

Edwin Anderson

Has a few interesting arguments, vulnerably presented.
vs. congestion of commons.

Edwin Cannon "The Proposed Relief of Buildings from
Local Rates"

A negative argument. Wordy & rambling, not
well thought out or very precise. More emotional than
factual. Predicts some dire consequences from adopting
such a system. A horrid article.

Feels that such a system will lead to over
crowding.

Objects to the fact that buildings which use &
necessitate services pay nothing for them.

Building would be encouraged, but to no economic
advantage.

Feels city services not subject to economies of
scale, rather diseconomies of scale prevalent - thus
crowding of building; people lead to more cost not
less cost.

States his views on the poor, for what it's
worth.

THE PROPOSED RELIEF OF BUILDINGS FROM LOCAL RATES.¹

I HAVE chosen the relief of buildings from assessment to local rates for my special subject in this conference, because that appears to me to be the demand on which the site-value taxation movement is concentrating. In the heat of political controversies economic ideas gradually improve, and I think it is pretty clear that the old belief that something could be got for the occupier by preventing him from agreeing to pay the rates levied on the property he occupies is very nearly exploded even among the most backward thinkers. The proposal for making this kind of contract impossible does indeed still linger in the very latest bills for land-value taxation, but we may, I think, expect it to be modified till it becomes meaningless, if it is not omitted altogether. Under the Bills of a year or two back a lessee who had made a good bargain by taking at a low ground-rent a plot which subsequently rose largely in value could have deducted from his ground-rent more than the ground-rent, and, therefore, have made his landlord pay him something. This absurdity was, of course, never intended, and has now been dropped. It is still proposed that the lessor's income should be liable to indefinite reduction by the rise in the poundage of the rates which may reasonably be expected to take place as it becomes convenient to supply more services from a central local station and without charging for them by actual measurement of the quantity taken. But this proposal also will soon be seen to be absurd and only likely to kill the system of letting on long leases for fixed sums, and to substitute leases for sums growing with the site-value.²

¹ Read before the Congress of the Royal Economic Society.

² At present, when a landowner lets a plot of ground, he asks the lessee to contract to pay, say, £2 annually for ninety-nine years, and gets no advantage from any rise in the site-value till the end of the ninety-nine years. Under existing conditions it would be too difficult and expensive to arrange for a ground-rent increasing with the site-value. The establishment of a periodical valuation of site-values, carried out at the expense of the rates, will change all that, and it will be the simplest thing in the world to let land, not for a fixed sum, but for the site-value as determined from time to time by the valuation list in force. Under this arrangement, if the ground landlord is made subject to increasing rates, he will in ordinary prosperous circumstances have an increasing ground-rent out of which to pay them.

We may expect it, too, to be dropped and to be replaced by a provision that the lessee may deduct only the amount payable at the time the lease was made, which will make no difference to anyone. So I intend to confine myself to the only substantial part of the programme as now conceived, the proposal to alter the whole basis of local taxation by exempting buildings.

Before considering the advantages attributed to a proposed alteration in an institution, it is always well to endeavour to ascertain how the institution came to be established in its existing form, and why it has so far continued to exist. Let us begin by asking, then, why buildings are rated at present, and why the plan of rating them has been found at any rate endurable as long as it has. In a little book which I wrote ten years ago I endeavoured to show, and I think succeeded in showing, that it is wrong to regard the English rating system as having been historically based either exclusively on the principle of taxation according to ability, or exclusively on the principle of payment according to benefit or cost of service rendered. Local taxation was and is raised for many different purposes, and for some of these purposes the principle of ability, and for others the principle of benefit, rightly appeared to men's minds the most appropriate. The practice of levying rates in proportion to the annual value of the whole of the fixed property within the locality, and omitting all other sources of income, is, of course, flagrantly in disagreement with the principle of taxation according to ability. It established itself for the purpose of poor relief, in spite of the law and the law-courts, because of the practical impossibility of dividing up other sources of income between the various localities, a problem with which the States of the American union are still blindly struggling. But its existence for some purposes, long before the poor-rate was ever thought of, and its adoption in modern times for a vast number of expensive services rendered by modern local authorities, is due to the fact that for these purposes it is approximately in accordance with payment according to benefit. A man with a big farm is likely to get more use out of the roads than a man with a little one; a man with a big house is likely to produce more work for the drains and the dust-carts than a man with a small house, and so on. Of course, the standard of annual value is not an absolutely accurate one. It is not even so accurate as the system of charging for tramway rides by penny stages, and it is much less accurate than the system of charging for gas by number of cubic feet consumed. But some of the

services, such as watching, cannot be measured out to the consumer by any known method, and others, such as road repair, cannot be measured even roughly without enormous expense (as, for example, by turnpikes and tolls). For these it is absolutely necessary to adopt some conventional standard, and assume that the services obtained by the contributor will be nearly, at any rate, in proportion to that standard. In the course of last century the standard of annual value was considerably modified by allowances to certain classes of property. The Lighting and Watching Act of 1833 provided that buildings and their sites should pay three times as large a rate for the purposes of the Act as agricultural land, and the Public Health Act of 1848 followed this precedent by enacting that agricultural land, railway lines (but not stations), and canals should be assessed at only one-fourth of their full annual value. This scheme regulates the levy of the greater part of rates in English towns at the present day. The Agricultural Rates Act extended the principle to the remainder of urban rates and to the whole of the rural rates by providing that agricultural land (but not farmhouses) should be assessed at half its annual value for all ordinary rates except those for which it was already assessed at a quarter.

The reason given for these modifications of the general rule of contribution according to annual value of premises occupied, was that annual value as modified is more in proportion to the amount of service rendered by the local authority to the occupiers of the different classes of property. The fact that it was put forward shows that it had become recognised that, whatever the historical origin, the economic justification of the continued existence and of the further application to modern services of the system of contribution according to annual value is that it approximately apportions payment to service rendered. It was considered that occupiers of agricultural land received less per pound of rateable value than occupiers of buildings, and so the allowances were introduced. The principle is the same as that followed in the ordinary scales of charges for domestic water supply, which diminish in their percentage on the rateable value as that value increases, the idea being that the houses of high value take less water per pound of rateable value than those of less value.¹

I shall not give my own opinion as to how near the existing

¹ The idea, probably erroneous in these days of fixed baths and hot-water supply to sculleries and pantries, was doubtless correct at the time when it made its way into favour. Fire insurance payments are analogous.

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scale of charges comes to apportioning payment to service. What I am concerned with is the principle of rating buildings, not the exact proportion in which they should be rated. It does not matter for the present purpose whether buildings worth £100 a year cost the local authority four times as much, or only twice as much as agricultural land worth £100 a year, nor whether a house worth £1,000 a year costs ten times as much, or only seven times as much as a house worth £100 a year. These are merely details of the application of the principle. It is sufficient for me if it is admitted, as everyone must admit, that the addition of buildings to bare land increases the expenses of the local authority, and that the increase is greater the greater the value of the building of any particular class, no matter whether the increase of expense is in exactly the same or in a somewhat greater or smaller proportion than the increase of value. If this is admitted, the rating of buildings is a means for making people pay in proportion to what they get. It is an old proverb that he who pays the piper should call the tune, and it is equally true that he who calls the tune should pay the piper. If a building is erected, whoever uses it will receive along with it a vast number of important services which are necessary for his health and comfort, and for the proper carrying on of his business. As it is inconvenient or impossible to measure these out to him as gas is measured, he is asked to pay a contribution based on the proportion which the annual value of the premises he occupies bears to the whole annual value of all the premises in the district. What can be more reasonable or more economical?

No one, whether individualist or socialist, doubts that under existing circumstances payment according to service is in ordinary cases the most economical arrangement. When we go to the butcher's or the baker's we expect to pay for what we have. We do not go about complaining that charges for meat and bread are great discouragements to eating, and that therefore butchers and bakers should be relieved of income tax under Schedule D, in order to reduce the price of meat and bread. And if anyone should have the temerity to say that buildings are more praiseworthy articles than bread and meat, I would retort that all the same everyone seems to think it quite reasonable that people should pay for their own carpets in proportion to the quantity and quality of carpet they take. Everyone who is going to occupy a house considers the cost of carpets. Has not Mr. Chiozza Money demonstrated that yard for yard the land of England is not quite worth the price of good linoleum?

No one proposes that this discouragement to building should be removed. Supposing it became convenient that housemaid-ing should be performed by the municipality, as it already performs street-cleaning and watering, would anyone see anything outrageous in a proposal that the cost should be contributed by householders in proportion to the service they required? and, if the municipality endeavoured to clean all houses equally, would it be outrageous to collect contributions in proportion to the size of the houses? I have not even heard that anyone particularly objects to the charges for water varying with the size of the house, and if the charges for bringing clean water to a house may rightly vary with the size of the house, why not also the charges for taking away the same water after it has been made dirty by use? Even the New Zealanders have not been able to answer that question, and have consequently excepted sewage rates along with water rates from the unimproved land-value rating scheme which they have recently adopted over a large portion of their country.

We are now, I think, at last in a position to examine the probable effects of the relief of buildings from local rates. The immediate effects of the change need not trouble us much. The chief of them would be a transference of wealth from the owners of property of which the site constitutes more than the average proportion of the whole value, to owners of property in which the site forms less than the average proportion. The owners of typical property in the middle ring of a town would be unaffected; owners of built property in valuable central areas, owners of unbuilt land, and owners of built property where, owing to historical reasons, the buildings are not up to the standard of the neighbourhood, would lose, and all that they lost would be gained by the owners of built property in the outskirts or elsewhere in which the buildings are important compared with the site. In nearly all towns the central area belongs to a very large number of proprietors, and is used by them exclusively for business purposes; there is no reason to suppose that they could shift the new burden to their customers. It is difficult to make any generalisations as to the persons owning the other classes of property. There is no evidence that the persons to be benefited by the change are more numerous, more needy, or more deserving than those to be damaged.

We may leave it to the politicians to estimate the justice or injustice of this mere transfer of wealth. Our business is to estimate the ultimate gain or loss to the community arising

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from the working of the new system. The claim made on its behalf is that it would remove a discouragement to building, and therefore tend to diminish overcrowding.

That it would remove a discouragement to building I have no doubt. It is seldom indeed that a tax on a particular commodity does not tend to discourage its consumption and production, and buildings are no exception to the general rule. In order not to lose ourselves in a maze of commercial transactions, let us make for the moment the perfectly legitimate assumption that all occupiers build and use their own buildings, as some of them actually do. Then let us ask ourselves why they do not build and use bigger buildings. Obviously because of the cost, not only of land and bricks and mortar, but also the cost of maintenance, furnishing, and service of all kinds. Now in this continuing cost rates form an element. No matter whether a man is contemplating a new building on fresh ground, or the rebuilding of an old one, or an addition to an old one, he has to take rates into account. It is no use to build anything or make any addition to an old building, unless it is such that an occupier will find it worth while to pay, not only for construction, but also rates. There never is a man who sits down to reckon up the reasons for or against building who is not "discouraged" when he thinks of rates. Under the new system rates would still have to be paid, but the individual builder and occupier would no longer have to think of any rates, except those on the site of his building, and these would be affected only in an infinitesimal degree by anything he could do on that particular site. At present, if he puts up and occupies a big building on the site, and thereby puts the local authority to large expense in providing all sorts of services, he will have to pay large rates. Under the new scheme he would not pay directly a penny more if he put up and occupied a sky-scraper than if he put up and occupied a one-storeyed cottage. His site-value rate would only bear its small proportion of the extra cost to the local authority, and would be just as much increased by someone else erecting a skyscraper at the other end of the town. So, too, at present, if a man thinks of rebuilding and substituting a palace for little, old-fashioned buildings, or if he thinks of adding a storey or a wing, he has to reckon the additional expenditure in rates as one of the reasons against making the improvement; under the new system he would not.

It has indeed been suggested that the increased building would increase the demand for land, so that the old discouragement of

rates would be replaced by a new discouragement in the shape of greater cost of land on which to put the buildings. There would be a good deal of force in this objection if buildings were only one storey high, and always covered the whole of their curtilage. It may be true that there are some central urban areas already so built up that it is impossible to put more building on them than there is at present without infringing bylaws and Building Acts. If these conditions were general, increased demand for buildings would involve an exactly equal increase of demand for land to build upon. But in fact the size of buildings does not vary exactly with the superficial area of their sites. Buildings have a third dimension and backyards, and all those of them which are modern houses of the well-to-do usually have gardens which, even when mere strips behind terrace houses, are bigger than the site of the house. Anyone who will take the trouble to examine a large-scale map of a modern town will soon be struck by the fact that the demand for land which has raised urban land value so much in recent years is largely, I might almost say chiefly, the result of increased desire and means to pay for low-built houses, detached or semi-detached, as the low-built house must necessarily be, and surrounded, or nearly surrounded, by a garden. If we bear these facts in mind we see at once that an enormous increase in the size of buildings would have to take place before the value of land could be at all seriously affected.

I see, therefore, no reason to doubt that the proposed system would, as compared with the present one, offer a real and considerable encouragement to building. But is it desirable to give this encouragement? By very obvious means the State can encourage the production of any useful commodity. It does not ordinarily take these means, because it is recognised that the cost would be greater than the advantage gained. Would the cost of the proposed encouragement to building be less than the advantage? I think the answer is that the cost would be a great deal larger than the advantage.

The proposed arrangement would have no tendency to cheapen building materials or building labour, but rather the contrary. The encouragement offered to building by freedom from rates would simply be given at the cost of the site-owners. It would obviously be very much greater in large towns where the expense of local authorities' services is higher than elsewhere. In rural districts the amount of the services is much less than in towns. You cannot encourage a

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farmer to enlarge his farmhouse by promising to free him from rates for dust collection. In small towns the services rendered may be the same as in great, but they cost less. The advantages of performing these services on a large scale are not, as a matter of fact, sufficient to counterbalance the disadvantages. The consequence is that the increase of buildings resulting from the change would take place almost entirely, perhaps altogether, in London and the great towns. As population and means are limited, if more of the increase is in great towns, less must necessarily be in small towns and rural districts—that is to say, the increase will be mostly where it adds most to the total cost of construction and maintenance. It will take place where the increase of buildings means an increase in their height, and where the cost of serving them with all the manifold conveniences provided for out of rates is greatest. The whole of this extra cost has to be paid for by the site-value owners, and the users and consumers of buildings will not get one halfpenny of it; it is pure and absolute loss to the community. To the community, as a whole, houses will not be cheaper, that is, obtained by less effort, because they are built in a more expensive manner, and are more massed in situations where it is more difficult to provide them with the usual conveniences. What is taken from site-values is simply slopped away in increased cost.

The followers of Ricardo were apt to talk as if rent could not be wiped out. You might, they thought, transfer it from one person to another, or to the State, but not abolish it. Recently it has been observed that this is not quite true. Arrangements are conceivable which would have the effect of destroying rent by causing over-cultivation of the lands which, if not over-cultivated, yield a rent. It is clear that the rent of any land, however productive, could be wiped out by the simple process of enacting that whatever rent there was should be given to all who worked on it, and then admitting all workers who offered themselves. Competition would attract just such a number of workers as would reduce the advantage of working on that land rather than any other to *nil*; in technical language, returns would be diminished till the surplus or rent disappeared. Now if, instead of the land being thrown open to all workers who choose to come, it is let to a number of farmers in the ordinary way, but arrangements are made by virtue of which each farmer will be able to charge the aggregate rent of *all* the farms with the cost of some particular farming operations—say ploughing or harvesting—the net rent eventually reaching the owner will

be diminished, since each farmer, being able to get this work done for nothing, will use more of it than is consistent with the best possible working of the land. It is just that sort of arrangement which the exemption of buildings from rating would establish in regard to what we may call urban cultivation. Over-cultivation, in its urban form of over-building, is encouraged by the provision of free services paid for by taxation of sites only, and so the surplus in the form of site-value is diminished.

The new building in the great towns would, of course, deplete the rural districts, and so there would for a time be a cheapening of the price to be paid by people for living in, or otherwise using, buildings all over the country. But this would disappear after a while, when the rural and small town houses had sunk by decay or otherwise to meet the diminution of demand. In the end, site-values would have been diminished, and nothing gained.

I suppose some will say that to diminish site-values is all they want. Well, I dare say the Hebrews enjoyed spoiling the Egyptians for its own sake, but they had the sense to combine that pleasure with the satisfaction of retaining the articles for their own use. They did not throw them into the Red Sea, to say nothing of making themselves ill by swallowing them. If the site-owner is such an objectionable person that he must be despoiled, let him be despoiled. Away with him, and let him never have a successor! But take his spoils, take them for education, take them for children's meals, take them for the navy, take them for the army, if you can find nothing better, but do not cause them to disappear in over-building our great cities. I think I hear someone say, "I care for none of these objects which you have mentioned. I don't think much of education; I think children's meals pernicious; I disapprove of the navy; I hate the army; and I don't want any reduction of taxes; but I do want to house the poor. Won't this scheme lessen the horrible evils of overcrowding?" I admit I am one of those who think that the destruction of the poor is their poverty, and that no subsidising of this or that particular commodity is likely to do very much good. The poor might perhaps distribute their means between different commodities better than they do, though I distrust the hasty asseverations of the well-to-do on the subject. But the real difficulty arises from the fact that their total means are too small. To subsidise particular commodities, even if they are as important as houses, is, in my opinion, a very feeble way of

increasing particular desirable the policy of thirty an area v Consequent authorities tion to ho by improv the same- only been of this po one or tw all, in ba room. T London C own or be equal to the value pecuniary value and there is overcrowd be discour ally wast live near so, their presence to be can have been of one of are an i visitors n therefore

Now sense its in towns If you an ually by other eq know of tax on s

increasing their total means. When the subsidy is confined to particular spots which are precisely those in which it is undesirable that houses should be retained if already there, I think the policy becomes evidently absurd. The House of Commons of thirty or forty years ago had the idiotic idea that when once an area was overcrowded, it ought to remain so for all time. Consequently, Parliament and the Departments imposed on local authorities, and subsequently on railway companies, the obligation to house on the same site all the poor who were dispossessed by improvement schemes, and to maintain accommodation for the same number in *secula seculorum*, and this obligation has only been partially relaxed up to the present time. In pursuance of this policy, thousands of, not the poorest class, but of a class one or two grades above it, are being kept, little children and all, in barrack dwellings within a few hundred yards of this room. The Metropolitan Board of Works and its successor, the London County Council, subsidised these barracks (whether their own or belonging to dwellings companies and trusts) with sums equal to a large proportion, and sometimes nearly the whole of the value of the site on which they stand. The immediate pecuniary loss falls on the rates of London, diminishing site-value and, no doubt, discouraging building, in which last effect there is nothing to complain of, since if the State engages in overcrowding its towns, it is as well that private persons should be discouraged from assisting in the process. The plan is idiotically wasteful. "The poor," says the sciolist legislator, "must live near their work," and it never strikes him that if that is so, their work will go to them if they cannot come to it. The presence of these subsidised barracks makes it possible for work to be carried on in this neighbourhood which would otherwise have been moved out of London. A well-known medical officer of one of the boroughs has actually alleged that such dwellings are an imperial necessity in order that foreign and colonial visitors may be cheaply served in the great hotels, and should therefore be paid for from the taxes of the United Kingdom.

Now, absurd as the present subsidising policy is, it is common sense itself compared to the proposal to subsidise all buildings in towns with the view of improving the condition of the poor. If you are convinced that you can benefit the poor more effectively by a subsidy in aid of poor men's dwellings than by any other equal expenditure, let such a subsidy be paid. If you know of no better way of raising the necessary funds than a tax on site-values, then in Heaven's name put a national tax

on site-value and encourage suburban and rural poor men's dwellings rather than urban barracks. But even if you feel compelled by some mysterious and irresistible necessity to subsidise such dwellings in towns and not in the country, why, oh! why need you couple the subsidy with a far greater one to all other buildings. Why subsidise the Savoy Hotel, Queen Anne's Mansions, and, for the matter of that, the Tower of Babel?

I daresay some will object that this is "all theory." So it is, if "all theory" is understood in its usual sense of something which can only be refuted by "facts" which, on examination, turn out to be fictions. It will be said to be refuted by the recent blue-book on the *Working of the Taxation of the Unimproved Value of Land in New Zealand, New South Wales, and South Australia* (Cd. 3191). But that blue-book shows that buildings are not exempt from local rates (but only from a State land-tax) in New South Wales and South Australia. In New Zealand the exemption covers neither the whole area nor the whole of rates in the area to which it does apply. There are only four towns in New Zealand with a population as large as that of Oxford, and I doubt if any of these with their suburbs have much more than the population of Bournemouth, which, in their straggling character, they much resemble. Two of them, commercially the most important, have not adopted the system. One of the others, after three years' experience, "cannot express any opinion without full data," while the fourth, the capital of the colony, after attributing the activity of building operations during the past year principally or altogether to the new system, adopted in 1902, adds the significant words, "with necessary restrictions to prevent overcrowding of buildings, no untoward result need be apprehended." The other towns in the colony are so small, none much exceeding 10,000 population, that their short experience cannot be supposed of much value, especially when we find that they do not agree as to whether land values have been increased or diminished. But it is noteworthy that one reports that the system "tends to crowding of houses on small sections," and another that it "appears to benefit those who crowd good buildings on small areas."

EDWIN CANNAN

Cannan, Edwin, orig. 1896. The History of Local Rates in England. 2nd ed., much enlarged, 1912. London: P.S. King & Son

2nd ed. adds Chaps. VI - VIII, covering 1896-1912 matters.

DATES.

P.v. From 1840. local taxn focused on immovable property. Efforts were soon made to shift expenses to national funds.

132, 1834, Commons appts Select Committee to enquire how to shift burden off owners of land. 134 ff., gives details on how nat. share ratcheted upwards.

p. 192, in Chap. VIII, cites his E.J. article of March 1907:34-46. Also Leonard Darwin, Sept 1907:330-44. Edgar Harper criticized 1908:28-41, ff. by controversy 314-19 and 609-11.

RATES.

4-5, Rates are now (1896) almost entirely local, but this is a coincidence. "Rate" refers to case where the local budget is set first, then that rate is chosen that will raise that amount. With taxes, the rate is set first, and nat. govt. gets what it gets.

81, 17th cent., local rates were all on prop. bcs no one with income from mere labour "would be regarded as one who ought to contribute to the support of the poor."

83, 1633, 'twas settled that residents of a parish were assessed only on their visible property inside the parish.

159, 2 tax principles swayed those in power: ability, and benefit. They are incompatible, but property inside the district came as close as anything to satisfying both principles at once.

INCTAX

80, a farmer's taxable inc, 1896, is assumed to be a fixed proportion of the rent he pays. (Is that proportion > or <1?)

132, nat. taxes fell mostly on labor, and inc from movable prop.

GOVT. FUNCTIONS

135, 1864 onwards, turnpike trusts expired and were not renewed, throwing more burden on local rates, for roads.

1870, elementary ed. went on the rates.

DEMONIZING, political value of

162, In a campaign to tax "a particular kind of property" (i.e. land) "nothing seems more useful than scandalous conduct on the part of the proprietors."

MOTIVATION

188, LVT champs think it would throw the whole cost on the London Dukes, and spare the middle class. - says Cannan

ATCOR

189, if rates are transferred from occupiers to owners, occupiers will pay that much more in rents.

171, If occupiers pay rates, and one district pays more onerous taxes than others, the occupiers do not suffer: they get lower rents. Half of them, and often more, have moved there. - to where they now are.

181, census of 1901, more than 25% of native inhabitants of England lived outside counties of their birth. Over half of them move from their birth counties during their lives.

ONEROUS AND BENEFICIAL

✓ 167-68, attacks on rating are due to the onerous charges, esp. for education and relief.

180, use of "onerous" and "beneficial" seems to be widespread. Gives no credit to Marshall for this.

OLD = GOOD

169-70, the ordinary person accepts the present distribution of the land tax, and the distribution of the land itself. No support.

172, the only idea of equity that prevails is, leaves things as they are.

MIGRATION

① ✓ 181-2, if a locality sought to benefit all its "inhabitants," people would flock to the richest ones until there was no further gain to immigrants, wiping out the rent.

"Any landlord could wipe out his rent by employing enough people on his land; ... overcultivation would wipe out the rent of any land, however productive." Other land would be abandoned.

183, that began to happen in the 17th Cent. Pmt reacted by restricting migration. Cites Act 14 Car. II, c.12. Immigrants to a parish, likely to become chargeable, should be removable to their place of settlement.

DISSN OF RENT

181-3 - cited above.

USE NAT. GOVT.

185, "Measures adapted to produce greater equality are, however, exceedingly unsuitable for local authorities. ... all such measures should be applied to the largest possible area ..."

EDGE LAND

189-90, Champs of LVT propose basing rates on capital value of rising land. This would make owners sell, they claim (none are cited).

Cannan says that the premise is right that prices would fall. However, anticipated rise of value would be same as before, so owners would continue to hang on, at the lower price. I.e., the antic. % change of price would be the same. (He should say, it would be greater, because it must cover tax as well as i.r. Missing this point, he also misses point that the tax is the same for all, while i.r. is lower for the present holders. He also misses point that paying the tax will erode their liquidity and wealth, over time.)

He provides no math on this, just a few words. But his point is partly true, and should have opened an enlightening debate. Apparently, it never did.

See my paper given at London Univ..

OVERCENTRALIZATION

190, Having disposed of suburban development, above, Cannan agrees that LVT would encourage central building, i.e. on better land. However, he sees this as "Unwholesome." Why?

When land is taxed, but buildings are not, this biases builders against buying land to spread out horizontally. Here, he forgets all about neutrality of land tax, and its tendency to lower price of land.

REGRESSIVE

196 Those living in better houses have incomes "larger in proportion to their house-rent than those of the poorer classes, ..."

Worth citing to refute with data. Interesting that Adam Smith, whom Cannan edited, also refuted this idea.

THE PROPOSED RELIEF OF BUILDINGS FROM LOCAL RATES.¹

I HAVE chosen the relief of buildings from assessment to local rates for my special subject in this conference, because that appears to me to be the demand on which the site-value taxation movement is concentrating. In the heat of political controversies economic ideas gradually improve, and I think it is pretty clear that the old belief that something could be got for the occupier by preventing him from agreeing to pay the rates levied on the property he occupies is very nearly exploded even among the most backward thinkers. The proposal for making this kind of contract impossible does indeed still linger in the very latest bills for land-value taxation, but we may, I think, expect it to be modified till it becomes meaningless, if it is not omitted altogether. Under the Bills of a year or two back a lessee who had made a good bargain by taking at a low ground-rent a plot which subsequently rose largely in value could have deducted from his ground-rent more than the ground-rent, and, therefore, have made his landlord pay him something. This absurdity was, of course, never intended, and has now been dropped. It is still proposed that the lessor's income should be liable to indefinite reduction by the rise in the poundage of the rates which may reasonably be expected to take place as it becomes convenient to supply more services from a central local station and without charging for them by actual measurement of the quantity taken. But this proposal also will soon be seen to be absurd and only likely to kill the system of letting on long leases for fixed sums, and to substitute leases for sums growing with the site-value.²

¹ Read before the Congress of the Royal Economic Society.

² At present, when a landowner lets a plot of ground, he asks the lessee to contract to pay, say, £2 annually for ninety-nine years, and gets no advantage from any rise in the site-value till the end of the ninety-nine years. Under existing conditions it would be too difficult and expensive to arrange for a ground-rent increasing with the site-value. The establishment of a periodical valuation of site-values, carried out at the expense of the rates, will change all that, and it will be the simplest thing in the world to let land, not for a fixed sum, but for the site-value as determined from time to time by the valuation list in force. Under this arrangement, if the ground landlord is made subject to increasing rates, he will in ordinary prosperous circumstances have an increasing ground-rent out of which to pay them.

a Proceedings paper?

We may expect it, too, to be dropped and to be replaced by a provision that the lessee may deduct only the amount payable at the time the lease was made, which will make no difference to anyone. So I intend to confine myself to the only substantial part of the programme as now conceived, the proposal to alter the whole basis of local taxation by exempting buildings.

Before considering the advantages attributed to a proposed alteration in an institution, it is always well to endeavour to ascertain how the institution came to be established in its existing form, and why it has so far continued to exist. Let us begin by asking, then, why buildings are rated at present, and why the plan of rating them has been found at any rate endurable as long as it has. In a little book which I wrote ten years ago I endeavoured to show, and I think succeeded in showing, that it is wrong to regard the English rating system as having been historically based either exclusively on the principle of taxation according to ability, or exclusively on the principle of payment according to benefit or cost of service rendered. Local taxation was and is raised for many different purposes, and for some of these purposes the principle of ability, and for others the principle of benefit, rightly appeared to men's minds the most appropriate. The practice of levying rates in proportion to the annual value of the whole of the fixed property within the locality, and omitting all other sources of income, is, of course, flagrantly in disagreement with the principle of taxation according to ability. It established itself for the purpose of poor relief, in spite of the law and the law-courts, because of the practical impossibility of dividing up other sources of income between the various localities, a problem with which the States of the American union are still blindly struggling. But its existence for some purposes, long before the poor-rate was ever thought of, and its adoption in modern times for a vast number of expensive services rendered by modern local authorities, is due to the fact that for these purposes it is approximately in accordance with payment according to benefit. A man with a big farm is likely to get more use out of the roads than a man with a little one; a man with a big house is likely to produce more work for the drains and the dust-carts than a man with a small house, and so on. Of course, the standard of annual value is not an absolutely accurate one. It is not even so accurate as the system of charging for tramway rides by penny stages, and it is much less accurate than the system of charging for gas by number of cubic feet consumed. But some of the

services, such as watching, cannot be measured out to the consumer by any known method, and others, such as road repair, cannot be measured even roughly without enormous expense (as, for example, by turnpikes and tolls). For these it is absolutely necessary to adopt some conventional standard, and assume that the services obtained by the contributor will be nearly, at any rate, in proportion to that standard. In the course of last century the standard of annual value was considerably modified by allowances to certain classes of property. The Lighting and Watching Act of 1833 provided that buildings and their sites should pay three times as large a rate for the purposes of the Act as agricultural land, and the Public Health Act of 1848 followed this precedent by enacting that agricultural land, railway lines (but not stations), and canals should be assessed at only one-fourth of their full annual value. This scheme regulates the levy of the greater part of rates in English towns at the present day. The Agricultural Rates Act extended the principle to the remainder of urban rates and to the whole of the rural rates by providing that agricultural land (but not farmhouses) should be assessed at half its annual value for all ordinary rates except those for which it was already assessed at a quarter.

The reason given for these modifications of the general rule of contribution according to annual value of premises occupied, was that annual value as modified is more in proportion to the amount of service rendered by the local authority to the occupiers of the different classes of property. The fact that it was put forward shows that it had become recognised that, whatever the historical origin, the economic justification of the continued existence and of the further application to modern services of the system of contribution according to annual value is that it approximately apportions payment to service rendered. It was considered that occupiers of agricultural land received less per pound of rateable value than occupiers of buildings, and so the allowances were introduced. The principle is the same as that followed in the ordinary scales of charges for domestic water supply, which diminish in their percentage on the rateable value as that value increases, the idea being that the houses of high value take less water per pound of rateable value than those of less value.¹

I shall not give my own opinion as to how near the existing

¹ The idea, probably erroneous in these days of fixed baths and hot-water supply to sculleries and pantries, was doubtless correct at the time when it made its way into favour. Fire insurance payments are analogous.

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scale of charges comes to apportioning payment to service. What I am concerned with is the principle of rating buildings, not the exact proportion in which they should be rated. It does not matter for the present purpose whether buildings worth £100 a year cost the local authority four times as much, or only twice as much as agricultural land worth £100 a year, nor whether a house worth £1,000 a year costs ten times as much, or only seven times as much as a house worth £100 a year. These are merely details of the application of the principle. It is sufficient for me if it is admitted, as everyone must admit, that the addition of buildings to bare land increases the expenses of the local authority, and that the increase is greater the greater the value of the building of any particular class, no matter whether the increase of expense is in exactly the same or in a somewhat greater or smaller proportion than the increase of value. If this is admitted, the rating of buildings is a means for making people pay in proportion to what they get. It is an old proverb that he who pays the piper should call the tune, and it is equally true that he who calls the tune should pay the piper. If a building is erected, whoever uses it will receive along with it a vast number of important services which are necessary for his health and comfort, and for the proper carrying on of his business. As it is inconvenient or impossible to measure these out to him as gas is measured, he is asked to pay a contribution based on the proportion which the annual value of the premises he occupies bears to the whole annual value of all the premises in the district. What can be more reasonable or more economical?

No one, whether individualist or socialist, doubts that under existing circumstances payment according to service is in ordinary cases the most economical arrangement. When we go to the butcher's or the baker's we expect to pay for what we have. We do not go about complaining that charges for meat and bread are great discouragements to eating, and that therefore butchers and bakers should be relieved of income tax under Schedule D, in order to reduce the price of meat and bread. And if anyone should have the temerity to say that buildings are more praiseworthy articles than bread and meat, I would retort that all the same everyone seems to think it quite reasonable that people should pay for their own carpets in proportion to the quantity and quality of carpet they take. Everyone who is going to occupy a house considers the cost of carpets. Has not Mr. Chiozza Money demonstrated that yard for yard the land of England is not quite worth the price of good linoleum?

No one proposes that this discouragement to building should be removed. Supposing it became convenient that housemaid-ing should be performed by the municipality, as it already performs street-cleaning and watering, would anyone see anything outrageous in a proposal that the cost should be contributed by householders in proportion to the service they required? and, if the municipality endeavoured to clean all houses equally, would it be outrageous to collect contributions in proportion to the size of the houses? I have not even heard that anyone particularly objects to the charges for water varying with the size of the house, and if the charges for bringing clean water to a house may rightly vary with the size of the house, why not also the charges for taking away the same water after it has been made dirty by use? Even the New Zealanders have not been able to answer that question, and have consequently excepted sewage rates along with water rates from the unimproved land-value rating scheme which they have recently adopted over a large portion of their country.

We are now, I think, at last in a position to examine the probable effects of the relief of buildings from local rates. The immediate effects of the change need not trouble us much. The chief of them would be a transference of wealth from the owners of property of which the site constitutes more than the average proportion of the whole value, to owners of property in which the site forms less than the average proportion. The owners of typical property in the middle ring of a town would be unaffected; owners of built property in valuable central areas, owners of unbuilt land, and owners of built property where, owing to historical reasons, the buildings are not up to the standard of the neighbourhood, would lose, and all that they lost would be gained by the owners of built property in the outskirts or elsewhere in which the buildings are important compared with the site. In nearly all towns the central area belongs to a very large number of proprietors, and is used by them exclusively for business purposes; there is no reason to suppose that they could shift the new burden to their customers. It is difficult to make any generalisations as to the persons owning the other classes of property. There is no evidence that the persons to be benefited by the change are more numerous, more needy, or more deserving than those to be damaged.

We may leave it to the politicians to estimate the justice or injustice of this mere transfer of wealth. Our business is to estimate the ultimate gain or loss to the community arising

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from the working of the new system. The claim made on its behalf is that it would remove a discouragement to building, and therefore tend to diminish overcrowding.

That it would remove a discouragement to building I have no doubt. It is seldom indeed that a tax on a particular commodity does not tend to discourage its consumption and production, and buildings are no exception to the general rule. In order not to lose ourselves in a maze of commercial transactions, let us make for the moment the perfectly legitimate assumption that all occupiers build and use their own buildings, as some of them actually do. Then let us ask ourselves why they do not build and use bigger buildings. Obviously because of the cost, not only of land and bricks and mortar, but also the cost of maintenance, furnishing, and service of all kinds. Now in this continuing cost rates form an element. No matter whether a man is contemplating a new building on fresh ground, or the rebuilding of an old one, or an addition to an old one, he has to take rates into account. It is no use to build anything or make any addition to an old building, unless it is such that an occupier will find it worth while to pay, not only for construction, but also rates. There never is a man who sits down to reckon up the reasons for or against building who is not "discouraged" when he thinks of rates. Under the new system rates would still have to be paid, but the individual builder and occupier would no longer have to think of any rates, except those on the site of his building, and these would be affected only in an infinitesimal degree by anything he could do on that particular site. At present, if he puts up and occupies a big building on the site, and thereby puts the local authority to large expense in providing all sorts of services, he will have to pay large rates. Under the new scheme he would not pay directly a penny more if he put up and occupied a sky-scraper than if he put up and occupied a one-storeyed cottage. His site-value rate would only bear its small proportion of the extra cost to the local authority, and would be just as much increased by someone else erecting a skyscraper at the other end of the town. So, too, at present, if a man thinks of rebuilding and substituting a palace for little, old-fashioned buildings, or if he thinks of adding a storey or a wing, he has to reckon the additional expenditure in rates as one of the reasons against making the improvement; under the new system he would not.

It has indeed been suggested that the increased building would increase the demand for land, so that the old discouragement of

rates would be replaced by a new discouragement in the shape of greater cost of land on which to put the buildings. There would be a good deal of force in this objection if buildings were only one storey high, and always covered the whole of their curtilage. It may be true that there are some central urban areas already so built up that it is impossible to put more building on them than there is at present without infringing bylaws and Building Acts. If these conditions were general, increased demand for buildings would involve an exactly equal increase of demand for land to build upon. But in fact the size of buildings does not vary exactly with the superficial area of their sites. Buildings have a third dimension and backyards, and all those of them which are modern houses of the well-to-do usually have gardens which, even when mere strips behind terrace houses, are bigger than the site of the house. Anyone who will take the trouble to examine a large-scale map of a modern town will soon be struck by the fact that the demand for land which has raised urban land value so much in recent years is largely, I might almost say chiefly, the result of increased desire and means to pay for low-built houses, detached or semi-detached, as the low-built house must necessarily be, and surrounded, or nearly surrounded, by a garden. If we bear these facts in mind we see at once that an enormous increase in the size of buildings would have to take place before the value of land could be at all seriously affected.

I see, therefore, no reason to doubt that the proposed system would, as compared with the present one, offer a real and considerable encouragement to building. But is it desirable to give this encouragement? By very obvious means the State can encourage the production of any useful commodity. It does not ordinarily take these means, because it is recognised that the cost would be greater than the advantage gained. Would the cost of the proposed encouragement to building be less than the advantage? I think the answer is that the cost would be a great deal larger than the advantage.

The proposed arrangement would have no tendency to cheapen building materials or building labour, but rather the contrary. The encouragement offered to building by freedom from rates would simply be given at the cost of the site-owners. It would obviously be very much greater in large towns where the expense of local authorities' services is higher than elsewhere. In rural districts the amount of the services is much less than in towns. You cannot encourage a

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farmer to enlarge his farmhouse by promising to free him from rates for dust collection. In small towns the services rendered may be the same as in great, but they cost less. The advantages of performing these services on a large scale are not, as a matter of fact, sufficient to counterbalance the disadvantages. The consequence is that the increase of buildings resulting from the change would take place almost entirely, perhaps altogether, in London and the great towns. As population and means are limited, if more of the increase is in great towns, less must necessarily be in small towns and rural districts—that is to say, the increase will be mostly where it adds most to the total cost of construction and maintenance. It will take place where the increase of buildings means an increase in their height, and where the cost of serving them with all the manifold conveniences provided for out of rates is greatest. The whole of this extra cost has to be paid for by the site-value owners, and the users and consumers of buildings will not get one halfpenny of it; it is pure and absolute loss to the community. To the community, as a whole, houses will not be cheaper, that is, obtained by less effort, because they are built in a more expensive manner, and are more massed in situations where it is more difficult to provide them with the usual conveniences. What is taken from site-values is simply slopped away in increased cost.

The followers of Ricardo were apt to talk as if rent could not be wiped out. You might, they thought, transfer it from one person to another, or to the State, but not abolish it. Recently it has been observed that this is not quite true. Arrangements are conceivable which would have the effect of destroying rent by causing over-cultivation of the lands which, if not over-cultivated, yield a rent. It is clear that the rent of any land, however productive, could be wiped out by the simple process of enacting that whatever rent there was should be given to all who worked on it, and then admitting all workers who offered themselves. Competition would attract just such a number of workers as would reduce the advantage of working on that land rather than any other to *nil*; in technical language, returns would be diminished till the surplus or rent disappeared. Now if, instead of the land being thrown open to all workers who choose to come, it is let to a number of farmers in the ordinary way, but arrangements are made by virtue of which each farmer will be able to charge the aggregate rent of *all* the farms with the cost of some particular farming operations—say ploughing or harvesting—the net rent eventually reaching the owner will

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be diminished, since each farmer, being able to get this work done for nothing, will use more of it than is consistent with the best possible working of the land. It is just that sort of arrangement which the exemption of buildings from rating would establish in regard to what we may call urban cultivation. Over-cultivation, in its urban form of over-building, is encouraged by the provision of free services paid for by taxation of sites only, and so the surplus in the form of site-value is diminished.

The new building in the great towns would, of course, deplete the rural districts, and so there would for a time be a cheapening of the price to be paid by people for living in, or otherwise using, buildings all over the country. But this would disappear after a while, when the rural and small town houses had sunk by decay or otherwise to meet the diminution of demand. In the end, site-values would have been diminished, and nothing gained.

I suppose some will say that to diminish site-values is all they want. Well, I dare say the Hebrews enjoyed spoiling the Egyptians for its own sake, but they had the sense to combine that pleasure with the satisfaction of retaining the articles for their own use. They did not throw them into the Red Sea, to say nothing of making themselves ill by swallowing them. If the site-owner is such an objectionable person that he must be despoiled, let him be despoiled. Away with him, and let him never have a successor! But take his spoils, take them for education, take them for children's meals, take them for the navy, take them for the army, if you can find nothing better, but do not cause them to disappear in over-building our great cities. I think I hear someone say, "I care for none of these objects which you have mentioned. I don't think much of education; I think children's meals pernicious; I disapprove of the navy; I hate the army; and I don't want any reduction of taxes; but I do want to house the poor. Won't this scheme lessen the horrible evils of overcrowding?" I admit I am one of those who think that the destruction of the poor is their poverty, and that no subsidising of this or that particular commodity is likely to do very much good. The poor might perhaps distribute their means between different commodities better than they do, though I distrust the hasty asseverations of the well-to-do on the subject. But the real difficulty arises from the fact that their total means are too small. To subsidise particular commodities, even if they are as important as houses, is, in my opinion, a very feeble way of

increasing particular desirable the policy of thirty an area Consequent authorities tion to ho by impro the same- only been of this po one or tw all, in ba room. T London C own or b equal to the value pecuniary value and there is overcrow be discou ally wast live near so, their presence to be ca have bee of one o are an visitors therefore

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increasing their total means. When the subsidy is confined to particular spots which are precisely those in which it is undesirable that houses should be retained if already there, I think the policy becomes evidently absurd. The House of Commons of thirty or forty years ago had the idiotic idea that when once an area was overcrowded, it ought to remain so for all time. Consequently, Parliament and the Departments imposed on local authorities, and subsequently on railway companies, the obligation to house on the same site all the poor who were dispossessed by improvement schemes, and to maintain accommodation for the same number in *secula seculorum*, and this obligation has only been partially relaxed up to the present time. In pursuance of this policy, thousands of, not the poorest class, but of a class one or two grades above it, are being kept, little children and all, in barrack dwellings within a few hundred yards of this room. The Metropolitan Board of Works and its successor, the London County Council, subsidised these barracks (whether their own or belonging to dwellings companies and trusts) with sums equal to a large proportion, and sometimes nearly the whole of the value of the site on which they stand. The immediate pecuniary loss falls on the rates of London, diminishing site-value and, no doubt, discouraging building, in which last effect there is nothing to complain of, since if the State engages in overcrowding its towns, it is as well that private persons should be discouraged from assisting in the process. The plan is idiotically wasteful. "The poor," says the sciolist legislator, "must live near their work," and it never strikes him that if that is so, their work will go to them if they cannot come to it. The presence of these subsidised barracks makes it possible for work to be carried on in this neighbourhood which would otherwise have been moved out of London. A well-known medical officer of one of the boroughs has actually alleged that such dwellings are an imperial necessity in order that foreign and colonial visitors may be cheaply served in the great hotels, and should therefore be paid for from the taxes of the United Kingdom.

Now, absurd as the present subsidising policy is, it is common sense itself compared to the proposal to subsidise all buildings in towns with the view of improving the condition of the poor. If you are convinced that you can benefit the poor more effectually by a subsidy in aid of poor men's dwellings than by any other equal expenditure, let such a subsidy be paid. If you know of no better way of raising the necessary funds than a tax on site-values, then in Heaven's name put a national tax

on site-value and encourage suburban and rural poor men's dwellings rather than urban barracks. But even if you feel compelled by some mysterious and irresistible necessity to subsidise such dwellings in towns and not in the country, why, oh! why need you couple the subsidy with a far greater one to all other buildings. Why subsidise the Savoy Hotel, Queen Anne's Mansions, and, for the matter of that, the Tower of Babel?

I daresay some will object that this is "all theory." So it is, if "all theory" is understood in its usual sense of something which can only be refuted by "facts" which, on examination, turn out to be fictions. It will be said to be refuted by the recent blue-book on the *Working of the Taxation of the Unimproved Value of Land in New Zealand, New South Wales, and South Australia* (Cd. 3191). But that blue-book shows that buildings are not exempt from local rates (but only from a State land-tax) in New South Wales and South Australia. In New Zealand the exemption covers neither the whole area nor the whole of rates in the area to which it does apply. There are only four towns in New Zealand with a population as large as that of Oxford, and I doubt if any of these with their suburbs have much more than the population of Bournemouth, which, in their straggling character, they much resemble. Two of them, commercially the most important, have not adopted the system. One of the others, after three years' experience, "cannot express any opinion without full data," while the fourth, the capital of the colony, after attributing the activity of building operations during the past year principally or altogether to the new system, adopted in 1902, adds the significant words, "with necessary restrictions to prevent overcrowding of buildings, no untoward result need be apprehended." The other towns in the colony are so small, none much exceeding 10,000 population, that their short experience cannot be supposed of much value, especially when we find that they do not agree as to whether land values have been increased or diminished. But it is noteworthy that one reports that the system "tends to crowding of houses on small sections," and another that it "appears to benefit those who crowd good buildings on small areas."

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