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[THE substance of an Address given to the Students' Union at the London School of Economics, January, 1906, is here reproduced. It is admitted that in the more moderate form which the project had by that time assumed it might pass as not an inordinately bad tax.]

The rating of Urban Land Values is a suitable subject to bring before students of Economics because it exercises that faculty of abstract reasoning which is characteristic of Political Economy as distinguished from Political Science in general. The reasoning which the subject requires is particularly difficult, because there is involved the composition of two general laws.

There is, first, the law that, in Ricardo's words, "a tax on rent would affect rent only; it would fall wholly on landlords." If this law only were in operation, there might be a simple case for the application of Mill's principle that the unearned increment of land value should be subject to a special impost; a principle to which a general adherence on the part of students may be presumed.

But, cutting into this simple law, there is another law that, in the words of the same Ricardo, "a partial tax on profits will raise the price of the commodity on which it falls; a tax, for example, on the profits of the hatter would raise the price of hats." Suppose that hats were usually trimmed with a particular kind of old lace, of which the quantity in existence was strictly limited. Suppose that hat dealers were usually paid on the "hire system," by way of instalments of which the payment extended over considerable intervals of time. And let there be imposed a tax on lace-value to be deducted from the payments to the hatter; the amount deducted being proportioned to the value, at the time of each payment, of the lace on the hat in respect of which the instalment is paid. Would not this be in effect a tax on the profits of the hatter, tending to "raise the price of the commodity" hats? Would not a rate on site-value, to be similarly from time to time deducted from the remuneration of parties who had been concerned in the production of a house, tend to raise the

price of house-accommodation paid by the occupier? It may be objected that the hat dealer, in view of the impost, would recoup himself, not by requiring more from the consumer of hats, but by offering less to the possessors of lace. It might be so under some circumstances; it would not be so in other cases. One case in which the consumer is particularly likely to suffer is where the foreseen amount of the impost exceeds the whole rent. In general perhaps we can know about the incidence of such a tax only as much as we know in general about the incidence of a customs-duty. There is a presumption that some part of the burden will fall on the consumer; there is a possibility that the greater part may fall on a party about whom the consumer is not concerned. Many a politician who advocates the imposition of a special tax on site values, well discerns the absurdity of acting on the supposition that a duty on imports falls altogether on the foreigner. He beholds the beam in his Protectionist brother's eye, but considers not that there may be at least a mote in his own eye.

The neglect of the ulterior consequences which have been indicated form a weighty objection to several of the earlier schemes for rating urban site values—schemes which have been well characterised, in the Separate Report made by a minority of the Local Taxation Commission, as “crude and violent,” neither “equitable nor workable.” These schemes are crude and unworkable, because they lead to the abandonment of an industrial system which has grown up presumably in the interest of the consumer as well as producer. Capital will not in future be so readily forthcoming for the construction of houses when it is foreseen that the remuneration thereof will be reduced by the “deductions” which form an essential part of these schemes.

The authors of the Separate Report are honourably free from the violence and inequity—if the word may be allowed—which they justly attribute to some of their predecessors. They do not propose, by rescinding extant contracts, to inflict an unexpected and peculiar burden on a class of persons not demarcated by excess of wealth, or any other mark of ability to bear taxation. A particularly respectful consideration is due to proposals which are unbiassed by the vulgar predatory impulse.

It is not easy to present a general idea of these proposals, as they vary considerably in details. The following description purports to be only typical; not true, perhaps, as to every particular of any one of the measures which have been fathered upon the Separate Report.

The type is characterised by two features, of which the more conspicuous consists of a plan to encourage building by a well-adjusted rate on site-value. The improvement is partly to be effected in the centre of towns by encouraging building on vacant spots, and by inducing owners of houses unsuited to their sites to substitute more suitable buildings. But it is especially at the outskirts of towns that beneficial effects are expected. As explained by the proposer of the Bill for Land Values Assessment, which was brought into Parliament in 1903, "the chief object of this law was to relieve buildings in the outskirts of a town." Beside this refined plan, forming the main purpose of the new measure, there seems to be a more ordinary motive, disavowed, indeed, by the minority (as well as the majority) of the Commission on Local Taxation; yet perhaps half consciously held by the promoters of measures based on the Separate Report, and actuating many of the supporters of those measures. There is the desire to tap the reservoirs of unearned value, not exactly on the principle of Mill, but rather on the ground that the owners of such value have obtained a pecuniary gain through the efforts and sacrifices of their fellow-citizens. These desirable objects are ensured by means of a tax of so much in the pound on the "site-value" of each plot, supposed to be measurable with sufficient accuracy for the purpose of taxation. This special rate on site-value is to be borne by the occupier so long as his lease runs, and thereafter by the landlord who leased the premises to the occupier. If that lessor is himself a lessee, the rate will be borne by him only so long as his lease runs; and thereafter by another lessor; and so on, until all the leases relating to the plot of land have run out, when the site-value rate will fall upon the ground-landlord. If the ground-landlord create a new lease, presumably he will continue to bear—thrown back upon him by way of "deduction"—the rate upon site-value such as it was at the time of creating the lease; but subsequent additions to the amount payable will be borne by the lessee, up to the time when he, too, may become a lessor; after which he will continue to bear as much of the rate on site-values as he bore before giving a lease, while his lessee will bear the subsequent additions, and so on.

Details may differ, but it results in general that the parties who undertake outlay and risk in the production of houses will have their remuneration diminished by the new impost. They will tend to recoup themselves by throwing the burden partly on their landlords, and partly on their lessees.

So far as the rate acts like a tax on pure, or proper, rent, the main reasoning of the Minority Report and its followers may be accepted. Other things being the same, a less portion of the rates would be raised at the outskirts of a town, where site-values are low, and building there would be encouraged.

So far as the rate acts like a tax on "rent, as it is constituted," in Ricardo's phrase—on the element of profit in concrete rent—building would be discouraged, particularly at the outskirts, for a reason above submitted, because ground rents are there particularly small.

This reasoning is no doubt somewhat abstract, but so is the reasoning to which it is opposed. The counter-argument may serve at least to recall the canon that taxation should be only for the sake of revenue. So little can be known in general about the consequences of a tax, except that it will probably hamper the producer and burden the consumer. Whether we consider the action of the proposed rate at the centre of towns, or at the circumference, hesitation seems justified.

As to the centre, is it so certain that the owner of a site which has not been put to the best use will have a new motive to set his house in order? Let  $A$  be the net advantages, in the owner's view, obtained in the present state of the premises; let  $B$  be the prospective advantages derivable from rebuilding his house, account being had of risk, trouble, loss in the way of interest, and other items on the debtor side of the balance. If before the imposition of the special rate the present exceeded the prospective advantages, if  $A$  is greater than  $B$ , this relation will not be destroyed by the imposition of the rate of so many shillings, say  $r$ , on the site value, say  $S$ . We have now  $A - \frac{r}{20}S$  greater than

$B - \frac{r}{20}S$ . To be sure, if  $r$  is so large that  $A - \frac{r}{20}S$  becomes less than nothing, the owner would have a motive to get rid of the premises by sale—presumably to someone who saw his way to making a better use of the site. But such dispossession of unenterprising owners is surely rather too drastic an operation to be contemplated by those who disclaim violence.

Again, as to the circumference, it has already been argued that the expectant stimulus to building might not be effective. There remain to be considered the good effects attributed to the repression of speculation in land. These good effects are to be measured by the bad effects of speculation. Now speculation in land is not so efficacious, nor are its effects so deleterious, as may be

supposed. It is not so efficacious because it is not the only, nor the principal, cause of high prices paid for urban land. The demand on the part of consumers, not the operations of speculating middlemen, is the bottom-cause of high prices. Nor are the effects which may truly be ascribed to speculation in land so bad as they are described. That speculators subserve a useful purpose in putting a commodity on the market is an economic truism. The outcry against speculation in land recalls the prejudices of our ancestors against "forstallers" and "regraters" and the monsters described as "badgers."

It is true, indeed, that if a single owner control the whole supply of a commodity for which the community is hungry, such a monopolist may raise the price to the great detriment of the consumer. But first it must be proved that monopoly in the sense of control by a single will prevails respecting urban or suburban land. Next it has to be observed how far the monopolist is exercising his power to the detriment of his customers. In fine it should be considered whether the probable evils of untempered monopoly—and it may be added the possible evils of unrestricted competition—are to be corrected by so clumsy an instrument as a tax, rather than by intelligent governmental control.

There remains the more generally attractive object which "uncarned increment" constitutes. So far as recent proposals embody the principle of Mill they must be approved by one who approves of that principle. Yet he may consistently disapprove of the way in which the principle is carried out. Roast pork is a good dish, but burning the kitchen is a bad way of cooking that dish. Besides the obvious inconveniences of that culinary method, it is open to two minor objections. The viand is apt to be done either too little, or too much; to be only singed, or to be burnt to cinders.

The first of the objections metaphorically indicated may be illustrated by comparing Mill's plan with more recent proposals, in the case of central premises. According to Mill's plan, when—all old leases having fallen in—the ground landlord creates a new lease, a very substantial percentage, in the case of distant reversions at least, would accrue to the community. But so drastic an appropriation of uncarned increment may seem to be inadmissible according to the schemes which are now in vogue. If the rate on site-value were so very heavy, it would be impossible to preserve that beautiful continuity with which the new rate on site-value is to be passed back from lessee to lessor on the

termination of each lease. It would not be seriously proposed that the holder of an expiring lease, with perhaps an old house unsuited to the site, should be subjected to such a rate as the incoming reversioner might bear with cheerfulness, or at least without detriment to future occupiers.

In the case instanced the unearned increment was not fully taxed; the pork was not completely roasted. It is done to cinders in the following instance. Suppose that the measures directed against speculation in land produced the expected slump in land values. There would be lost large accretions of value, much of which, according to Mill's plan, might be appropriated by the community.

Against the reasoning here employed experience may be arrayed; the experience of Queensland and some other of our colonies, and some towns in Germany. But experience must be transplanted with caution from its original surroundings. It seems that a "sparrow-rate" is leviable in South Australia; directed against a pest which is not very formidable here. It is probable that the rate "on the unimproved value of land" in certain colonies complies with Mill's principle of taxing unearned increments more nearly than would be possible with our complicated system of tenures. The party who suffers by the imposition of the rate on site-values may be less frequently in a simple system a mere capitalist, who counts upon the ordinary profits on his outlay, as distinguished from a landlord who is in the receipt of rent proper.

It is true that the adoption of the new rate would probably lead to the abandonment of the complicated system which has grown up in this old country. And why not? say some. But surely the fact that the system has grown up should give us pause. The calmness with which the ruin of an established industrial system is contemplated is comparable only to the confidence with which the Protectionist would divert and reshape the course of his country's trade to suit his own ideas.

It is possible, of course, to admit what has been above contended—that the proposed rate on site-values would largely fall upon occupiers—and yet to approve of the new rate. But it must be approved on the same kind of grounds as other taxes which fall upon the consuming public. The site-value rate, as compared with other forms of additional impost on the urban public, may have the kind of advantage which one form of tax on the beer-drinking public may have over another form. The site-value rate has the kind of advantage which may be claimed

for a tax on wine in preference to one on beer on the ground (already indicated) that part of the burden *may* fall elsewhere than upon the consumer. If additional municipal taxation is required for the sake of salubrity or other paramount object, and if the site-value rate is the best form of additional levy on the urban public, let that rate by all means be adopted. But do not pretend that it will fall mainly upon affluent monopolists and idle landlords. Do not claim for it the authority of Mill.