

THE PROPER SOURCE OF PUBLIC REVENUES

At its Annual Conference, held in Killarney, September 18-20, 1946, the Association of Irish Municipalities discussed the following Paper, read by Mr. A. W. Madsen, B.Sc., Secretary of the United Committee for the Taxation of Land Values, Ltd., and Editor of "Land & Liberty," 4 Great Smith Street, London, S.W.1.

"We vex the poor with indirect taxes, we squeeze the rich, we ransack heaven and earth to find some new impost palatable or tolerable, and all the time these hardships going on, neglected or misapplied, there have lain at our feet a multitude of resources ample enough for all just common wants, growing as they grow, and so marked out that one may say they form Nature's budget. Such seems the rationale of the subject of which the land question forms a part. And so we may say that, if property in land be ever placed on a theoretically perfect basis, no private individual will be the recipient of economical rent."—Sir John (later Lord Justice) MacDonell, in his book, *The Land Question* (1873).

The subject on which I am privileged to address this Conference is the Rating of Land Values. Many questions of a practical nature arise, but before consideration is given to them, it would be advisable, I think, to find agreement if we can on the moral justification of a proposal which is so intimately associated with property rights. The argument that a thing is just precedes the argument from expediency. When we have a clear understanding of what is meant by "land values," we shall better appreciate why they are selected as a peculiarly fitting source from which to draw the public revenue, while at the same time we take taxation off "the work of man's hands."

LAND AND ITS RENT

The eminent jurist, Lord Justice MacDonell, in the book from which I have quoted, examined the nature, the origin and the function of the rent of land. His conclusions serve my purpose so well that I take leave to quote him again:

"Of the total proceeds of any acre of ordinary land, so much is the return on the permanent or durable capital—

drains, fences, etc.—invested therein; so much is the return on the circulating capital renewed annually, or at short intervals; and the residue is ascribable to permanent and inherent attributes of soil, situation, proximity to markets, roads, railways, etc., and to what I may term the general state of society. That the first part should accrue to the landowner if, as not unfrequently happens, he furnishes the capital for permanent improvements, is right; that the second should go to the usufructuary or farmer is also clear; and what seems equally indisputable is that the last, consisting of economical rent, should go to the general body of society.

"It having been shown that 'economical rent' is paid for differences in quality and situation of land, created by no man, or that it originates in circumstances not to be credited to the landowner, it would naturally have been expected from Ricardo's principles would have been unanimously and instantly deduced the conclusion that economical rent should not become the subject of private property, that no private individual should be permitted to monopolise 'the original and indestructible properties of the soil' and what no man had created or earned by labour of his no man should own.

"It would have been only natural for all who accepted the preceding account of rent to hold that rent which proceeded from the common labours of the community should belong to it, that wages were not more fitly the reward of the labourer, or profits the reward of the capitalist, than was rent, as Ricardo understood it, the appanage of the community or State."

And further:

"Since the State, ever needy, is compelled at present to draw its revenue from taxes which are a hardship to all, and a grievous burthen to the poor, it is no paradox to affirm that the maintenance of the State should be provided, as far as may be, out of those funds which Nature herself seems to have appropriated to public purposes, arising as they do out of common or public exertions."

TESTIMONY OF LAND AGENTS

Many other writers have of course stated these truths with equal clarity, proving that the rent or value of land is a community product and that its rightful place is in the public

treasuries. Lord Justice MacDonell described it most aptly as "Nature's budget." But we can pass from the more theoretical or academic argument to supporting testimony from quite a different source. It is provided in almost any advertisement of land for sale. I take for example the vendors' announcement when the Southgate estate in Middlesex was offered in the market. The prospectus gives this description:

"Most suitably situated for residential purposes. Close to the railway, with rapid transit to the City and West End. Frequent service of buses to Charing Cross and Victoria. Gently undulating ground. Good air at an altitude of 277 feet above sea level. Access to drainage, gas and water and electric mains, all ready to be tapped. A public park to be laid out by the local Council and new broad town planning roads. And other facilities, including the main railway line to King's Cross with its station to Oakleigh."

In this instance the factors which give land its value are shown to be a desirable situation, the proximity to a great city, the air above the sea, the speed and comfort of modern transport, the benefits of public enterprise, and in general all the advantages that attach to the land by what nature and the community have done to make life worth living at that spot.

It is thus that the value of land is everywhere created and maintained, being high at one point and low at another, all according to advantage of situation and the surrounding facilities for business, trade or dwelling purposes. Observe how it varies as you pass from the centre of a town to its outskirts. Consider the phenomenal height to which it rises in the heart of big cities, as for example in Liverpool, where land has been sold at the rate of £238, £317 and £330 per square yard, corresponding to an annual rent of from £50,000 to £60,000 per acre. One acre of land there commands as much rent as 100,000 acres of average good farm land; and from pounds to a few pence or less per acre there is every variation in the value of land used for agricultural purposes.

MORAL CONSIDERATIONS

All I have wished to establish up to this point is that whether the value of any land is high or low, it is never due to any industry or enterprise on the part of the land holder. It is the resultant of the presence and activities of the com-

munity, and the community's title to its use and enjoyment is indefeasible. These ethical considerations carry us on to the counterpart of the Rating of Land Values, which is the exemption of buildings and improvements. The community has its title to what it produces in the value or rent of land, but it has no moral title to what it does not produce. Buildings and improvements are private property, the result of individual industry, enterprise and thrift, and they should go unscathed. Just taxation resolves itself into this clear distinction between what belongs to the community and what belongs to the individual.

RESULTS OF BAD TAXATION

The present system of local taxation is based on the annual rent obtainable for any property if let for a year in its existing condition. Land and buildings are lumped together, no distinction being made between the value of land and the value of any buildings or improvements standing thereon. The burden falls upon the occupier,* so that he has to make the two-fold payment of rent for the premises and rates to the local authority. The operation of this system causes the taxation to fall on *the use* that is made of the land; the better the building or improvement, the higher is the tax. If a derelict or out-of-date building stands on valuable land, the property has a low assessment, because the rent obtainable for it *in that condition* is low. If the valuable land is vacant or unused, the assessment is a nominal figure or nothing at all. Thus the economic effect of this mode of taxation is to discourage the making of improvements, to penalise industry, to add to the cost of houses and other buildings; to give a premium to the withholding of land from its best use against the anticipation of higher prices or rents than would-be land users are willing or able to pay at the moment.

Under these conditions land monopoly exercises an evil influence inside and around the towns and over the countryside as well, causing artificially increased rents and limiting opportunities. Low wages and unemployment are its fruits.

SOME ILLUSTRATIONS

Example after example could be given of the contrast between the market value of such land and its present rate-

* See footnote, page 9.

able value, or of the rates leviable on it, under the existing system; but a few illustrations can stand for the rest. These I have to take from England, but I am sure you can supply many similar instances from Irish experience, the Irish local tax system being the same as the English.

The Southgate estate I have mentioned was withdrawn at auction after £85,000 had been bid for it. Of its 102 acres, 96 were in agricultural use and the annual rates were only £3 8s.; the remaining six acres had buildings on them, on which the rates were £135 8s., a total of £138 12s. Judging by the amount of rates levied, the "rateable value" was £300 at most, but the withdrawn figure of £85,000 shows that the true annual value was something more than £3,400. The sites required by local authorities for housing, schools, hospitals, open spaces, street widenings, etc., provide notorious examples of the same kind of thing. In Bristol, £106,666 for land previously rated at £271 a year; in Sheffield, £10,452, previously rated at £8 18s. a year; in Leeds, £16,798, previously rated at £20 a year; in Stoke-on-Trent, £16,798 for land which previously had no rateable value at all; and so on.

ADOPTION OF THE LAND-VALUE POLICY

Little remains to be said about the faults and failings of the present rating system. The alternative proposed is the Rating of Land Values and the exemption of buildings and improvements. This requires a valuation, showing separately for each piece of land its true market value apart from any buildings or other improvements upon it, and would include all land used or unused and whether built upon or not. The local authority would levy its "land-value rate" on those values. The obligation to pay would rest on those who at present receive or enjoy the land value, each contributing the due proportion corresponding to his interest in it. These are briefly the mechanics, so to speak, of the matter. The economic effects can be appreciated and I hardly need dwell on them. The best use of land would be encouraged instead of being stayed as at present. The withholding of land from use, or its best use, would be made unprofitable. The competition of land coming into the market would reduce the general level of rents. Housing, town planning and all desirable developments at the hands of the Council and the citizens themselves in their private capacity would be facilitated.

PRACTICAL QUESTIONS

Could this rate on the value of land be passed on in higher rents and prices? What would be the financial effects of the change in respect of each and every property? Are there any difficulties in the making of the necessary valuation? These are some of the inquiries we meet with. As to the first, all economists agree that such "passing on" is impossible, but it can be held for further discussion. As to the second, the question assumes that the town is obtaining the same revenue from land values as it was obtaining from rateable values. Accordingly those properties will pay less where this relationship, land value to rateable value, is less than the general average over the whole town (and they are the vast majority). The underdeveloped property will pay more and the vacant land still more. At the centre of the town, however, where land values are always highest, you find also that even for improved properties their land value is higher in proportion to the rateable value than the average over the whole town. Accordingly they will pay more under the change. The question is of especial interest to owner-occupiers, since they are ratepayers under either system—as occupiers under the old and as owners under the new—and it can be said with all confidence that they (excepting in that inner ring where land values are so high) will gain financially by the change. (I have a note here to mention, if time allows for discussion, the insight of the Danish small peasant proprietors into this aspect of the question which made them such strong advocates of the Land Value policy; and to the results of the survey made by Mr. H. Bronson Cowan into the operation of Land Value Rating in New Zealand, Victoria and New South Wales.)

Finally, as to the necessary land valuation, this is a matter of correct legislative definitions, of having competent valuers and wise methods of procedure, all aided by full publicity. It should preferably be undertaken by a specially appointed Valuation Department independent of any tax-collecting authority. Any question of difficulties in ascertaining separately the value of land, apart from buildings and improvements, is fairly met by what has been accomplished in other countries, including Denmark, Australia, New Zealand, South

Africa, the Western Provinces of Canada, California, Pennsylvania, where in greater or less degree the principles of Land Value Rating are in operation; and in Ontario and many cities of the United States, the separate valuation of the land value is the established practice for arriving at correct assessments of all real estate. Most interesting and instructive to us is the example of Denmark. The whole country is mapped for the valuation and the maps are published for any one's inspection, so that the valuation authorities have the co-operation of the public in arriving at generally agreed results. Every town, every district has its own map, so that street by street, and holding by holding, the visual demonstration of the land value is given. For streets it is the frontage value at so many crowns per square metre to a given depth. Interesting, too, is how those differences in the value of land, to which I have previously referred, are revealed. On the main shopping street of Copenhagen, the land value is £20 more per square metre on the one side than on the other, reflecting the fact that the pedestrian traffic is so much greater. The valuation is made periodically once every five years, over the whole country. It was due to be made in 1941, and had to be postponed during the war; but as soon as liberation came it was undertaken for 1945 and completed within the year.

The adoption of the principle of Land Value Rating in all the countries I have named and the practical experience of its operation are conclusive arguments, besides all that is to be said for it as a matter of justice, which dissolve every doubt that the policy is good for Ireland, for Great Britain and every country in the world.

A. W. MADSEN

RESOLUTION AND DISCUSSION

(See following pages)

RESOLUTION AND DISCUSSION

The Conference was attended by some 70 delegates from local authorities in Eire. The reading of the Paper was given a very generous reception, no fewer than thirteen delegates taking part in the discussion after a vote of thanks had been moved by Councillor F. PHILLIPS (Cashel), and seconded by Alderman M. J. HARTNEY, ex-Mayor of Limerick.

Mr. A. POWELL, Town Clerk of Cobh, moved, and Mr. R. DE BARRA, Town Clerk of Mallow, seconded a resolution in the following terms, which was carried unanimously :

"That the new Executive of the Association examine the question of the Taxation of Land Values on the basis of (1) cost involved as the question of a general revaluation appears to be necessary ; and (2) the effect on local taxation ; and that we empower them to take such action as they may be advised."

Alderman W. FURLONG, T.D. (Member of Parliament), Cork, said he was arranging a meeting between the Lord Mayor of Cork and Mr. Madsen on the latter's return journey to England.

Mr. PHILLIPS, in his speech, said that the cause of equal rights to the use of land had ever appealed to the Irish people, and he recalled James Fintan Lalor and Michael Davitt to memory. Alderman HARTNEY said he had read much of the literature circulated by the United Committee, and was greatly impressed by it. Alderman W. JONES, Mayor of Waterford, said his town had requested the Government to carry out a revaluation (for rates as now levied), but it had resulted to their dismay in some people having to pay more in rates who they thought were already paying sufficient, so that revaluation "had its dangers." At the same time he instanced the expenditures incurred upon land drainage which had made a present to landowners in increased prices for land. Other speakers included Mr. O. J. FLANAGAN, T.D., Mountmellick ; Mr. J. O'CONNELL, Chairman of Tuam Town Commissioners ; Mr. YOUNG, Fermoy ; Mr. CARMODY, Town Clerk of Ennis ; Councillor P. CUNNINGHAM, Dundalk ; Councillor M. HUGHES, Sligo ; Councillor O'DONOGHUE, Naas ; Councillor J. FLYNN, Mayor of Sligo and Mr. SEAN MACCATHMAHAIL, Town Clerk of Bray and Secretary of the Association, who mentioned the lead that the London

County Council had given to the municipal land values movement by the Site Value Rating Bill which it had introduced in Parliament, but which under a Speaker's ruling could not go forward.

Replying to questions, Mr. MADSEN said revaluation was a "danger" only under existing conditions. Under the system he advocated those who made the best use of land would not suffer and would not have buildings or improvements taken into consideration.

Dublin papers gave useful reports of the proceedings. The *Cork Examiner* printed a large part of the Paper, and that publicity was supplemented by the Editor himself engaging in the discussion with a long leading article in critical mood on the taxation of Land Values "that very old proposition which was revived at the Killarney Conference." Contending that it has proved "unacceptable" and "unworkable, he made Henry" George and his theories a whipping boy, and declared that before the author of the paper at Killarney had a hearing at the Cork Corporation, the members of that body should procure and read and digest Henry George's works, and then say whether they are prepared to support the Taxation of Land Values and scrap all tariffs and subsidies. The Editor was thanked for this advertisement and recommendation, and his contentions against T.L.V. were answered in a letter which he was good enough to publish.

INEQUITABLE AND OUT-OF-DATE ASSESSMENTS

Basically the standard on which the rates are levied, and are payable by the occupier,* is the same as that in England and Wales, namely, it is the rent, subject to certain deductions, which any property will command if it is let for a year in its existing condition. But in Ireland there has been no general

* An exception in Ireland is that (Ss. 14 and 23 of the Local Government Act, 1946), where premises are vacant at the date of making the County or Municipal rate, the rate shall be made on the owner, who shall be entitled to a refund of one-twelfth in respect of every completed month during which the premises are unoccupied either for the purpose of executing additions, alterations or repairs, or because the owner is *bona-fide* unable to obtain a suitable tenant at the maximum rent permitted under the Rent Restriction Act, 1946, or at a reasonable rent in the case of premises to which the Rent Restriction Act does not apply ; such refund, however, cannot be made until the full rate assessed on the premises is paid by the owner.

revaluation since 1866, and this "poor law valuation," as it is called—corresponding to "net rateable value" in England and Wales—is the responsibility of the Commissioner of Valuation whose department is centred at the Ministry of Local Government. It is the basis also of Income Tax on rents from landed property.

In Ireland they have no local assessment committees as in England and Wales, so that local authorities can do nothing but accept values established in 1866. The only changes made (except for minor adjustments) are those which affect new buildings or structural alterations. It is a system which is peculiarly savage upon any improvements, and apart from that, because valuations generally are so out of date, it is wholly inequitable as between one property and another.

As to "uncovered land," which is the description applying to agricultural land, it appears that its valuation dates back to the years 1849-51, when it was valued with reference to the average prices during those years of the several articles of agricultural produce. And "agricultural grants," not, however, going so far as the Derating Act in England and Wales, give reliefs in respect of agricultural land which still further result in passing the rent or value of land into private pockets. It is little wonder that the rates in the £ reach in Ireland very high figures, as 25s. in the £ in Cork, and up to 35s. in the £ in other places, and this tax hits most heavily every effort in the way of building development. Local authorities cannot control the valuations. If they desire a general revaluation they have to apply to the Government, and the quoted experience of Waterford sufficiently shows that so long as the present *standard* of rating remains there is reason on the part of the local authorities to be very hesitant in the matter.

ADMITTED NEED FOR REFORM

Seized with these views, the Association of Irish Municipalities, with the impetus Mr. MacCathmhaoil has given to the discussion, has repeatedly ventilated the Rating of Land Values. Papers on the subject were presented to the Annual Conferences in 1937 and 1940 by Mr. F. C. R. Douglas, and copies, as of the recent Paper, were widely circulated throughout Eire. Large quantities of the literature published by the United Committee have also been distributed. At its Conferences in Ennis, 1936, and in Galway, 1938, the Association passed resolutions request-

ing land value legislation from the Government; and (showing how the chaotic state of the present assessments is generally admitted) the Finance Minister in his Budget Speech, 1938, said: "The rateable valuation of the country, particularly in the urban areas, stands on an extremely conservative basis, and on the whole no longer fairly represents the commercial values of the hereditaments which constitute the basis of local government finance. This is a situation for which an early remedy must be sought, for it operates to cripple the finances of the local authorities and to impair their credit."

OTHER DECLARATIONS

An *early* remedy? Eight years have passed, and there is no legislative progress to report. A new Valuation Bill was introduced, and received a second reading on March 1, 1939, by 67 votes to 51, but its place is not yet on the Statute Book. When the Bill was before the Dail, the United Irish Leaseholders' Association, under the competent leadership of Mr. Owen Mulholland, pressed for a provision requiring that the annual site value of every holding apart from buildings should be ascertained and entered in the valuation rolls. On February 24 of the same year, the Rev. J. E. Canavan, Chairman of the Citizens' Housing Council of Dublin, at a meeting of the Social Enquiry Society of Ireland, urged the view of people interested in slum clearance that the raising of a rate on site values should be seriously considered by public authorities. "It could be done within the framework of the constitution; it taxed only the wealth which came from the efforts of the community, and did not tax wealth that came from the efforts of the individual."

At the Ard-Fheis (annual convention) of Fianna Fail, the Government party, on December 3, 1935, Mr. Erskine Childers voiced a plea for a Land Valuation Bill which would show the value of land apart from improvements. Addressing the National Town Tenants' Association a few days earlier at Westport, Co. Mayo, he said that Land Value Taxation was the remedy for the grievances of town tenants. In the Dail, on February 7, 1936, Mr. Richard Anthony, Independent Labour T.D. for Cork City, moving a resolution formally seconded by Mr. Morrissey, Tipperary, made a full and able statement on the justice and urgency of Land Value Taxation. The House, however, adjourned without voting. We should also take into this record the resolution of the National Convention of Lease-

holders' Associations at Cork on July 31, 1936, and the statement of the Labour Party on "Taxation of Site Values" in its pamphlet, *Planning for the Crisis*, which it published in April, 1940—although the former related specifically to the taxation of undeveloped land at its full site value, and the latter to abolishing the anomaly which enabled owners of ground rents to escape paying their due share of local taxation. The declarations were incomplete in not calling for the rating of *all* land values, but their importance was in making sentiment against the injustice of the present system. Mr. Eamonn Ginnell, hon. secretary of the Leaseholders' Organisation, acknowledging literature received from the United Committee, wrote: "As far as this country is concerned, there is still a land question. Legislation has been for one class of tenant—the agricultural tenant, and the towns and cities are as the rural dwellers were sixty years ago . . . progress is doubtful on any other lines than those in your policy." The Labour Party, in its statement, said, "Apart from the large sums which are exported annually from this country in respect of existing ground rents, every day new ground rents are created by private interests taking advantage of the enterprise of the local authorities without a penny-piece reverting to the bodies responsible for maintaining, out of public funds, the amenities of the property and enlarging its profit-making potentialities."

One of the speakers at the Killarney Conference, Mr. A. Powell, the Town Clerk of Cobh, said that the Paper submitted to them proposed a revolution in local taxation, but they were not afraid of revolutionary measures. The Irish were pioneers, and what had been achieved elsewhere they could undertake. That sentiment certainly prevailed at the Conference. The more that the Association can do to promote it among their constituent local authorities the sooner shall we see the practical adoption of the reform. And the Irish Government has the opportunity not only to give its country the enormous benefits that will come thereby, but also to show a lead and a lesson to the rest of the world.

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