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## TOWN PLANNING AND LAND VALUES

Memorandum submitted by the Land Values Group of Members of Parliament to the Expert Committee on Compensation and Betterment appointed by the Minister of Works and Buildings

THE OBJECT of town planning is to produce an environment which is convenient and agreeable for residence, commerce and industry. The means of achieving this is to regulate the use of land and in particular the situation and density of the buildings which are required for those purposes, and to provide adequate means of communication between the component parts of the planned area.

The object in view has evidently high economic value and this provides the main if not the only justification of any plan. On the other hand the plan cannot be carried out without considerable cost, and in order that it should be fully justified the values created must exceed the expense incurred.

### COSTS OF TOWN PLANNING

The costs of town planning fall almost entirely upon the authority carrying out the plan. They are (a) the price of property required for new and widened streets, public open spaces, and other public purposes, (b) the compensation payable to persons whose land is diminished in value, and (c) the expense of making roads and other works. In areas already built up the first two categories of costs are apt to be extremely high and in all areas they tend to be a deterrent to speedy and effective action.

The costs of town planning have usually to be incurred immediately and can only be deferred by slowing down the rate of execution of the plan.

### BENEFITS OF TOWN PLANNING

The benefits of town planning, as a rule, accrue slowly and imperceptibly. They may extend far beyond the area where the actual expense is incurred. They are blended with the effects of many other factors which affect values. In the result the

costs of town planning have hitherto been borne almost exclusively by public funds, that is to say by the ratepayers generally irrespective of whether or to what degree each of them was a beneficiary of the plan. This is a potent reason why the planning of built-up areas has made slow progress.

### MEETING COST OF TOWN PLANNING

From its inception there has been statutory recognition of the principle that those who benefit by town planning should contribute to the cost. In practice the operation of the betterment provisions has been found impracticable. There has been no general and official valuation of land to form a starting point for the assessment. The accretion of value often does not manifest itself within a short period of time. On the other hand, even if it were possible to defer the assessment for a considerable period, it would then become impossible to separate the result of the plan from other factors affecting the value of land and to say how much was due to each cause.

Nevertheless, if rapid and substantial progress is to be made, some means must be devised whereby at least a substantial part of the cost shall be met from the values affected.

The permanent economic effect of a successful plan is on the value of land. Some of the advantage may be intercepted temporarily by tenants but the shorter their tenancies the more rapidly will any economically tangible benefit be absorbed into the rents which they pay, while lessees on long leases are often in effect partners with the ground landlord in the land value until the lease expires.

As it is in the value of land that the permanent benefit of town planning crystallizes, it is the value of land which should defray the costs.

### INCREMENT TAX

The suggestion has been made that an increment tax should be levied upon increases in the value of land. When attention is concentrated upon cases where land has been sold at much increased values shortly after public improvements have been carried out, the idea of an increment tax is plausible and attractive as a means of diverting part of the profit from the pocket of the fortunate owner to the public purse. In practice the matter is not so simple. It is only a small fraction of land which is sold in any year. If the assessment and collection of the tax is to wait until the land is sold, many years must elapse before the planning authority receives any substantial revenue. Much land belongs to companies and other corporations which *never die* and *may never sell* (and so provide no occasion for assessment). In any case an owner does not require to sell in order to reap a profit; he may do so by letting the land or by using it himself.

Any effective system of increment taxation would, therefore, need to be based not upon increases of value actually realized by sale but upon periodical valuations of all land. The valuation would require to be of the value of the land disregarding the buildings and other improvements as it would be fallacious to include in the assessment any value which was due to expenditure on improving the land.

Even upon this basis a tax on increments of land value would not be directly related to the betterment caused by the planning scheme, firstly because the increment of value might partly be due to other causes, and secondly because there might be a decrement of value due to other causes which nullified the increase due to planning.

### ACQUISITION OF LAND BEYOND IMMEDIATE NEEDS

The matters last referred to are material to the consideration of another suggestion which is sometimes made, namely, that the planning authority in order to make sure of the increment of value due to planning should acquire wide areas of land far beyond those needed for road widening, provision of open spaces or other purposes for which the actual ownership of land by the authority is necessary. This proposal has the disadvantage that there is no boundary which can be drawn where the benefits are exhausted short of the whole area affected by the plan. The initial capital expenditure would be enormous. The acquisition would have to include not merely the land itself but also the improvements on the land and would have to extend not merely to the freehold but also to long leases if not to all interests. Not only would the capital expenditure be great but it would be impossible to control effectively the price to be paid in the absence of any pre-existing valuation. The price would inevitably include speculative or anticipatory values which had already registered themselves in market values. The probability of the transaction being financially remunerative within any reasonable time is comparatively slight. During

any long period new factors might emerge which would upset all present expectations; in particular, if certain estimates of the probable future trend of population should even partly be fulfilled, it may be that the decline of values due to diminution of population would more than outweigh any increase in value due to technological and other economic progress. The public purse should not as an incident of planning be burdened with a speculation so vast and so uncertain.

### RATES AND TAXES

Sometimes also it is suggested that in the long run planning will result in increased valuations for rating or for income tax, Schedule A, and that thereby increased revenues will accrue to the authorities concerned which will pay for the expenses which they incur. This argument has a formal appearance of truth subject to the fact that it is based upon the assumption that population trends or other factors will not interfere with normal increases of value. But it contains a serious fallacy, for it involves the postulate that existing taxes, such as local rates, fall upon the owners of land values. Local rates are in fact an impost upon occupiers of immovable property. It may be argued that in the long run a part of the local rates is shifted back upon lessors and owners of land values, but such shifting must be very slow, partial and irregular. A considerable body of economic opinion does not accept the theory of shifting, and for this reference may be made to the opinions of economists obtained by the Royal Commission on Local Taxation and published in 1899 (C.9528). (A summary of these is given in "Land Value Rating," by F. C. R. Douglas, Hogarth Press, 1936.) The increase of rateable value which may be brought about by planning is the immediate consequence of an increase of rent or annual value secured by the owner of the property. Where the owner and the occupier are different persons, the increase of rateable value accrues as a result of an increase in value already obtained by the landlord, whereas the increased rate has to be paid by the tenant. The person who reaps the major benefit escapes contribution. Hence, although planning may result eventually in increased rateable values, to defray the cost by rates levied on the existing system does not meet the equities of the situation because it imposes the burden upon the wrong shoulders.

### RATE ON SITE VALUES

None the less it remains a fact that the major economic benefit of planning is registered in increase of land values (or prevention of decrease). Such values should, therefore, contribute to the costs involved. The only simple and effective method by which this can be secured is to levy a rate on the site value of the whole area. The main objection which could be urged against this proposal is that owners who gained little from the plan would be obliged to pay on their pre-existing values. On the other hand it must be remembered that a new town plan is still merely a continuation and adapta-

tion of an existing, although imperfect, plan. In an established community there are already streets and open spaces, houses and other buildings conforming to existing by-laws, services of sanitation, water, lighting, fire brigade and all the other public services which are required in order that urban civilization may exist at all. If there are some landowners who do not gain by the new plan, they do gain by the existing plan and the public services which accompany it, the continued maintenance of which is the essential condition for the maintenance of those land values. If, therefore, they are required to contribute, even belatedly, they are not contributing for the advantages which they have already received but merely for the advantages which they will continue to receive in the future. Moreover, as replanning continues, more and more of the area will be affected and it becomes meaningless to draw an arbitrary boundary at some point in time and to declare that the land values accrued up till that moment shall not contribute although their future existence depends upon what is done after that time.

Such a rate over the whole area was advocated many years ago by the late Professor Alfred Marshall, and described by him as a "fresh air rate," for the provision of more light and air was one of the aspects of planning upon which he laid stress.

#### LAND VALUATION

The imposition of such a rate would necessitate a valuation of all the land affected. Such a valuation is in any event necessary in order to impose some control over the prices of lands which have to be acquired by the planning authority. Conversely, it is difficult to establish a satisfactory valuation if it is intended merely to be used as a guide for fixing the price of such land as may be acquired by public authorities; whereas if it is intended to be a basis of taxation, either local or national, owners are not likely to endeavour to have excessive prices established in the valuation roll. The valuation should show the value of the land itself, disregarding the improvements. It should be arranged on a topographical basis showing in proximity the value of plots which are adjacent to one another. It should also be recorded in a register which is open to public inspection. These three conditions will establish the uniformity and relativity of the valuation, and are necessary to secure accuracy. The practical technique of valuation of land value has now been well developed in various parts of the world. In New York, for example, such a valuation has been made yearly for the last 35 years. In Denmark it has been made since 1916 at intervals of not more than five years, and the valuation has included not merely urban and suburban land but all land. These valuations are supported by maps which show the unit values used as a basis of the valuation.

The cost of making a valuation and the time required to make it are of some importance. As to cost, the Memorandum prefaced to the Finance Bill, 1931, estimated the cost of making the valuation for the purposes of the land value tax proposed,

at between £1,000,000 and £1,500,000. The first valuation would naturally be the most expensive, and a large part of the expense in making a cadastral survey and the necessary registers would be in the nature of a capital outlay which would be available for use on future occasions. The cost of subsequent valuations should, therefore, be much less. Even the cost of the initial valuation is small relatively to the large sums which are involved in replanning. For example it was estimated in the Bressey Report that the cost of road widenings in London might be of the order of one million pounds per mile, and the major part of this is clearly for property acquired and not for works. No argument is needed to demonstrate that if the valuation resulted in substantial savings in purchase price or compensation it would very quickly pay for itself. Its cost would be all the more justified if it were made the basis of a rate assessed on the land value to meet the cost of the planning operations.

The time that the preparation of such a valuation would require would very largely be determined by the way in which it was organised, the staff available to make it, and the time granted to owners to lodge any appeals. The time allowed for appeal is not of the first importance as the result of the appeal would no doubt be made retrospective to the valuation date. Erroneous ideas of the difficulty of such a valuation have gained currency from the experience of the Finance Act of 1909-10. This measure was extremely badly drafted and suffered from attempting to reconcile conflicting ideas with the result that in many cases four values had to be ascertained and no one of them was the site value. The experience of other countries where the legislation has taken a simple and clear-cut form indicates that there is no inherent difficulty in the valuation and it could certainly be completed within a very short time.

#### COMPENSATION

The difficulties confronting public authorities desiring to acquire land are well known. The method of assessing compensation becomes a species of litigation in which the value of the land concerned is considered as it were in a vacuum separated from any fixed standards of value. The result is that the compensation awarded is usually far in excess of what could be realized in any normal commercial transaction. It does not seem possible to escape from this result by any modification of existing procedure, and the only way of preserving relative equality between the price paid for public acquisition and the value of other land is by a *general valuation which is a basis for taxation as well as for acquisition.*

#### SPECULATION

The idea has been thrown out that speculative values can be eliminated by basing the price of land required for planning on its pre-war value. To do so would still require a general valuation if the payment of excessive prices is to be avoided. Moreover, it is inherently unfair that an owner



whose land is required for public purposes should be paid a pre-war value while a neighbouring owner whose land may benefit is free to sell at a post-war value. The logical conclusion would be that no one should be allowed to sell at more than a pre-war value, and this would immediately involve that every private transaction would become the subject of public control or of arbitration. The disinclination to enter into perfectly reasonable and indeed necessary transactions which would arise from this is obvious. Building and other activities within the frame-work of the plan should not be discouraged, but rather encouraged. The suggested rate on site values to pay for the cost of planning operations would have a distinct effect in deterring owners from holding land idle for merely speculative purposes. This would be a more effective preventive of speculation than the threat that land needed for public purposes would be bought at a pre-war value.

#### RATING BILL

A modern precedent of a Bill for a rate on site values is to be found in the London Rating (Site Values) Bill introduced in the session 1938-39 by the London County Council, and this could easily

be adapted to accord with the slightly differing practice of rating outside the Metropolis.

#### RECOMMENDATIONS

It is, therefore, submitted that :—

- (1) The existing provisions for assessment of betterment are ineffective, and the inherent difficulties make it impossible to devise a much more effective procedure.
- (2) The economic benefits of planning past and present and of the public services which are its necessary accompaniment are diffused over the whole area in the form of land value.
- (3) The costs of town planning should, therefore, be met by a rate on the site value of all land in the area.
- (4) This would necessitate the making of a valuation and its revision at suitable intervals.
- (5) The valuation would provide an effective and necessary check upon excessive claims for price of land purchased or for compensation for land adversely affected.
- (6) There are no serious difficulties in carrying out these proposals, and to do so would greatly reduce the obstacles that large-scale and rapid planning would otherwise meet with.

## WHERE THE LANDLORDS BACKED THE NAZIS

### Count Karolyi on the Betrayal of Hungary

THE SINISTER forces that are opposed to freedom and democracy are strikingly disclosed by Count Michael Karolyi in a letter to the *Manchester Guardian*, 13th June. Count Karolyi former leader of a radical democratic party became Prime Minister in October, 1918, and afterwards President of the Hungarian Republic in January, 1919, before the counter-revolution triumphed. He writes :—

"Hitler is master of Hungary to-day owing to the treacherous consent of its Regent, Admiral Horthy. But Admiral Horthy is not Hungary. Horthy only represents a small minority, the ruling gentry. He rose to power as the safeguard of the Habsburg Monarchy, but kept his position as protector of the interests of the big landowners. He was the first to introduce Fascist methods so as to keep the country immune from the dangers of a democratic spirit, from social reform, and political freedom. As a matter of fact, Hungary was the first 'Fascist' State, before the world had heard about Mussolini or Hitler. . . .

"The official policy of the Hungarian ruling class of men like Counts Tisza, Andrássy, and Apponyi, was to support whole-heartedly German militarism. Their successors—Bethlen, Horthy, Teleki—would not consider any other policy than to follow in the wake of Germany. The obvious reason for this was that the Hungarian landlords always needed the help of Germany to carry on successfully their reactionary policy. At first it was the Habsburgs and Austria, later the Hohenzollerns and Germany, to-day Hitler and Nazism, which offered them that security. In the past not only the national minorities, the Slovaks, Rumanians, and Serbs, but also the Hungarian peasantry had to be kept down with the aid of Vienna and Berlin.

"It certainly was a most vital question to the landed aristocracy that its 'status quo' should not be tampered with. For, to prove the power of this class, it is enough to mention that 36 big landowners' estates amounted to

1,000,000 acres, while, on the other hand, 950,000 acres were divided between 1,200,000 small landowners.

"In order to show to what extent Hungary is anti-democratic and anti-social one has only to mention that the land reform realized under Horthy's Regency assigned only 500,000 acres, while during the same period Rumania, which was far from being a Radical or Socialist State, distributed 7,000,000 acres for the same purpose. While the big landowners paid 10 pengos (3s. 9d.) tax for one acre, small property was taxed at the rate of 16 pengos per acre.

"The misery in Hungary has lately taken on fantastic proportions. That this is not an overstatement is clearly shown by the violent controversy and press campaign carried on between the Opposition and the Government about the number of beggars in the country. The Opposition insisted upon 4,000,000, while the Government argued that there were only 'the irrelevant number' of 3,000,000. The population of Hungary at that time was about 8,500,000. In the year 1936 the income of a farm worker's family of three was sixteen pounds—not even in cash, but in kind (a feudal relic). This works out at about £3 4s. per person per year—2d. per day.

"As a reward for stabbing his neighbours, and his ally Yugo-Slavia in the back Horthy secured parts of Transylvania, Slovakia, and recently the Banat. But these presents had their price, and the price was a very dear one. It was the independence of the whole of Hungary. The country had to pay for having saved the interests of its landlords. The truth of this has been tragically demonstrated by the fate of Count Teleki, who when he realized where his policy had led the country committed suicide.

"All Hungarians living outside Hungary (also those inside if they have the courage) have to take up the struggle for the freedom of their country not only against Hitler but also against the Hungarian Quisling,