so long a matter entirely in the region of academic theory and political speculation that its imminent realisation as an achieved fact finds most students of economics but half-prepared for a consideration of its possibilities. Attention has been so closely riveted upon its immediate purposes that little has been given to the way in which it may stand related to our other institutions. Even those who are keenly interested in a reform of our system of local rating—that curious jumble of “historical accidents,” so indefinite in its mixture of fundamental principles, so ineffective in carrying out any principle consistently in practice, and so unsatisfactory and fortuitous in incidence—are divided in opinion as to the consequences of the new Domesday Book. To many who found in the difficulty of reliable and systematic site valuation the chief obstacle to rating reform the prospect of a system at once national, uniform, and undertaken with all the technical and financial advantages of skilled central control, offers an easy road to the complete realisation of their schemes. But others consider that these advantages will be fully overborne by the aims of the new departure, which have “skimmed the cream” off the case for rating reform. Certain it is that those anomalies in our system which are most striking and capable of popular exposition, requiring no close reasoning on questions of incidence, are met by the new taxes and are now comprehended by the man in the street. We have no concern here with the political aspect or right of the case, but from an economic standpoint, the “public” value of land, rising in direct ratio to the increasing stress of modern life, the reversion of leaseholds, mineral way-leaves, and the valuable untaxed land around our towns, are all

ideas capable of easy concrete illustration and powerful presentation. When they have been dealt with—satisfactorily or otherwise as the future must prove—the sting has been taken out of the case for land taxation reform as a matter of propaganda, and there is, in reaction, a disposition to feel that further differential treatment should be more or less indefinitely postponed. Cautious reformers would like to see how matters work out in practice, and to have one step completed and the new one well understood before further advance is made. Moreover, some have too hastily assumed that this valuation is exactly what is required to render local rating reform easy. In so far as pressure for reform may have come from progressive municipalities keenly alive to special instances of untouched sources of revenue, we may well expect some relaxation until it is seen what effect the imperial grant actually has upon their finances. Nevertheless, the movement for reform at the earliest possible moment is still active in some quarters. It is not the purpose of this article to elaborate or choose any particular scheme, but the *theoretic* case for some change is postulated, and the existence of a legitimate demand for a system more in harmony with economic justice is recognised. Most schemes involve a division of values into site and building elements, in order that various burdens may be placed—after some intervening period of partial action during which existing contracts may work themselves out—wholly or in part upon one or the other according to the nature of the rate, and the character of the expenditure—short or long period in effect, onerous or beneficial in kind—in order that the proper incidence of rates may not be left so completely to the doubtful processes of economic friction. But it has hitherto generally been a division of the *annual* value that has been anticipated, and this is a matter very difficult from the capital valuation now proceeding. The purpose of this paper is to examine the present position of rate values, to consider the way in which they are likely to be affected by any attempt to unite them with imperial valuation in a uniform system, and the circumstances which may help or hinder the utilisation of the new site valuation for the purpose of rating reform in its widest sense.

The general anticipation that in due course some kind of co-ordination or co-operation may exist between the two kinds of imperial valuation, the land values, and the property tax values, and that they will be made to harmonise in so far as they are capable of direct comparison, might well be justified from the nature of the single direct control and administrative machinery

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involved. In the judgment of many, it is but a small step to link up the local taxation values, presenting a united whole, consistent in all its details. In this way the direct connection between the new valuation and rating reform is looked upon as a matter for immediate realisation, and the fact that in many cases the land valuation officers issuing the forms are also local tax assessors and assistant overseers has not helped to dispel the idea. So feasible does it seem upon the surface that even as early as October, 1909, Lord Islington¹ proposed the simultaneous valuation for all three purposes from the outset. He remarked: "Surely now is the time for the Government to marry their valuation proposals with a reform of local government valuation machinery as broadly suggested in Mr. Long's Bill," and the method advocated was the association of the newly appointed valuer and the surveyor of taxes with the local valuation authority in arriving at a value final for all purposes. He contemplated not merely a first stage of rating reform, consistency of values, but also a second stage, a capital basis upon which rates could be levied by varying percentages. The scheme, though attractive, unfortunately overlooks many important economic and other difficulties which together make its adoption quite impossible. The new valuation has to consider the whole country as at a fixed date, whereas rating and taxing figures would have to apply to the actual date when the respective burdens were applied; a simultaneous land valuation would be a physical impossibility, and the difference in some places might be several years. Revaluation for the land taxes (except for undeveloped land and a few exceptional cases) is to be occasional and spasmodic, depending upon property changing hands, whereas for the purpose of annual burdens it would have to be complete and regular; in the former case, however, it has the advantage of being a matter of fact in many cases where in the latter it would be a matter of judgment only. No suggestion is made as to the percentage method whereby property tax (Schedule A) and Schedule B are to be levied without introducing most difficult problems into the delicate and complicated system of income tax, that sensitive and somewhat tortured organism. House Duty would doubtless yield to treatment, but with the old land tax the only way out of the difficulty would be its complete abolition. Administrative obstacles would certainly not be unimportant. The Government official whose presence in the

¹ *The Nineteenth Century*: "The Valuation Proposals of the Government." Sir John Dickson-Poynder.

case is relied upon to tune up all local inconsistencies and anomalies into uniformity, and to prevent the debasement and disintegration of the national assessment by local custom and prejudice, appears to have many other duties in addition to those connected with property, and the area of his jurisdiction must stand related to other important factors in such a way that an adjustment to the particular ends in question would be a matter of several years at least. The fact that the new valuation must, to a great extent, give up that precise and orderly progress otherwise so natural, for a free and irregular advance upon the lines dictated by the exigencies of immediate financial needs, is one that stands severely first in these considerations. Many other difficulties exist, but need not here be mentioned.

On economic grounds at any rate, so far from the two stages of rating reform proceeding together, the first stage is one which should be undertaken, completed, and fully settled in its effects before the second stage is even considered in detail, for it involves, in itself, consequences which affect a very large proportion of cases in detail—though small in aggregate effect as a mere *balance* of results—to a far greater extent than is generally imagined. The promotion of uniformity of valuation as between the different authorities has for a long time been actively considered, and both political parties are committed to it. It has figured on many occasions in the programme at the beginning of the Parliamentary sessions, but its nearest approach to actual realisation was in the Bill of 1904, which was based upon the recommendations of the Royal Commission on Local Taxation, 1898. The main features were the transfer of powers from the Union Assessment Committee to a Valuation Committee of the County Council, and a reliance upon the surveyor of taxes to protect the national tax values. The analogous system in London, and the Scotch system, were felt to be so satisfactory that an extension of their principles to the rest of the country seemed desirable. But in London (and in many large towns), where rating proceeds on scientific and systematic lines with periodic valuations, there would not in any case be much divergence between the two valuations, whereas in the smaller towns and rural areas it is very considerable, the work to be accomplished by the central influence much greater, and the alterations involved in local figures very numerous. In the words of Sir Thomas Elliot, “the quinquennial assessment for property tax, Schedule A, represents a good and substantially accurate standard of the gross value of property,” and it is generally agreed by competent

observers that it approximates far more closely than the local rating to the true rack rental value. But when comparison is made between the totals for England and Wales (adjusted to relate to the same properties), and it has been seen that the poor rate was less than five per cent. below the income tax value, it is too generally assumed that a uniform system merely means a little "levelling up" in deficient cases in the former to make good the difference. This, however, will be in many cases far short of the mark, and there must be wholesale transfers of a part of the burden of rates from one *class* of property to another. We are led to a detailed consideration of the present condition of the poor rate (in England and Wales *outside* the Metropolis) and the respects in which it is defective or lacking in uniformity, as a matter of some importance, and one in which individual knowledge is rarely wide and comprehensive.

The points that relate to the "form" of the rate will be taken before those that refer to the "substance." It may seem at first sight trivial to give attention to many of the former, but as an actual fact there are hardly any matters of form that have not more or less influence on the substance, or correctness of valuation. In any case, every local peculiarity or deviation from general practice is an additional element of friction or resistance to be overcome in imposing a uniform system. The order of the properties in towns gives little reason for comment, but in rural areas it is often according to topographical position, at other times in alphabetical order of owners' names, or alphabetical order of tenants' names, while in many no system whatever is discernible. There are often three separate groups, houses, farms, and cottages. The degree of inertia existing in rural areas is little suspected by those who are used to the quicker and more businesslike methods adopted for urban rates. For example, in one instance the rating on a house and shop includes another shop a quarter of a mile away through the village—both had originally been occupied by one person, but for many years the shop had been separately let, and the rating has remained in its original form for over forty years. In not exceeding ten per cent. of parishes is the rural poor rate absolutely reliable as an up-to-date record of properties, their tenants, owners, descriptions, areas, and rack rental values, though it is only fair to say that few are deficient in all classes of detail. It is the alphabetical order of tenants' names as a matter of "form," which most frequently leads to defect in the substance of the rate. When there is a change of tenant, the trouble involved in altering the

position of all the details, of two page-totals at least (and perhaps many more) is shirked, and a change in name only is made. This induces a general slackness in the lists in giving effect to changes, which extends also to needed alterations in the rating amount itself, and later, when the order of names becomes conspicuously bad and there is a general shuffle, no such thought is given to the possibility of altered rents as would have been suggested if the change had been properly made at the time. Tenants' names do, as a fact, get altered with fair dispatch, but names of owners are often many years out of date. In description, defects are very common: two cottages made into one, or a cottage divided, frequently remain as originally described, with unaltered values, while no effect is given to a transfer of lands from one holding to another. Properties derelict or pulled down remain in the rate and are allowed as void for years. Similarly the names of situation are in some instances misleading, but, when area or extent is considered, inaccuracy is very common. The extent is omitted altogether in some rates, in a few it is absolutely inaccurate, but in a considerable number half the properties are wrong by amounts varying from three or four per cent. to ten and even twenty per cent. One can only imagine that the original entries were estimates which have remained unaltered for generations. These defects have also a bad influence upon the substance of the rate—transfers of acreage from lands in hand to lands let are frequently not made at all, as the whole subject is blurred. The diminishing area of waste building land is often not given. On one occasion when an inquiry was being made into the poor rate acreage of a certain holding, an assistant overseer replied, "This was a quillet of land swolled up by the lake many years ago." Vacant plots are commonly omitted altogether from the rate, and this occurs also in good urban rates. In some urban rates new houses may be standing for years, and are not rated unless occupied, while houses becoming empty have been known to be dropped out of rate until reoccupation! In the division and grouping of properties the greatest variety exists. It is by no means unknown for the gardens attached to dwelling-houses to be separately rated and put together at the end of the rate! It will be obvious that the method of grouping together all the parts of one holding, farmhouse, land, buildings, and cottages, so that their total values may be seen at a glance, is the one most conducive to ready revision. A very common practice is to group all the cottages under one owner at the end of the rate, and in such cases only

exact local knowledge can enable the cottages in each farm to be distinguished and the total rack rent of farms brought under easy inspection. Sometimes farm cottages do not appear at all but are included in the "buildings"—sometimes, too, farmhouses are rated separately as houses and put in a different part of the rate, but more often farm buildings are included in the rating with the house. Occasionally a large number of cottages belonging to one owner will be rated in one sum, with one description.¹ Where the landowner is also tithe owner, the tithe is generally rated in one sum separately, but frequently is given divided, either following the appropriate property, or in a group at the end; in a few cases it is not distinguished but is included in the main rating. Sporting rights, too, are dealt with in every possible way—the commonest is one rating to cover all the land in the parish under one owner, but it is not infrequently divided into several main groups, while in some districts it is carefully rated separately for each holding, however small, either following the holding or given in a group at the end, but in many cases the rights are not distinguished at all. These different methods have a great influence upon the closeness with which the ratings are watched by ratepayers and overseers. However much the finances of the rate, when once collected, may be systematised by Government audit, through all rating practice each locality seems to be a law unto itself, and with many quaint survivals, local customs stand, like stagnant pools, throughout the land. Now it is obvious that although the poor rate is our only continuous record of property, *original* in constitution (since the income tax assessment takes it as a ground plan), in these matters of form, the greater precision, more frequent revision, and more homogeneous construction of the latter, would, in a compulsory uniform system, rectify many of these defects and systematise the whole. But for comprehensive detail, exact area, and precision in ownership and description, the new valuation must be what the ordnance survey was to all that preceded it, and such details reaching the local valuation list ultimately through the medium of the tax assessments would mark a new epoch in rural rating.

Interesting, however, as matters of form may be, it is the actual figures of the rate that call for closest consideration. It must be admitted at the outset that each decade shows a great improvement in the poor rate, and a closer approximation to the true rack rent. The past few years have continued the advance,

¹ The present writer has known as many as one hundred and twenty so treated.

though it has not room to be so marked as formerly. The gross tax assessments exceeded the gross estimated rental (after adjustments to cover exactly the same ground) by over 10 per cent. in the 'seventies; the difference fell to 7·7 in 1884, 6·4 in 1889, under 5 in 1896, and 4 in 1897. The comparative figures have not been published for some years, but from a careful inspection of the crude totals it may be inferred that the difference rose considerably in 1898, and again in 1903 (both new assessment years¹)—in the latter case to probably over 8 per cent., whence it has sunk again possibly to 5 per cent., but the new assessment of 1910 will doubtless widen the gap again, a rise of eight or nine millions in the total gross value assessed being probable. As already suggested, the total difference represents a *balance* of differences, and is only a rough test of real approximation. There are still some unions, even semi-urban in character, in which no effort is yet made to place old or new property upon a rack-rental basis, and while a rough fairness is observed between houses, they stand as low as one-half the true value, and even less. It can only be inertia which resists change, for County Councils in computing local contributions, in nearly all cases, are not now in any way deceived, taking precautionary measures allowed by statute to secure uniformity between localities. Moreover, the union authorities themselves increasingly take advantage of their statutory power of reference to the tax assessments, to correct their *deficient* cases periodically. In most considerable towns, long leases and varying conditions as to repairs for houses are recognised factors dealt with on some systematic plan, but in smaller places they are often ignored, and the actual rent paid is regarded as finally accurate. Rural committees frequently regard as fanciful any suggested adjustment on systematic lines to a common denominator of annual rack rent, owner doing repairs, while to the assistant overseer it is Greek. As one example of the effect of revision and comparison with the tax

¹ It is a common mistake to imagine that the total assessments each year faithfully represent total *real* values and their changes. They coincide in new assessment years—possibly the assessments for several reasons are slightly in excess—but then the assessments fall behind owing to statutory limitations in intervening years. In those years reduced values are given full effect in the totals, but no *increases* are registered, except for new properties and structural changes. When a new assessment is made, few properties are lower, but many must be higher—so much “slack” has to be taken up. Neglect of this important fact vitiates many conclusions.—Mr. W. H. Mallock in “Phantom Millions” (*The Nineteenth Century*, November, 1909) draws important inferences on the subject of foreign investments which are considerably affected by consideration of the limitations of valuation from year to year.

assessment, one may mention that in Bournemouth in 1904, according to the local Press at the time, the rateable value rose from £476,256 to £551,455, or 16 per cent., as against a (normal) rise of $3\frac{1}{2}$ per cent. in the preceding year, thus enabling the rate in the £, despite increased expenditure, to be kept down to the comfortable figure of 5s. Cottage property is the class most commonly under-rated, despite the fact that on many country estates the rents paid by labourers, &c., are only one-half to two-thirds of the competitive value which the rate attempts to gauge. Houses generally in rural districts are below rental values, even when let, but those occupied by their owners are more conspicuously so, and the defect extends well into the small towns. But one of the most surprising features about rural areas is the large number of farms of medium size that are over-rated—in many cases the figures have not been altered for several decades, and they were at one time perhaps quite correct. There are a number of reasons. The farmers who are aware that the total gross ratings on their holdings should not exceed their rent (if let at rack rent) less the tithe paid, are not really numerous, and even those in the ordinary course do not have the gross figures brought under their notice. They see the rateable values on their rate demands, but do not know how these should be arrived at from the gross figures. Since the Tithe Act, 1891, the number of cases where the tenant pays the tithe has become fewer and fewer, and it is now rare for a tenant to know what the tithe is upon his farm—in fact, even owners are frequently unable to apportion total tithe over the various holdings without great trouble. The over-rating is most conspicuous where the farm extends into several parishes, for the authorities in each parish have little chance of learning the correct proportion of the rent less tithe applicable to the part within their boundary, so that the sum rated is generally well upon the safe side, with the result that the aggregate is excessive. In such cases the farmer is less likely than ever to direct his attention to the matter as the demands are not received or paid simultaneously. Moreover, the subdivision into land, buildings, and cottages, gives a multiplicity of figures still further hindering close attention, while as he often lets the cottages to labourers at small rents he cheerfully pays the rates on them, losing sight of the fact that they, too, are included in the gross rent with which he might compare his total ratings. It might be thought that comparison with the Schedule A, income tax demand note, would open his eyes to the difference, for as this is made upon the farm in one sum covering the various

parishes, and checked by the estate agent's details, it is in most cases quite correct, but the agent often by arrangement pays duty direct, so the farmer has little opportunity, even if he had the inclination and information, to discover the difference. The complexity of the calculation would in any case be enough, but what has been in the past is often taken for granted, and most ratepayers give attention to changes in the rate in the £ rather than to the correctness of the value. Again, it would be thought that at the times when changes have been made (since the days when the rents were higher and ratings possibly correct) attention would have been drawn to the matter, and corresponding rate reductions obtained, but rent reductions have seldom been made suddenly enough to give the necessary stimulus—they have started by temporary annual remissions which have ended in becoming permanent. Sudden reductions may often have accompanied new tenancies, and thus no attention has been drawn to the ratings. This class of excessive rating appears to be most prevalent, as might be expected, where agricultural values have declined considerably, and in some measure coincides with areas where the old land tax is at a high rate, or at its present statutory maximum of a shilling in the £—in other words, where the fixed parish quota can now be met, on declining values, only by a high rate. If, however, the present marked tendency to improved values continues, the excess in rating may be largely neutralised. Of course, where a parish consists entirely of over-rated farms little could be gained by a general adjustment, the total sum to be paid remaining the same, but in many areas the result must be a wholesale shifting of rate burdens from farm to cottage property. The ultimate effect due to any change in the imperial grant (Agricultural Rates Act, 1896) need not be considered here.

When business property is reviewed, there is no doubt that the pressure upon the actual *centre* of business (even in towns with a population not exceeding 15,000) is yearly getting greater, although upon the edge of the shop area, where residence proper begins, it may alter little or become less. It is now no uncommon thing for the owner of a centrally-situated property, upon the expiration of a long lease, to continue a tenancy yearly upon the old terms—for the tenant can very likely afford no more—waiting for one of the large multiple shop companies to come to terms at a figure fifty or a hundred per cent. above the old rent. The local rate generally lags behind this class of property to an appreciable extent.

The consideration of the large country house is interesting.

The "benefit" principle and the "faculty" principle are sufficiently confused in our rating system, but in so far as the latter is considered to predominate when we are thinking of residents in ordinary dwelling houses, we find it carried out very ineffectively. In the first place, if the burden is not progressive but only proportional, it is of doubtful fairness; in the second, it is not even proportional, but rather regressive, for it is proportioned to house-value, and house-value bears rapidly less and less proportion to income as it proceeds up the scale. But in the third place, it is still further regressive, for rack rental itself becomes feebler as an expression of the real value of house accommodation as it increases. In ordinary areas there is competition and a nicely graded comparative scale, and the ratio the defined "annual value" bears to capital cost may not begin to fall until we deal with the largest houses. But in sparsely populated areas, for houses occupied by their owners, there is no graded scale for comparison—what a house will let for "by the year" is quite problematical, and at best has borne but a small proportion to its cost of erection, the falling off beginning perhaps as low as £100 annual value in places. At the present time, however, the remarkable rise in letting value of country mansions in many localities in the home counties (or within a fair distance from large towns) due doubtless to motoring facilities, may set a new standard of comparison, and lead to a valuation of this class of property more in harmony with its value (as an expression of the faculty principle) than hitherto. But it is just here that local inertia is at its maximum, though territorial power may be neither expressed, implied, nor desired. The inclination to let these larger ratings alone, with no certain standard for alteration, is one of the most notable features of small local assessing bodies. This is hardly to be wondered at when the results of some cases dealt with on appeal to Sessions are considered. And it is just here that a central influence would find it most difficult to be effective. It is only fair to remark that any such failure to carry out the ability principle has been partly compensated by the rating of woodlands for some years considerably above their value according to actual commercial yield and the general rating of estate cottages well above the non-competitive rents received. Uniform valuation would not necessarily affect railways, canals, water-works, &c. (which are not dealt with at all in the property tax assessment), nor mills and factories, the valuation of which for property tax, being a direct deduction in computing profits for Schedule D, is not of the greatest moment.

Any reform scheme would certainly substitute standardisation of methods of ascertaining rateable value (from the gross value) for the existing confusion of local practice, and this alone would result in altered demands in a large number of cases. With weekly properties it might shift the gross values too.¹ This added to the other changes in gross values would involve alteration in a very considerable number of cases. No pioneer site value rate schemes could be properly worked out in detail, in an economic sense, on such a shifting and uncertain basis—the whole sphere of operations needs first to be set in order and regularised. Any legislation affecting the position of the Guardians in general poor law policy will not be without important influence on the prospects of a scheme of simple uniformity.

Other and very different considerations bear upon the suitability of the present time for advanced schemes. A rise in temperature may allow fluids, previously viscous, to act in motion and property according to their proper laws. We must not imagine that rising agricultural values merely leave the *relative* positions of the various parties unaffected. The consequent partition of estates and freedom in the land market, with many new tenancies and conditions, are likely to set free various economic tendencies pent-up hitherto. The real incidence of the remission of rates on agricultural land (so far as it applies to economic rent and not to fixed capital) is a case in point, sufficiently well recognised to be omitted from further reference here. It will suffice to

¹ Ignoring compounding provisions and the contingency balance, if the Rateable Value comprises cottages only, and the rate to be raised is constant (r = rate in £ and R = total rateable value) $r \propto \frac{1}{R}$. But, of course, there will always be other rated property which would be unaffected (λ , constant). Then the new rate in £ (r') presuming Gross Poor Rate value (y) of cottages is unaltered (f and f' being old and new factors turning gross into rateable value) is found: $r' = \frac{R \times r}{R - y} (f - f')$. However, the altered cottage rates paid now make y wrong, gross rents paid being unchanged. The new and correct Gross Poor Rate (x) is difficult to find by trial, but is as follows:—Rates raised being the same, $r' = \frac{(\lambda + yf)r}{\lambda + x}$, and rents remaining the same, $y + yfr = x + xfr'$, from which $y + yfr = x + xfr' \left(\frac{(\lambda + yf)r}{\lambda + x} \right)$. The assumption as to gross rents remaining the same is justified, unless there is much empty property or alternative and unaffected rate area available, and also $f - f'$ approaches $\frac{1}{2}$ (a probable maximum) $\frac{y}{R}$ being also near the point most effective to change rates. But a rise might be expected if f' is $> f$ and, in consequence, $r' - r$ is $> \frac{r}{10}$ (the smallest change which has been followed by a wide and special equivalent rise in rents in the experience of the writer).

consider two other instances in which tendencies are likely to emerge from the theoretical stage.

It is often suggested that the old land tax can have no influence on values. It has been considered one of the best illustrations in support of the common contention that an old tax is no tax, for no one living could be held to suffer by it, property either in purchase or inheritance having been subjected to this "rent-charge in favour of the State." But the rent-charge view has never been wholly adopted by the State itself—conditional temporary exemptions and allowances have been granted since 1898. Poor owners who redeemed their tax in 1897 might well wish they had waited for this present from the State in the following year. But for those who waited it was only conditionally a capitalised allowance—their property was worth so much more than before only to a purchaser similarly exempt. Put otherwise, this legislation amounts to a permanent handicap in the real property market graduated in three stages in favour of the poorer bidders; in the case of the maximum duty (now 1s. in the £) the value of the property to the well-to-do, so far as it is measured by the capitalised net annual yield, is 5 per cent. less than to the poor purchaser, while it is $2\frac{1}{2}$ per cent. less than to the man with an income between £160 and £400, who has an abatement of one-half the tax. Similarly for the sellers—those exempt from tax have a higher yield for which to be compensated by the purchase price, and they should in general require a higher offer than those liable, so that circumstances tend to favour a downward distribution and subdivision of real estate. On general economic grounds, this slight graduated handicap is by no means to be deplored. But in the present valuation it introduces a troublesome element, and in many cases the land tax now hidden from view by the exemption and virtually forgotten by the owner, may emerge—and at an altered figure, possibly not to be computed at present—when the property changes hands. The fact that an owner who does not take the precaution to redeem the tax on a site before building finds that he has then to pay on the total building-value, is sufficient by itself to dispose of the State rent-charge theory in its baldest form, while the amount payable on any given property may be variable from other causes. On the other hand, the State comes very near the "rent-charge" view in the legal provisions made for allowing land tax to be "redeemed but not exonerated," when the right to receive a specific item of tax can be purchased by a third person who takes it as a charge issuing out of the property.

An economic principle clearly seen may have to give way to political and administrative exigencies, and there can be no more striking example than the treatment of farmers' profits for income tax. It must seem surprising at first sight that, with the Ricardian theory of rent in full blast, such profits could ever have been held to be, even roughly, in a fixed proportion to the rent. In 1842 this proportion was fixed at one-half in England and one-third in Scotland. The difference was doubtless intended to follow the idea that profits were less in Scotland, and in so far as Scotland was competitively distinct from England, the customary minimum subsistence and profits may truly have been less, and the economic rent that owners could secure greater, so that the rule had some foundation; but in so far as it was intended to indicate that productive power per acre was less, the rule was the opposite of the economic doctrine, for customary profits must bear higher proportion to rent on poor land than on good. It was even of the very essence of the theory that equilibrated profits *could* bear no fixed ratio to the rent, considered as an economic surplus. But the political circumstances attending the re-introduction of the income tax were all in favour of a liberal and free treatment of the farming interest, and the solicitude expressed by Ricardo himself in considering the repeal of the Corn Laws is well known. Moreover, the administrative difficulty of ascertaining the profits (except in the largest cases, or with the best educated farmers) must have been well-nigh insuperable then and readily justified a rough method. It was hardly to be expected that legislation in 1842, for a temporary tax, should depart specially in this instance from the comfortable rut furnished by the scheme of 1803, when the proportion in England was three-fourths and in Scotland one-half. So, too, in 1894 during the acute depression, when all that could be done to relieve the farming interest was attempted, it was natural that the fixed proportion should again be lowered. The evidence before the Commission on Agricultural Depression showed 26·66 per cent. as the average for twenty years, treating the *published accounts* as one business. But by the nature of the case, published accounts are probably less indicative of general conditions in farming than in any other business, for they generally represent the better or best lands (where proportion is lowest, apart from the question of return to fixed capital involved), and they also include estate and home farms often under management, experimental, or at any rate without vitally serious personal interest in financial success. The ordinary tenant-farmer's results are not likely to figure

dominantly in such totals, and the whole presumption is against the figures as representing his conditions. Apart from theory, and even allowing for the conception that "economic rent has been wiped out," so that present rents represent interest on capital only (to which profits may possibly bear a proportion), it is sufficiently obvious in present every-day life that the computation of one-third as an average farmer's profits is grotesquely far from the truth—to credit the tenant of a farm of £200 rent with no more than the wages of a casual labourer *and* no margin for interest on his capital invested in stock, or to consider the holder of a £600 farm, who is quite a capitalist and no mean figure on the countryside, as being on a level with the village grocer, does violence to ordinary common sense. It has been said with some approach to truth that British farming pays no income tax. But does the farmer *himself* reap the advantage of this generous treatment? The incidence of a special differential tax on profits has been treated fully enough, but the incidence of a special differential exemption has not received the same attention. Under frictionless conditions the case looks very like a complete gift to owners—how far it is not so must depend on the divergence of real conditions from the ideal. The problem is similar to that of the remission of rates, though different in several important particulars, but its existence is worth remembering in the present time of high income tax and rising agricultural values, when the owner is beginning once again, after a long interval, to feel for a rental surplus, which, with increasing competition for farms, is becoming more purely economic (apart from interest on capital involved) and both supply and demand are placing farming in more complete equilibration with general profits. The law of "natural profits" of the old school is not involved here. In the circumstances of to-day, the differential advantage becoming in itself greater is not so likely to stay with the farmer, but while too small to act alone, it is an additional factor in assisting closer approximation to theoretical conditions.

The third group of influences affecting values is that relating to the effects of the new land taxes themselves. The reference is, of course, to settled economic results, and not to the influences of any passing apprehension or uncertainty, though one is tempted to digress to consider the importance of imagination as an economic factor outside the usual treatment of its position in rising or falling gold values. Only experience can show the full truth, but careful analysis may give us the main limits of change.

The principle of "capitalisation" is of central importance in the theory of incidence, quickly grasped in popular discussion of the better sort, but it is nearly always applied, on first acquaintance, too freely and with insufficient reserve for counter tendencies. The historic controversy upon the incidence of rates is full of warning. Referring to the undeveloped land duty, it is commonly stated that owners are already mulcted of the capitalised tax—but the duty is contingent, stopping when the land is bought for use or gets to the £100 expenditure limit, and therefore does not affect value in that way at such a sale. But though it may have little effect in its *particular* application, intrinsically, in its *general* application it can have important effects. Where land has not been freely offered, the effect must differ greatly, not necessarily according to the total quantity of land wanted or withheld, but according to the number, strength, resource, and psychological purpose of the owners. A line may be imagined representing for a given place a ruling price at which buyers will come forward. Owners stand at different distances from the line, and the "push" of the tax sends some over, but only slightly alters the position of others. There is no attempt to equalise results by a progressive duty as in Australia. The extra land brought into the market depends largely on the way the owners are distributed or massed in relation to this line—in one town a single owner, in another all small men grouped close to the line. The line itself is not fixed but retreats as price goes down, and an owner who might have been induced by the tax to sell at the old figure may be inclined to hold back from the new, so that there is always the counter-tendency to the *status quo*. The land may be valued in the antecedent conditions, but if as soon as the tax is applied the valuation is destroyed, it is clear that the tax cannot permanently be paid on the original value, and some attempt would be justified to gauge the situation and judge the grouping of owners. The question can hardly be properly framed until the answer is known—it is a problem to be studied "dynamically" rather than "statically." So far as ascertained results abroad can be compared—a comparison difficult and intricate—lower land prices and increased building might be anticipated in many places. But the tax is not part of a general rating of site values and the peculiar coupling with the increment tax baffles long-distance analysis, and one is reminded of Professor Edgeworth's apt illustration of two policies, that of waiting till the egg is laid and scooping out the yolk, and

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that of taxing the value of the goose derived from the prospect of future eggs.¹ There is, generally speaking, no comparison between the $\frac{1}{2}d.$ tax ceasing at a certain point, and the much higher tax in the £ imposed elsewhere, where the burden is so much heavier that only putting to good and full use can yield an income sufficient to pay it. The pressure to build may, therefore, in many places not necessarily compare with experience abroad.

The increment tax introduces many *small*, and, therefore, often ineffective, disturbing elements in annual values. For example, one may consider the exemption for owner-occupied properties up to certain fixed limits—at those points there will be forces analogous to those existing for public-houses, about the “turn” of the licence, and there is no guiding rental. In rising places a kind of neutral space may exist at that point, where a progressive value is nullified and an apparent reluctance to pass it is shown. But referring particularly to general effects, it is often stated that *any* system of increment tax is merely an immediate confiscation of part of present values in the hands of present owners—a purchaser will see any future increment lessened, and will therefore offer less. This is only very partially true. Professor Pigou dealt with the “windfall” element mathematically in *The Times*,² but it may be stated practically without figures. Taking the term “market-judgment” to be the reasonable consensus of opinion as to the future prospects of a given site, it may be said that everything as far as that market-judgment can see, up to its “time horizon,” as we may call it, has an influence on present values. Beyond this horizon nothing can be judged, all chances of further change in value are even. (If they are not even, let a chance of further improvement preponderate, say as 3 to 2. Then obviously this preponderance must have an influence on present value, and the point where 3 to 2 is still seen is *not* the horizon.) In a sense we have here the difference between investment and speculation or gambling. If the market-judgment (as an averaged risk) is borne out, the future value is the same as the present, with a difference for interest only. The value at the horizon, discounted, is present value. Now a tax allowing for interest could not confiscate present *investment* value. The interest must be reckoned on the whole value of an unused site, but for a used site the capital value of the present income must be deducted from the whole value, and

¹ ECONOMIC JOURNAL, March, 1906, “Recent Schemes for Rating Urban Land Values.”

² July 6th, 1909.

interest reckoned on the unproductive margin only. The 10 per cent. allowance represents about two and a half years for an unused site, but may be twenty years on a well-used site with some future prospects. The question of confiscation is jointly one of the distance of the horizon and the amount of the unproductive margin. The economic case for a graduation of the allowance according to time is not without force—the tax (*Wertzuwachssteuer*) in Frankfort and Cologne allows in some circumstances 4 per cent. But the proposition to exempt a certain sum for interest brings in at once important features, nearly always overlooked. The very sum exempted is an accumulated interest which will thus have borne no tax at all, *income* or otherwise (being somewhat analogous to the reversion at the end of a lease¹), and real property is the only form of capital (not dependent upon the collecting instinct) in which a man can let his interest accumulate without bearing tax thereon annually. Securities do not normally rise in value while annually unproductive, but, if they do, there is probably in the background an element of land monopoly or quasi-monopoly (franchise). A man who had bought a property for £1,000 and sold it for £1,500 has hitherto escaped income tax, because it was a “capital” increase; now when it is said “You have a capital increase suitable for taxation,” if he pleads that it is not capital, but merely interest (deferred), he is back into the arms of the income tax. The problem of scheming a tax on future social values without affecting *any* present values at all (as distinct from existing contracts) is well-nigh insoluble, because there must be brought in a kind of substitute for an income tax on an interest previously free, and that can hardly be done without affecting the present capital value of the source yielding that interest. Moreover, in the common association of the principle of decrement with the interest allowance, there is no indication whether in calculating decrement a negative interest should be charged or a positive interest added! But it is not unlikely that the history of the tax will show, like the income tax,² though probably more speedily, still further breaches into the “impersonal” principle (of the “site”) in favour of the personal principle (of the “owner”), and in such a case decrement would figure prominently—it is beyond the scope of this article to consider whether

¹ *Vide* “Economic Aspects of Income Tax Change” (*Economic Review*, October, 1909) by the present writer. But in the reversion case, tax has really been paid, over a long period, though generally the incidence has been upon the wrong person (*vide* “Wasting Assets,” *Economic Journal*, March, 1910).

² *Ibid.*: “Income Tax Change.”

local rating on site values would have more readily given effective justice to such a case. In the long run, however, the most vital point may prove to be the treatment of changing gold values, and it has probably been real wisdom not to introduce further complication in elaborate provisions that may never be really needed, but to leave it for special legislation when occasion forces it into notice, like the conversion of Consols. But site value rating would have been, at any rate, free from that difficulty. However, it must be clear that for those who have schemes—even schemes that improve upon the past and are in an economic sense less “crude and violent” than many have been—present conditions are very unpropitious for their elaboration and application.

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