

CHAPTER VI

THE RATING OF LAND VALUES

THE general idea of the rating of land values is that the valuation lists would contain another column showing the value of the land apart from the improvements upon it. This would be the economic rent that each piece of land would command if the buildings and other structures upon it were not there.

This would involve the addition of a number of new names to the valuation list in respect of land at present omitted from it, and it would probably involve the insertion of the names of certain persons as owners in addition to the names of occupiers at present inserted, but the details of the method of collection as well as of valuation will be discussed later.

If the local rating of land values should be preceded by a national tax on land values, the register of land and its value and the names of the owners would have already been prepared by the government valuation department, and would be available. If not, the valuation authority would have to compile the register.

This information being available, in framing its budget the local authority, knowing the amount of revenue it required to raise, and knowing also the amount that would be yielded by a land-value rate of given amount, would determine how much rate-revenue it would raise under the existing system and how much by the land-value rate.

In some countries where land-value rating has been

adopted it has been made obligatory on the local authority to raise at least a minimum sum by the new system, either by requiring it to raise a definite proportion of its tax revenue from land values, or to levy a land-value rate of not less than a determinate amount.

The advantage of such a provision is that it would ensure a certain application of the principle throughout the whole country, and prevent its benefits being confined to the areas of the more enterprising authorities. Whatever decision may be come to on that point, the local authority should at least be free to determine how much more than the minimum it should raise from land value in order that no obstacle should be placed in the way of a complete change over to the new system.

As the rate would ultimately be paid by those who share the economic rent, there is no point in collecting the land-value rate from occupiers on short tenancies except convenience of collection (if any), and on general principles it does not appear equitable to require occupiers at rack rents to advance a rate out of their own pockets and leave them to collect it from the real ratepayer.

Provision should be made in the case of land held under a long lease, where the economic rent is in excess of the ground rent payable under the lease, for the ground landlord to pay a portion of the land-value rate corresponding to the proportion of the economic rent which he received. The residue would be paid by the lessee. If the rate were collected from the lessee in the first place he would be empowered to deduct from his next payment of ground rent the proportion payable by the lessor.

It may be argued that such a provision would be

inequitable because it would interfere with private contracts obliging the lessee to pay all rates on the property. "Yet the fallacy of this argument is easily made evident. It falls to the ground so soon as it is conceded that the State has a right to impose new taxes. *If it is right for the State to impose a tax upon a class of persons, it is right to take all necessary precautions to ensure that it shall actually fall upon and be paid by that class and not by some other.*"* It is a fundamental principle of English and of Scottish law that the power of the State to determine the manner in which persons shall contribute to taxation cannot be limited by private contracts made between its citizens. This principle has been affirmed in many judicial decisions of the superior courts (see Dr. J. Dundas White's *Land Value Taxation and Feu Duties* for an exhaustive examination of the Scottish decisions) and particularly in the decision of the Privy Council in the case of *Marshall's Township Syndicate Ltd. v. Johannesburg Consolidated Investment Co. Ltd.* (1920 A.C. 420), where the validity of such legislation in the Transvaal was affirmed.

EFFECTS OF LAND-VALUE RATING

The general consequences which will follow from the adoption of land-value rating are these :

To the extent that rates under the existing system are reduced, the occupiers of houses, shops, and other premises will benefit by the reduction. This is subject to the consideration that in the case of shops and industrial premises competition will ensure that some or perhaps all of the benefit will tend to be passed on to their customers

* *The Taxation of Ground Values.* By J. Fletcher Moulton, Q.C. (afterwards Lord Moulton).

in the form of lower prices of the commodities sold or manufactured. This will conduce to a larger production and sale of such commodities.

That part of the rate revenue which is raised by the new method will, as already explained, be incident upon those who enjoy the land value and cannot be passed on to any other person. The amount of rate raised from each property will generally be different from what it would be under the present system. In the centres of towns the ratio of land value to improvement value is high, whereas on the outskirts the proportion of improvement value far exceeds the land value. Thus a greater amount of the revenue will be contributed by the highly valuable central properties and a less amount by the low valued outer properties. This will not impede a proper development of the central properties, as an increase of rates as now levied would do, because the incidence of the rate is altered, and buildings or other structures erected on the sites will not increase the assessment for the land-value rate, but will be exempt.

Unused sites will contribute on their full value, and badly used sites will also be assessed on the full land value. This will stimulate the owners of such sites to develop or redevelop them in order that they may earn the full revenue which they are capable of earning. The effect of this in giving and maintaining a larger field for the remunerative employment of labour and capital are of the highest importance.

The land-value rate will also tend to reduce the price of land. This will facilitate the acquisition of land both for public and private purposes. In particular it will encourage the building of houses and enable them at equal cost to be better built and have more garden or

open space. The idea, sometimes expressed, that land-value rating will conduce to overcrowding and congestion of building is a complete fallacy. It is the present system which is responsible for these evils by requiring an excessive price to be paid for land and undue economy made in its use. It may very well be that a more intensive development will take place in the centres of cities, but this is as it should be; where the land is most valuable it should be most intensively utilized.

The powers of local authorities by means of town planning or otherwise to prevent a selfish and anti-communal use of land will not be weakened. Rather they will be strengthened by the existence of an accurate valuation established for purposes of rating, and therefore not likely to be above the true value. This will enable them to deal effectively with the fantastic claims for compensation which are the bane of town-planning schemes.

For many years the advocates of town planning have been concerned about the large expenditure involved in acquiring land for public open spaces, roads or other non-revenue producing purposes and for compensating those whose land was subjected to restrictions reducing its value. On the other hand they saw other owners would have the value of their land increased because of the better convenience or amenities it would enjoy. Much ingenuity was employed in devising schemes for dealing with this problem of "compensation and betterment." An attempted solution was contained in the Town and Country Planning Act, 1947, but the difficulties, delays and inequalities which resulted soon led to the repeal of these provisions.

All such attempts are foredoomed to failure for the

simple reason that it is impossible to dissect the various elements which affect the value of any piece of land so as to be able to say that so much is due to the carrying out of a particular town plan. Moreover, town planning, especially in built up areas which constitute the major problem, is a continuous process which extends over many years and not something which is carried out once for all in a brief period.

A problem which has attracted particular interest is that of redeveloping and rebuilding areas where extensive replanning is required to accord with modern needs. In such cases, it may be advisable to amalgamate plots in the ownership of a number of persons and to lay out a new road system. An example, which has been much discussed, is the area around Piccadilly Circus in London. It is contended that if, in such cases, all the land is acquired by one authority, and is then redeveloped and leased or sold, the cost of acquisition and redevelopment will be recouped to the responsible authority. Something of this kind took place when the London County Council carried out the Kingsway-Aldwych improvement but, in fact, it took about forty years before the accounts came into balance. This and other cases exemplify the fact that a major improvement affects not only the value of the land actually involved but also the values over a considerably wider area.

It is, however, unnecessary to seek a special solution of this problem. There is no reason why the expenses of carrying out a town plan for any district should not be borne by a site value rate charged on all the site values of the district. In the long run those owners of land who benefited would pay a reasonable share of the cost.

A question that is sometimes asked is whether a land-

value rate would be sufficient to defray the expenses of local authorities. A categorical affirmative can be given only when an efficient valuation of the land of each district has been made. Practical experience in every country where the experiment has been made has shown that the land-value is much more than sufficient, and there is no reason to anticipate any other result in this country. The question is, however, not of immediate importance. If the land-value were not sufficient to defray the expenses of local government in any area, that would be no argument against transferring part of the present rate burden on to that basis and recovering for the community values which are entirely due to communal causes.

Another objection made is that land-value rating conflicts with the principle of ability to pay; but the existing system conflicts with that principle still more strongly. It may very accurately be said that rates now are based upon inability to pay. The poor man usually pays a much larger fraction of his income in rent than the rich man, and rates form a proportionately heavier burden in the one case than in the other.

Land-value rating is based upon a principle which is far more fundamental than ability to pay. It is based upon benefit received from the community in the shape of a value which is altogether created by the community. Ability to pay, on the other hand, is at best only a rule of expediency to be applied in default of any more far-reaching principle.

A particular example of this objection is that the rating of land values would not exact any contribution from persons who occupy very small offices but are making very large incomes. Solicitors, doctors, and stock-

brokers are frequently given as examples. This may be an argument relevant to a proposal for a tax on such incomes or profits; but it is not an argument either in support of the present system of rating, or against the rating of land values. The fact that some individuals, by their exertions, are earning large incomes, is no reason why the communally created value of land should not contribute to public revenues. (The question of the applicability of income tax in local taxation is dealt with later, p. 64.)

Sometimes it is said that it is unfair to introduce this method of rating because landowners have acquired land under the existing system and in the expectation that it would continue—in other words, they have acquired certain vested rights. If this were valid it would destroy all possibility of reform of any kind. But no one can acquire a vested right in a bad system. Nor can landowners of to-day honestly say that they have acquired their land in the confidence that the present system would remain unaltered, after there has been seventy years of determined and growing agitation to change it. The maxim *caveat emptor* (let the buyer beware) applies to this case as to others.

A minor version of this objection, still occasionally heard, is that this system will penalize widows and orphans. In our existing society the majority of widows and orphans are poor people who do not own any land but, unless they live in public institutions, they still must shoulder the burden of rates on their homes. Such small minority of them as do own land own perhaps a humble house on a site of no great value, and for them the change would be a positive benefit. The objection assumes that the widows and orphans are the owners of land which will pay more under the land-value system,

e.g., valuable land held out of use or expensive central sites in cities. We need hardly pause to shed tears on behalf of people in this favoured position or impede a reform which will so greatly benefit the vast majority of widows and orphans. Moreover, the power to excuse payment of rates in cases of real hardship will still remain.