LAND & LIBERTY

Journal of the United Committee for the Taxation of Land Values, Ltd.
Sixty-third Year. Established June, 1894

By Post 10s. per annum.

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AUGUST—SEPTEMBER, 1956

Change Without Reform in Scotland

"We aim at a system which will provide machinery for raising local revenue without causing anomalies between one ratepayer and another. The valuations imposed on comparable properties should themselves be comparable and further, the incidence of rating should not be such as to discourage the development of industry or the building of houses or the repair of existing property."

—Mr. James Stuart, Secretary of State for Scotland, House of Commons, December 15, 1955.

"In the Government's view a good valuation and rating system should satisfy three tests. It should provide a means of raising local revenues without causing injustice as between one ratepayer and another; the valuations of comparable properties should themselves be comparable; and, rates should not be levied in such a way as to discourage the development of industry, the building of houses or the repair of existing property."

—Lord Strathclyde, the Minister of State, Scottish Office, House of Lords, July 12, 1956.

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These excellent sentiments were expressed by the Ministers who led the debates on the Valuation and Rating (Scotland) Bill* which has now passed into law. The brave words so echoed from House to House have a virtuous sound, but in what has been achieved they have no place, or they are mocked. The new Act establishes anything but the ideal conditions under which the collection of public revenue causes no anomalies or injustice, does not harm industry nor discourage the erection and improvement of houses and other buildings. On the contrary, it stabilises and perpetuates the existing system which has all those faults. It does no more than two things. It mends the machinery of assessment to make that work more efficiently, and in preparation for the quinquennial re-assessment of all rateable properties in Scotland, the first to take effect in 1961; and by that, the Scottish practice of annual revisions ceases. Secondly, though of greater importance in the eyes of the promoters, the Scottish practice of charging some part of the rates on owners of property is abandoned. Thus in other respects also, and as intended, the Scottish system will fully conform with the English and the ideal accepted by the promoters is attained.

In all this, the abolition of owners' rates in Scotland is the chief object. It is declared to be essential. Accompanying that, is the extraordinary attitude running throughout the debates asserting or implying that the rating of buildings and improvements has no ill-effects, does not hold up development nor discourage house building and repairs—so long as the rates so imposed are payable by the tenants; and it is inferred indeed that the rates being so paid, development is actually promoted. Let, then, Scotland enjoy in full measure the blessings that this system bestows upon England and Wales! Such were the recommendations of Lord Sorn's enquiry committee, the mentors of the Government. Their paradise was south of the Border and with envy they pointed to it, oblivious of the house famine and the overcrowding that cast as dark a shadow over English industrial centres, and cause as great despair, as anything that Scotland can present.

The Scottish rating system was bad enough as it was without having to be adapted to and assimilated with the English. After all, there have not been any fundamental differences between the two. In both cases the assessment is based on the rental which the rateable property (the land together with any buildings and other improvements standing thereon) is estimated to be worth if the property is let year by year in its existing condition, with the exception that in Scotland the rent actually being paid could be adopted as the assessment. The main differences, however, have been :

(1) In Scotland, both "owners" and occupiers are chargeable for local rates in proportions of about half-and-half in the counties and about one-third to two-thirds in the towns; whereas in England and Wales, the rates are levied wholly upon the occupiers.

(2) In Scotland, the "derating" of agricultural land is effected by reducing the assessment of the farm and the farm land, together with the houses and other buildings thereon, to one-eighth of the rental; whereas in England and Wales, all agricultural land and farm buildings (other than dwellings) are excluded from the valuation rolls. Only farm dwellings appear and the rates are levied on them.

The result, then, of standardising the local taxation system throughout the country is to abolish the owners' rates in Scotland and to cause the occupiers to pay the lot, although with the concession that rents are to be reduced by the amount of rates which the owners were paying in the year before the Act takes effect. Obviously all future increase in the rates will fall wholly upon the occupiers.

Secondly, all agricultural land in Scotland will be blotted out of the valuation rolls, as it is to-day in England and Wales, no matter what may be the actual value of the land; and the rates are to be shifted to rest solely on farm dwellings. And now, after all the years during which, under the Crofter legislation, the crofters' cottages have been exempt from rating, these homes are to be rated. The crofter suffers more especially because the house makes up by far the greater part of the value of his holding situated as it is on marginal land, so that in the derating of the *land* and in the shifting of the rates on the *house*, he has to pay more than before. By contrast it will be the large farmer, whose dwelling makes up but a small part of the value of his holding, who by this shift in taxation will pay less; and the greater the farm or estate, the greater is the benefit enjoyed by the landholder. This is a cause for serious grievance, especially in the crofting counties in the North of Scotland.

Thirdly, by adopting in Scotland the "net rateable value" which results from the deductions (as in England) for main-

* In the Commons : Second Reading, December 15; Committee Stage in 22 Sittings from February 23 to May 15; Third Reading, June 27. In the Lords : Second Reading, July 12; Committee Stage, July 18; Third Reading, July 26. Royal Assent, August 2.

tenance, repair and insurance instead of the "gross annual value" that has been used in Scotland, a said-to-be better formula will be in operation whereby Scotland will get a larger share than heretofore of the equalisation grants that are distributed to the local authorities by the Treasury. The difference, to Scotland, will be about 1½ million pounds yearly. It is a bait which significantly enough has been swallowed, especially by the Labour spokesmen, indifferent seemingly to the effects of taxation, both national and local, such as it is to-day, so long as more money is made available for spending, the State a fairy god-mother! But there would be much to say on the fallacy and the folly of these distributions and the doubt about any real necessity for them.

It should be noted that the term "owner" as used in Scotland in this connection applies to the person who is entitled to collect from the occupier the rent for the given property, or to enjoy the rent by occupying it himself. If he is the freeholder, he retains the whole of the rent so passing. But in most cases, because of the feudal system in Scotland, he is "vassal" to an overlord whom the Scots complacently call "the superior"; and to that "superior" (actually the ground landlord) he has to pay a perpetual rent-charge of fixed amount called a "feu-duty," or in default suffer the deprivation of his whole property. As for the "superior," collecting his "feu-duty" land rents, he as an "owner" of land never did contribute to local taxation, being as free from that as the ground landlord enjoying his leasehold ground rents in England and Wales. It is well to bear these distinctions in mind, remembering that the "superiors" have ever been exempt and realising that the owner's rates (on the other owners) have been chargeable on buildings *whether occupied or empty*. This is the kernel of the whole matter.

Ignorance if not prejudice has led to searches in utterly wrong directions and made unconscious blockheads of the whole company of Ministers, Parliamentarians, Municipal Authorities, and the Sorn Committee itself, who thought they saw evils and disasters, not to say injustices, in owners' rates, from which occupiers' rates were free. In their minds, the levy of rates upon owners is responsible for the calamities and eyesores that too frequently deface a Scottish scene, of roofs being torn off houses and valuable buildings destroyed. But blindly they fail to see that it is not because rates are payable by owners that these shocking things happen; it is because taxation is levied on *buildings* no matter whether it is the owner or the occupier who is required to pay. It is the old story of the tax on date trees, imposed by Mahomet Ali, which caused the Egyptian fellahs to cut down their trees.

The question whether taxation is exacted from the owner or the occupier is neither here nor there. Put taxation on buildings and you make them scarcer and dearer. Take taxation off buildings and you give scope to the erection of just such buildings as are wanted at any time or in any place. On the other hand, if a building is deserted, for whatever reason (its structure dilapidated or unsuited to modern use, even though in good condition) and the owner is nevertheless compelled to pay taxes on it, what recourse has he? His escape, at least expense to him, is to make that building no longer habitable by simply removing the roof and then, under the rating laws such as they are in this country, it ceases to be a rateable subject. Strange as it may seem this is what does happen in Scotland. It was referred to frequently in the course of the debates in the House of Commons, and with every reference it can be seen how the speaker failed to spot the true cause of the trouble.

Sir D. Robertson, Conservative Member for Caithness and Sutherland (May 2, Committee Stage, H. of C.), gave this testimony: "In my constituency one of the most deplorable sights is the very fine homes and buildings of all kinds, as they used to be, now with the roofs gone. The only way the owners could avoid paying . . . was to take the roofs off the houses. All the way up the east coast from Dornoch Firth we see houses and barns without roofs, houses which could be made fit for occupation to-day if there were people to go into them."

Mr. J. McInnes, Labour Member for Glasgow Central (May 10, Committee Stage), said: "We all know of large houses of which the roofs have been removed because of the incidence of rating," adding that he had not much sympathy for those people "but there may be a case for them."

Rt. Hon. A. Woodburn, Labour Member for Clackmannan and East Stirling (same date) said: "When I was Secretary of State I saw, in the Scottish countryside, first-class property with roofs torn off and absolutely destroyed in order that the owner could avoid the obligation to pay rates."

Sir James Hutchinson, Conservative Member for Scotstoun (same date), confirmed Mr. Woodburn's remarks as to the "ridiculous situation which exists in Scotland of houses which may be wanted for schools or hospitals, or indeed for evacuation centres, having to have the roofs taken off in order to escape the payment of owners' rates."

Mr. C. N. Thornton-Kemsley, Conservative Member for North Angus and Mearns (Report Stage, H. of C., June 27, criticising a new clause for enabling local authorities under given conditions to levy a limited charge on owners of empty property), said: "There have been all too many cases of houses of which the owners have had to remove the roofs in order to avoid paying rates."

All this testimony points to one thing and one thing only—that taxation levied on buildings can have and does have disastrous consequences. But the lesson is altogether missed. The argument is twisted into a call for exempting owners from liability to pay any rates in any circumstances, the burden they formerly carried to be shouldered by the occupiers, so that (with the small exception which was inserted into the Bill at the last moment under pressure from the Opposition) where there is no beneficial occupancy no rates will be levied; and that, too, no matter what may be the rent the property could command if it were let.

The fault does not lie in the existence of owners' rates, as if payment by owners produced effects unattended by rates levied on occupiers. The fault is in the nature of the assessment on which both owners' and occupiers' rates are based—the assessment, as already explained, including buildings and improvements and being so designed that every development of the land is virtually penalised. It is the unenviable job of the assessor to act the detective, discovering any new building or extension, or structural improvement which in duty bound he must add to the assessment to the extent that these changes increase the rental value. Clearly, if the law required him to ignore the results of capital or labour expended on any plot or piece of ground, if it required him to assess the value of the land alone, that is to say apart from any buildings or improvements thereon, circumstances would be entirely different. Owners paying their rates on *that* assessment, as it is right and proper they should pay, and in proportion to the amount of land value they enjoy, would never think of tearing down a building unless it was to erect a better or more suitable building in its place, the opportunity to do so being more open to them because the new building like the old is tax free.

Thus we are brought to see the wisdom and justice of the taxation and rating of land values as the provider of revenue in place of the taxation, both national and local, which to-day steals from the individual the results of his labour and enterprise rightfully belonging to him. On both ethical and economic grounds the case is unanswerable.

As for the local rating aspect which is here our immediate concern, there was the earlier Lord Strathclyde* who, as chairman of the Select Committee on the Land Values Taxation (Scotland) Bill, 1906, put the matter in these words in his historic report to the House of Commons :

> "The main principle which, in the opinion of your Committee, underlies proposals to tax Land Values, is—the setting-up of a standard of rating whereby the ratepayer's contribution to the rates is determined by the yearly value of the land, which he owns or occupies, apart from the buildings and improvements upon it, the object being to measure the ratepayers' contributions, not by the value of the improvements on the land to any extent, but solely by the yearly value of the land itself. The justification given for the adoption of the new standard is that land owes the creation and maintenance of its value to the presence, enterprise and expenditure of the surrounding community. The value of the land is not created or maintained by the expenditure or exertion of its owner—except in so far as he is a member of the community. It is well, therefore, to select a standard of rating which will not have the effect of placing a burden upon industry. Hence the proposal to exclude from the standard the value of buildings and erections of all kinds and fixed machinery. To include these in the standards tends to discourage industry and enterprise. To exclude them has the opposite effect. If, then, the value of bare land, apart from improvements, be chosen as the measure by which to fix contributions to local expenditure, the ratepayer will, it is alleged, be merely restoring to the exchequer of the local authority part of that which he has derived from it. Of this principle, and of the reasoning on which it rests, your Committee approve."

In the debates on this Scottish Bill there was hardly a point raised that did not reveal what *ought* to be done if there was truth and trust in the statements we have quoted from the two responsible Ministers—it was to remove buildings and improvements from the valuation rolls and to levy the rates on the land value of each landholding in town and country, liability for payment resting on each party interested, whether as superior, owner, or leaseholder, in the land value and in proportion to his interest, in so far as the rent payable to or enjoyed by any is a land rent.

Much work needs doing to educate opinion to those ends, that the legislature will be persuaded to act accordingly; for to-day it is Landlord Law that is being confirmed and strengthened wherein is denied the equal rights of all to the use and benefit of Nature's storehouse and the true public revenue is surrendered to the private interest.

A. W. M.

LAND VALUATION IN DENMARK

An important Act was passed by the Danish Parliament on June 20 providing that in future the periodic valuation of the whole country shall take place every fourth year. Previously the rule had been every fifth year, although the actual intervals, because of special circumstances arising, have not rigidly followed that rule. Thus, since 1920, the general valuations took place in 1924, 1927, 1932, 1936, 1945 and 1950. The succeeding valuation should have been made in 1955, but it was postponed till 1956 and is now being completed.

Under the new Act the next valuation will be made in 1960 and of date September 1. There are also provisions for revising valuations in any year where properties have undergone material change as by additions to or subtractions from their area, by public undertakings affecting their value (new railways, roads, street widenings, reclamations, etc.) and other special circumstances.

Under this dispensation, valuation is made of every property in Denmark ascertaining the *land value* of each separate holding of land apart from any buildings or other improvements thereon; also the *composite value* of the land together with the buildings and improvements. For example, at the latest valuation, namely that made in 1950, the aggregate of the land values over the whole country was returned at 9,268 million crowns (say £480,000 000) and the aggregate of the composite values at 29,477 million crowns (say £1,523,000,000).

The new Act makes certain changes in the general procedures for assessment, objections and appeals, which have been guided by long experience and which will ensure even greater precision in arriving at the value attaching to land apart from improvements.

Warmly commended to all students of the subject is the paper (price 1s.) *Land Valuation and Land-Value Taxation in Denmark* by Mr. K. J. Kristensen, the Chief of the Danish Land Valuation Department, presented by him at our International Conference at St. Andrews, last year.

It will be remembered (see LAND & LIBERTY of February and of March-April) that there were introduced in Parliament last January two Bills, one a Government measure providing for amending the valuation and for tax changes increasing the "increment" tax and ultimately abolishing the State taxation levied on buildings and improvements; and the other a Bill introduced by the Justice party which included proposals for a one per cent annual tax on the capital value of personal wealth, the proceeds to be paid over to the landowners, helping them as it were to pay to the community the whole rent of land. This we dubbed an outrageous proposal and we need not here go over the ground of all the objections to it. Suffice to say that both those measures were remitted to a Committee of the House, which was unanimous in recommending that the legislation bearing on the Land Valuation should go forward, while all else should be postponed for consideration when Parliament meets again later in the year.

A. W. M.

OLYMPIC GAMES, 1956

Our colleagues in Melbourne are hopeful that among the visitors to their city for the Olympic Games in November there may be a number of readers of LAND & LIBERTY. They are asked to advise Mr. R. J. Crowe, honorary secretary of the Henry George League, at 18 George Parade, Melbourne, as soon as possible so that arrangements may be put in hand to receive and entertain them and for a conference to discuss matters of common interest.

* The late Mr. Alexander Ure, K.C., who, on his appointment in 1913 as Lord President of the Scottish Court of Session, assumed the title of Lord Strathclyde. From 1895 to 1913 he was Member of Parliament representing Linlithgowshire. In the Liberal Government which was returned in 1905 he held successively the offices of Solicitor-General of Scotland and Lord Advocate.