A Manufacturer Writes to "Land & Liberty" . . . .

"There is No Justice in Your Campaign"

The Editor has received the following letter from Mr. A. H. S. Pomeroy, a Director of Thos. Ross & Son (London), Ltd., printers of fine art engravings, etc.:

I note in the last issue of LAND & LIBERTY you make a violent attack on de-rating. As a primary producer, largely for export, I cannot acquiesce in any way to further burdens being put on people such as us. Our whole economy has been built up on keeping overheads as low as possible, and since de-rating was introduced, load after load has been put on us by various Governments to collect this, that, and the other thing for them, and hoards of inspectors have been appointed to pry, poke and probe, thereby making life infinitely more difficult.

The re-assessment people have increased the assessment of my business premises by over two and a half times, and being a private company this can only come out of one person's pocket, *i.e.*, the proprietor's. Purchase Tax is so high on our commodities that we cannot possibly increase the price at home, or we shall be priced out of the market, and if we put up our export prices we shall price ourselves out of the international market as well. The cost of de-rating to the community is infinitesimal in regard to the total volume of money which is collected in rates.

There is also no justice in your campaign, because we pay our full whack at our home, and another whack on our business premises, so we are doubly rated. We do not use the amenities provided by the business area authority beyond having our dust collected, the streets lighted and sewage. The higher assessment also increases our water rate, which we use to a very small extent, and we are rated extra on water because we use a very small quality for damping our paper.

The case for the shop-keeper is vastly different. The major part of his activities are concerned with local people and he is making a living and profit in the same area in which he is rated.

In the circumstances, therefore, I am not inclined to support a body which agitates for further loads to be put on an already difficult business, and which can ultimately come out of my own and my fellow directors' pockets. It is an unfortunate trend, these days, to regard a business as an inexhaustible source of money which apparently comes from nowhere in particular. I can assure you that it is very, very difficult to earn money these days and still more difficult to make a profit or, as far as I am concerned, a living.

OUR REPLY

We have the deepest sympathy for all victims of land monopoly and privilege. Perhaps our correspondent does not recognise himself from that description? Yet such he is. His difficulties are directly attributable to the great wrong in society whereby the value given to land by the presence and activities of us all is permitted to be collected by a privileged minority for their own especial benefit. He looks in vain if he seeks elsewhere than in our literature for a just and practicable solution for his difficulties. This journal calls for the abolition of *all* taxes and privileges that restrict the production of wealth and prevent its just distribution, and shows how that object may be realised only by levying taxation solely upon the economic rent of land (the value of land apart from buildings and other man-made works on or in the land) and by liberating internal and international trade from every kind of artificial restriction. Expressed tersely in slogan form: "We would take for the community what belongs to the community, the value that attaches to land, and we would leave sacredly to the individual all that is produced by the individual."

Which Shall It Be?

There is no blinking the fact that central government and the local authorities *must* have revenue. It is equally clear that either they derive it from taxation imposed on the value of land or from taxation on the value of labour and labour products, as by the surtax, income tax, purchase tax, tariff and excise duties, and taxes, both national and local, on the value of buildings of every kind.

Until our policy is fully implemented by parliamentary legislation, manufacturers such as Mr. Pomeroy, and men and women in every walk of life will be cramped and frustrated, penalised and mulcted by oppressive taxation on the results of their labour.

Adoption of that policy would allow men and women complete freedom so that they could exercise their talents to the fullest advantage. There could be prosperity for all who desired it, and none would need to look enviously or covetously at another's wealth. The present apparent need and popular demand for subsidies and "welfare services" which constitute so great a drag on enterprise and industry would wither away and die an unlamented death, when each received the full value of his efforts. So, too, would the strident screeches to increase production for man is by his very nature a producer, and since the dawn of time he has sought easier and better ways of applying his mind and muscles to the resources of nature in an elusive attempt to quench his insatiable desire for the products of labour; free opportunity, not irritating exhortation, is the means whereby industrial production may be increased.

Given a free economy based on land-value taxation and full free trade, there would cease that vexatious searching and questioning by government officials of which our correspondent complains. Directors would conduct the affairs of their companies as they deemed best, reaping the benefits or suffering the consequences of their decisions. Ships' holds and suitcases would no longer be searched at the ports, and everyone would be spared the indignity of having to reveal to the tax-collector the extent of his income.

Equal Freedom or Virtual Extinction?

We know that our correspondent would welcome the opportunity to live and work in such conditions. Of course, the realisation of such a form of society necessarily would take some time—present injustices and hardships and impediments cannot be swept away overnight by some wave of the legislative wand. It is the great virtue of this policy that it may be introduced in a series of easy stages, each of which would bestow signal benefit to the whole population of these islands. The first step may be taken as soon as there is sufficient public understanding and resolution to demand it. All that we can do is to point the way. Whether that way is followed, or whether we continue on the present path, strewn with the wrecks of tax-smashed enterprises, towards industrial monopoly and its handmaiden, totalitarian government, must rest with others.

Untax All Buildings

Unfortunately our correspondent has so gravely misunderstood us that he believes us indifferent to the ravages of destructive taxation, and even anxious to see present tax burdens increased. He should read again what we wrote in our May issue on the subject of industrial derating. Categorically we stated: "Factories, no less than other kind of building or improvement, should not be taxed at all." We denounced the whole basis of present local taxation and expressed the view that many industrialists are already (despite the benefit of "derating" relief) paying more than their fair share of the cost of local government. We remarked that we did not regret the defeat, on Third Reading, of Mr. Sparks' Industrial Rating Bill by which an attempt was made to bring factory premises into line with all other buildings for rating purposes. And our final comment on the Second Reading debate on that Bill was to the effect that it had been confined to discussing "*whether to maintain or increase the present harmful rate burden on industry.*"

The misunderstanding appears to have arisen in one of two ways. A possibly over-hasty reading may have misled our critic into attributing to us the reported comments of the Labour and Conservative Members who wished to increase the rates on factories. More likely, exception is taken to the assertion that the derating "privilege is wrong in principle and harmful in practice and has been opposed in these pages since the outset." That is partly opinion, partly fact.

In our view it is either right or it is wrong to tax buildings. Justice requires that all citizens should receive equal treatment under the law. Either *all* man-made structures should be taxed and on the same basis, or none should be.

Tribute Vice Pays to Virtue

The exemption accorded in respect of industrial properties is a grudging, halting admission that the taxation of buildings is economically harmful. It is one of many statutory endorsements of our contention that the fruits of labour, be they bricks and mortar or anything else, should be free from charge of taxation, local or national.

Even with this so-called derating "benefit," industrialists tend to be deterred from erecting new premises or improving or extending existing buildings. Those who do commission such additions to the total stock of wealth in the country are "fined" by the annual levy of rates, or increased rates. That will not have escaped our correspondent but it is overlooked by many of those who clamour for the mere repeal of derating. Foolishly and ignorantly they regard industry as a milch-cow, its udders brim full of "profits" which can be drained without injury to society. Possibly that may be true of monopolistic concerns (fostered and sheltered by wrongful taxation) but generally it is not so.

We have never held such views or advocated such a course. Indeed, when giving evidence eight years ago before the Site Value Rating Enquiry Committee, the publishers of LAND & LIBERTY (the United Committee for the Taxation of Land Values) were at pains to stress that mere repeal of derating was no solution. They maintained that that would have been merely to have patched the present rating system and to have thrown the weight of local taxation back on buildings and improvements. Their contention then was, as it is still, that the remedy in the field of local government was to assess the value of land for local taxation and to *derate all buildings and improvements.*

Examples from New Zealand

Practical overseas experience amply demonstrates how industry is benefited when factory buildings are completely "derated" in our sense of the term, and rates are levied wholly on the value of the land on which they stand. Two instances may be quoted from the New Zealand exhibit presented in evidence to the above-mentioned enquiry by the United Committee. The figures relate to the tax year 1941.

The site-value rate in respect of (*a*) a manufacturing plant in an outer suburb of Wellington, amounted to only £24 that year. If rates had been levied on the "composite" value of properties (land and buildings taken together) as in Great Britain, the rates on that plant would have been £203.

The site-value rate for (*b*), another manufacturing plant also in the Wellington outer suburbs, was £21. If rates had been levied on the "composite" value, they would have amounted to £348.

Investigation showed that in Wellington the relationship was such that, on the average over the whole city, there was £100 of land value for every £164 of building value. As a consequence, wherever the ratio of the value of the building to the value of the land was greater than 1.64, the actual land-value rate payments were lower than they would have been if Wellington applied the British rating system. In the examples here cited, the ratio of building value to land value was, for (*a*) 20.94, and for (*b*), 40.98. If either of those properties has since been further improved even more striking benefits will now be derived from the practice of levying rates only on the value of land.

Typical of the views of progressive manufacturers who benefit from this system of rating was the letter in our last issue by an Australian industrialist reprinted from the *Paper Box and Bag Maker*. Further similar endorsements are published in our present issue. Lest we may be misunderstood again, this time by some new reader who is not an industrialist, let us hasten to add that the average private owner-occupier and house tenant, as well as every other class of ratepayer who occupies premises with a high ratio of building value to land value gains when rates are levied solely on the value of land. And that is true of both freeholders and leaseholders.

Divided and Oppressed

Our reply to Mr. Pomeroy has been in general terms because we hope that other industrialists besides him may read what we have written. But two points in his letter which deserve attention are more particular. We cannot accept that the only municipal services of which his company avails itself are refuse collection, street lighting and sewage. Obviously he overlooks the police and fire services and, if he will but ponder for a moment, he will realise that other services, directly or indirectly, are of value to him in his production. But he will appreciate also that the value of those services, whether he uses them or not, is reflected in the value of the land on which his factory stands. That site would be very much less valuable if those services were suddenly withdrawn. Once that is understood, the case for land-value rating finds immediate acceptance.

If we may, we would chide our correspondent for his attitude towards the shopkeeper. As we have remarked before, present wrongful taxation divides society into mutually antagonistic groups, so that it has become natural enough for A, conscious of his own burden, to look to B and to suggest that he is better able to bear the cost of public services. That attitude is noticeable each spring when the various interests attempt to bring pressure to bear upon the Chancellor in the hope that he may be able to afford them some relief, and it has been considerably magnified by the recent re-valuation for rating. This suits well those who appropriate the value of our Motherland but it stands in the way of a just solution of economic and social problems being adopted. Taxpayers and ratepayers must cease their profitless game of beggar-my-neighbour. They must realise that every man and woman has an absolute moral right to receive the full value of his or her effort, mental or physical, and that the way to benefit themselves is by working to secure equal economic freedom for all. P. R. S.

A Reader Considers . . .

The Sad Case of a Leaseholder

A correspondent puts to us the following case, which he says is "typical," and he gives us a "mathematical calculation" wondering how it impinges upon the theory and policy of the taxation of land values:

"A freeholder leases land for 99 years on the terms of £10 a year ground rent and the cession, at the expiry of the lease, of the house which the leaseholder builds (value £3,000). For the use of the land and for nothing else, the freeholder is enriched and the leaseholder impoverished at the end of the lease by the annual ground rent, plus £3,000. The annual ground rent is therefore £10 cash plus 1/99th of £3,000, say £30. This can be proved by the fact that if the leaseholder sells his lease after 50 years, for example, it will realise only about £1,500. I regard this as incontrovertible! If I were a government valuer I should say the land is worth £10 a year plus £30, equals £40 a year in the open market and that is what the leaseholder is paying, and is what the freeholder is getting and will be taxed upon. I should add that the house does not "revert" or "return" to the landlord because he had no house before; it is a new acquisition in return for the use of the land over 99 years."

OUR REPLY

For the sake of our correspondent's mathematics we have to imagine that the purchasing power of money remains the same throughout the period, and that the house has the same value, namely £3,000, on the 99th year as on the first year of the lease. The leaseholder, having spent the £3,000 on the building of the house, has (under contract of lease) the use of the house over the whole period; and at the end of the lease he has to surrender that £3,000 value to the landlord as final payment for the use of the land *in addition to* the annual ground rent, fixed from the beginning at £10 a year.

Our correspondent overlooks entirely the present value of a payment that is to be made in the future. He would reduce the £3,000 capital value payable *hence* to an annual value payable *now* and there his "mathematics" are unsoundly based. The case is the same as if the leaseholder borrowed the £3,000 say at 5 per cent interest (£150) and had to repay after 99 years. What sum as a prudent man would he set aside annually in order to make this repayment? Actuarial tables show that at this rate of compound interest, a sinking fund of £1 4s. per annum will in 99 years amount to £3,000. Implicit, therefore, in the transaction is that the annual amount the leaseholder is paying for the use of the land is £10 plus the £1 4s.; that is, £11 4s.

Again our correspondent is mistaken in saying that if the lease were sold after 50 years it would realise only about £1,500. He omits interest from his sinking fund calculations. Given (as we have already had to imagine) that the house maintains and will maintain its value at £3,000 and therefore its rental value at £150 per annum, and adding the said sinking fund of £1 4s. per annum, the person who buys the lease after it has run for 50 years is buying the equivalent of an annuity of £151 4s. for 49 years. At 5 per cent compound interest, the value of such annuity is £2,750 and that is the figure at which the lease should sell.

Turning the Wheel Full Circle

Interesting as these calculations may be, with regard to the case as stated, our correspondent would deserve discharge from his job as valuer if he made the kind of valuation he suggests. In the valuing of land for taxation purposes, the valuer is required to ignore the existence of any buildings or improvements upon the particular site being valued. He would assess the annual land value; that is to say the annual rent which, at the date of valuation, and in the open market, a willing lessor is prepared to pay upon a perpetually renewable tenure. If our self-appointed valuer had his way, he would have to take into account the value of the building standing on each different site; and behold, there are say three sites each of the same value and with leasehold houses thereon that have to be surrendered on expiry of the lease—one worth £3,000, another worth £2,000 and the third worth £5,000. Apparently our correspondent would put a different assessment upon these different sites simply *because* of the different buildings standing thereon, which would bring us back to the present state of affairs with taxation imposed in the measure of development undertaken. One is curious to know how our correspondent would deal with owner-occupied freehold property where there is no case of surrender to a ground landlord, and also with vacant sites where there is no building at all?

What the community is concerned with is the actual land value as periodically assessed. The rent payable by one party to another is a matter of private contract bearing no necessary relation to the true land value. Over and over again it is seen how land values rise during the term of leases, so that while the leaseholder continues to pay his contracted fixed ground rent, he enters into enjoyment of a part—it may be a very large part—of the economic rent of the land. The leaseholder has then become part-owner of the land-value. Such may very well be the position of the "typical leaseholder" who has our correspondent's sympathy.

The conclusion is that in the application of land-value taxation, liability for the payment would be borne by those who enjoy the land value, and so in proportion to their prospective shares therein. A. W. M.