

CHAPTER VI

SOME INADEQUATE REMEDIES

"The remedy to which our conclusions point is at once radical and simple—so radical that, on the one side, it will not be fairly considered so long as any faith remains in the efficacy of less caustic measures; so simple that, on the other side, its real efficacy and comprehensiveness are likely to be overlooked, until the effect of more elaborate measures is estimated."—HENRY GEORGE, *Progress and Poverty*, Book VI, ch. I.

"When the object is to raise the permanent conditions of a people, small means do not merely produce small effects; they produce no effect at all."—JOHN STUART MILL.

It should be noted that, when we say Taxation of Land Values, we mean exactly what we say.

(1) We do not mean, for instance, *taxation of land*. At first sight there may be something superficially attractive, to some minds, about the sort of proposal, which is still occasionally heard, that all land should be taxed at so much per acre. It calls up a picture of a heavy tax upon the ducal owners of vast stretches of country, while the poor man's plot is let off very lightly. Such a tax would undoubtedly produce some revenue, but it would not be just; and it would fail to produce the economic and social effects at which the advocates of taxation of land values aim, because it fails to take note of important and well-known economic facts.

Some land has, under present conditions, no known economic value. No one desires to use it or is willing to pay rent for it. Other pieces of land have values which vary amazingly between nothing at all and the five or six million pounds (and more) per acre, the price at which small building plots in the heart of the City of London have actually been sold in recent years. No "specific" tax on acreage that would be worth collecting could be devised that would not exceed the value of the poorest land in use and drive it out of use, without having any appreciable effect on the enormous values of land in the centres of

great towns. The tax must necessarily be an *ad valorem* one; a tax according to value.

(2) A tax upon "ground rents" gets us a little, but not much, nearer to a true conception. "Ground rent," as an economist like Adam Smith uses the term, might be an acceptable substitute for the term "land value," *i.e.* "economic rent." It would mean the same thing. But "ground rents," in the commercial sense, as the words are used in land agents' advertisements or in the language of leases, do not necessarily, or often, correspond to what we mean by "land values."

Under the prevailing system of long leases, the "ground rents" set out in the covenants, even if they correspond at the beginning of the lease with the true value of the site, soon cease to do so, in most cases, through efflux of time and social changes. For all kinds of reasons, the value of the land in any district may go up or down during the currency of a lease, but the ground rent covenanted for remains the same till the term expires, even if the growth of a slum or the erection of a soap-works in its immediate neighbourhood, or an influx of undesirables, destroys the amenities of a residential estate, and lowers its land value. Conversely, in a growing industrial town there may arise a strong demand for factory or warehouse or shop sites in the neighbourhood. The land acquires a high potential value for commercial purposes, but the ground rent remains the same so long as the leases remain in force.

It is clear that "ground rents" afford no just basis for taxation on land values. They arise only where land is in use as sites for buildings. There are millions of acres of land in this country unused or put to a very inadequate use. Much of this land has a high value, but it produces no "ground-rent" or any rent at all, except perhaps a small accommodation rent. In such cases as these, a tax upon ground rents would fail to do justice to the public which has created and is maintaining the value of these lands now withheld from use.

(3) "*Site Value*"—the value of land due to its position, which enables its occupier to enjoy the natural and social advantages inherent in it or within reach of it—would be a useful term were it not for the strange habit, unfortu-

nately very prevalent, of drawing a distinction between "urban land" and "agricultural land," and of confining the use of "site value" to the former. This manner of speech is common in all political parties, and helps to foster the idea that agricultural land values should be exempted from taxation and rating. Yet the *position* of farm land has much to say to its "site value." It surely makes a difference to its value for farming purposes whether or not it is in a good climate, in a sheltered valley, has a southern aspect, is within reach of a good market accessible by good roads or canals or navigable river or a nearby railway or motor-bus service, a good water supply and natural drainage, with access to the service of the telephone and electric "grid," and so on: all these are matters of position, "site" values which may make a great difference to "agricultural" rents. Situation is an important element in the value of land, whether in town or country.

"Land in the neighbourhood of a town," wrote Adam Smith,¹ "gives a greater rent than land in a distant part of the country. Though it may cost no more labour to cultivate the one than the other, it must always cost more to bring the produce of the distant land to market." The two elements of the value of agricultural land, apart from improvements which have been made in or upon it by human labour, are natural fertility and situation: neither of these is the creation of the landlord.

Besides all this, it is practically impossible to draw a clear line of demarcation between "agricultural" and other categories of land. Agricultural land is constantly becoming "building land" with the growth of population and the progress of industry. The exploiting of the Kentish coal-field has created miners' villages in the "Garden of England." Captain Arthur McDougall,² as a member of the Public Health Committee of a Scottish County, was engaged "in looking for a site for a housing scheme of eight houses in and around a small village of about 800 inhabitants. All the land belonged to two landowners and wherever we suggested a site the price was £300 an acre on the road, and not less than £200 in the back areas and right

¹ *Wealth of Nations*, Book I, ch. XI, Part I.

² *Land & Liberty*, August, 1933.

out in the open. Here (he says) wherever we went, as elsewhere, the owners in practice make no distinction between agricultural and building land, but simply say: 'Wherever you want to build is building land and £200 is the price.' The advent of the Taxation of Land Values would change all that, and this land would tumble to £20 an acre for building, or less." Almost any municipal councillor could tell similar stories.

The one good word that can be said for the term "site values" is that it does at least suggest the value of land apart from the value of the buildings upon it. The inclusive term applying to all cases is "land value."

(4) The *taxation of unearned increment*, properly understood, might have served to describe fairly well what is meant by taxation of land values, but for the very limited application in which the expression is commonly used. Mr Lloyd George's *Finance Act* of 1909-10 ingeniously used an "Increment Duty" as part of a scheme to facilitate a Land Valuation, which, if it had been amended and completed, might have served as a basis for a land value tax. Such a tax for such a purpose may have been justifiable as a temporary expedient; but, as a permanent feature of our fiscal system, it is not a substitute for taxation of land values, for it would leave present values untaxed, fail to do justice as between the landlord class and the nation, and fail to bring about the economic effects that would follow a tax on *all* land value. Nor has a tax so levied any logical justification.

The proposal was to fix an arbitrary date and to regard any increase of land value which accrued after that date as an "unearned increment." Suppose the date to be 1909. All increase of land value after that date would be "unearned increment," liable to taxation on the occasion of the transfer of the land to another holder by sale or death. But the increase of value between 1900 and 1909, or between 1800 and 1900, would have been equally "unearned." If one goes back far enough, the *whole* of the land value is seen to have been built up by successive increments, "earned" by the growth of population and the advance of civilization, "unearned" by the heirs, executors and assigns of the original grantees.

The taxation of unearned increment means no more than the taxing on certain occasions of the latest accretion of value to some land units. The community which, in the past, has created and is now maintaining all the land value, has the right to take all the value that it has called into existence. This can be done only by a straight tax on all land values.

(5) "*Betterment*" is a partial and local application of the "unearned increment" idea. The carrying out of every well-considered public improvement increases land values in the area benefited by the improvement. The usual form of the proposal is that part of the increased value shall be collected from the landlords thus benefited. Apart from the difficulty, which is often obvious, of delimiting the area of benefit, there is the further question of what is to be done in those cases in which land value suffers a diminution through the making of an improvement: when, for instance, the site values in the High Street of a town fall in consequence of the diversion of traffic to a bye-pass road. If "betterment" calls for an extra tax, does "worsement" entail compensation? A universal tax on all land values would achieve all that a betterment tax could do and much more, and would give rise to no such problem. If the land value increases, the assessment to the tax would increase; if it falls, the assessment would be automatically lowered.

Provisions for both "betterment" and "worsement" are embodied in the Acts for Town Planning, but have been almost a dead letter. Sir Selwyn Fremantle pointed out, in *Town and Country Planning* (August, 1933) that—

"It is a difficult matter to decide at the time an open space is reserved, what lands are increased in value and by what amount, and the provision that payment must be made at once before the owner has realized any pecuniary benefit, naturally, when so much is doubtful, keeps the amount low. In fact there have been very few cases where the principle has been applied at all. In the case of Gunnersbury Park, for instance, which covers 200 acres and was acquired by a group of local authorities, it was stated by Mr. Lawrence Chubb, at a meeting of the National Playing Fields Association in 1927, that the value of some adjoining land had risen from £150 to £2,000 per acre, but no special assessment for betterment had been levied on the owner."¹

¹ Quoted in *Land & Liberty*, March, 1934, p. 33.

(6) Proposals are still heard, from time to time, of a "Tax and Buy" policy. It is plausibly argued that a fair valuation could be obtained from the landlords themselves at comparatively small cost by getting them, as one of the advocates of this plan was fond of saying, "in a cleft stick." If they value their land too high (we are told) they will have to pay a high tax on it. If they put the value too low, in order to escape part of the tax, they will be in danger of being bought out, by the State or Municipality, at their own valuation. The legitimate occasions for buying land with public money are so limited that the danger of being bought out at a low price could probably be met by a scheme of insurance at a low premium. If the municipalities engaged in land speculation on a large scale, the presence of great public funds for that purpose in the land market would tend to keep up the price of all land, and so to counteract the tendency of land value taxation to keep down its price.

(7) A *local income tax* has sometimes been offered as a substitute for the rating of land values. All the many objections to the present complicated system of income tax, with its exemptions and abatements, etc., would lie against such an addition to it. There would also be the additional difficulty of the numberless people who carry on their business in the City and live somewhere else. From the point of view of land value taxers, the proposal is absurd. For their aim is not to tax *income* from land but the *value* of land. A local income tax, so far as it applied to income from land, would be only another name for taxation of ground rents. It would automatically exempt all the owners of unused land, much of which is very valuable, and would partially exempt the holders of under-used lands, and of lands of increasing value, the ground rents of which were fixed years ago under long leases. Moreover, it would impose a new tax for local purposes upon houses and other improvements, which the advocates of our reform are anxious to exempt from taxation.

For these reasons, and also because Income Tax is levied upon income from improvements as well as from land, "Schedule A" of Income Tax is absolutely useless as a basis for taxation of land values, and cannot be made

available for the purpose by any such rule-of-thumb deductions as are sometimes suggested.

(8) It should now be clear to the attentive reader that there is no foundation for the statement constantly made by opponents of the taxation of land values that this reform was tried by Mr Lloyd George in his famous 1909-10 *Finance Act*, and has failed. The Land Sections of that Act made provision for a Valuation of all the Land in the Kingdom (including agricultural and mineral) apart from the value of improvements, and came near to establishing a basis for a uniform national tax and for local rating upon land values. For that reason, the Valuation Clauses were enthusiastically supported by those who had long been working for such taxation and rating.

The 1909-10 *Finance Act* was wrecked by its taxation clauses. As was pointed out at the time, the attempt to discriminate between different categories of land (*e.g.*, "undeveloped" land and "agricultural" land) and to tax some portions of land value (*e.g.* "increments") on irregular occasions (*e.g.* on sale, on the death of the owner, on the falling-in of a lease) created difficulties which would not arise if the tax were uniform and general.¹ These unnecessary complications (Increment Duty, Reversion Duty, Undeveloped Land Duty and so on) caused difficulties of interpretation which brought the Act into the Law Courts. Judicial decisions held up the progress of the Valuation. Mr Lloyd George pledged himself to put these matters right by a *Revenue Bill*, which was postponed in 1913, and was to have been passed in the Autumn session of 1914. The declaration of War on August 4th of that year made it impossible to pass the Bill, and another Government afterwards stopped the Valuation, repealed part of the Act, and actually returned to the landholders the tax-money they had already paid.

(9) The object of the reform which Henry George advocated was to give practical effect to the people's equal rights in their common heritage—the land. It is obvious

¹ See FREDK. VERINDER; two Memoranda in *Land Values* (now *Land & Liberty*), July and December, 1909, for a fuller discussion of the original draft and of the final form of the *Finance Bill* respectively.

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at, under modern conditions, this cannot be done by *dividing the land itself*. The steady growth of population, the unequal needs of individuals for the direct use of land, the variations of land value from place to place and from time to time, make such a division quite impossible. It would be as absurd as a proposal to give effect to the rights of railway shareholders in their property by dividing the track, rolling stock, etc., among them. The earnings of such a joint-stock enterprise are paid into a common fund, out of which necessary expenses are met, and the balance, if any, is divided among the shareholders in proportion to their shares. It is easy to conceive of the Nation as a great joint-stock company in which every citizen has one share. The company's collector-in-chief (the Chancellor of the Exchequer), through the Inland Revenue Department, collects the rent of the national estate, and pays the necessary national expenses, repaying one by one, as the rent comes in, the taxes which are levied on the earnings, profits, savings, amusements, etc., of the citizens.