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NEW ZEALAND'S EXPERIENCE WITH LAND-VALUE TAXATION

And How That Nation Is Planning
for Improved Public and Private
Housing in the Post-War Years

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NEW ZEALAND'S EXPERIENCE WITH LAND-VALUE TAXATION

THE subject I have been asked to speak about is New Zealand's experience with land-value taxation. It has been suggested that certain features of New Zealand's policy and procedure in this connection may well repay examination by those who are especially interested in taxation problems. I hope this is so. For convenience of treatment, the subject can best be considered under two general headings:—the first, dealing with the national land tax, a tax on unimproved land values* imposed by the Central Government, primarily for revenue purposes; the second, dealing with local taxation in the form of rates† levied by the local authorities, also on the basis of unimproved land values.

Under both headings my central thesis will be that payment to any one—or, to use a somewhat wider term, benefits received by anyone—should be based on services rendered. This principle, it is true, can have a very far-reaching application. But the system of rating on unimproved value of land is at least one practicable and helpful way in which it can be carried out.

At the same time, I am conscious of the fact that the subject may seem a trifle dull in these days of exciting and heroic happenings.

Yet it is surprising how important these seemingly dull problems can turn out to be when you start to look into them at all closely. It is surprising how often the things that concern us most are the things to which we give the least attention and for which we feel no particular responsibility. And it is also surprising how seldom we perceive in our own communities those symptoms of unhealthy development which may ultimately help to undermine the whole vitality of the nation.

I wonder, therefore, if I might speak for a time in much more general terms about the objects, as I understand them, which your two organizations are striving to promote.

*As defined on page 11.

†As discussed in detail on pages 14-17.

Preparing for Post-War Reconstruction

Apart from the successful prosecution of the war itself, there is probably no subject receiving more widespread discussion at the present moment than the question of Reconstruction. However much ideas may differ as to the paths we ought to follow, there is at least a very substantial measure of agreement as to our ultimate destinations.

In its accepted definition, Reconstruction implies more than the rehabilitation of war-devastated areas—more than the reconstruction of war industries—more than the repatriation of huge armies and uprooted populations. It means, too, the application in their completeness—within my country and within yours—of those principles implicit in the Atlantic Charter and the Four Freedoms. It means fuller employment—greater security—higher standards of living. These are among the objectives of a social programme which we are committed to winning along with the war itself.

Irrespective of political and economic theories, it is a fact that these objectives will be attained only in so far as more and more conscious thought is taken in spheres where hitherto conscious thought and planning were considered needless. I would define Planning in the social sense as the organization of human life under optimum conditions of health and happiness. The problems of such planning in one form or another are not new. In their present form they are at least as old as the Industrial Revolution. But the war has thrown them into sharp relief. It has given new urgency to their study.

I feel myself that by far the most fundamental of the many problems which, for want of a more adequate description, are broadly encompassed by the term Social Planning, is the provision of housing for the people. It is an issue in which everyone has a vital stake—layman and expert, soldier and civilian, young and old. It is an issue which goes to the very roots of our national life.

I am a liberal in the sense that I believe that the major responsibility of Government is to provide collectively for the economic welfare and security of the individual. But I am conservative in the

sense that I look upon the family as the foundation of the nation. I believe that no nation or race can prosper or progress whose people lack the conditions necessary for a "home" and "home life" in the best and fullest meaning of those words. In planning for the future, therefore, the problem of housing must be closely related to the problems of industry on the one hand and to the requirements of home life on the other. The provision of adequate housing can be seriously handicapped and retarded if abnormal prices have to be paid for the land that is required. A sound and scientifically based system of taxation can help a great deal by correcting such a situation. I believe that the kind of procedure that we have adopted in New Zealand, although it is far from perfect, has, nevertheless, tended to discourage excessive inflation of land values generally and building site values in particular.

It is by the toil of their hands that men live and by the strength of the family that the race will continue. In other words, the problems of the individual must be closely integrated with those of the community in which he lives and works, and the problems of the community with those of the larger region. In the same way, the problems of the region must be related to those of the country as a whole and these, in turn, must be considered against the background of the world problem.

I do not propose to attempt the examination of these wider issues in any detail. I desire only to emphasize the fact that post-war planning must be on a national scale and must provide for a scientific tax procedure, effective land utilization, cessation of exploitation, and limitation of speculation, if it is to serve the ends we have in view.

"Homes for Heroes" Must Be Made a Reality

Some there are who will say that the present is no time to be thinking about such things. Win the war first, they argue, and then, if you want to, start discussing plans for a new Utopia. While I understand this attitude, I do not find myself in sympathy with it. If we end this war with no plans but a return to normality, whatever that may mean, if we do not prepare the ground now

for a social programme that will guarantee the progressive fulfilment of the pledges made to those who have gone away to fight, then we will assuredly be sowing seeds of future conflicts. We must not allow a sense of frustration and disillusionment to emerge as soon as the fighting ceases.

But we must see that while we do not go around shouting empty slogans like "Homes for Heroes to Live in" we really do this time take positive steps with a view to ensuring that such homes will be provided for the men soon after their return.

We must not assume, as we assumed last time, that a protestation of good intentions is a sufficient substitute for the reality itself. If words alone were all that is needed, we should already have accomplished miracles; but words and ideas are not enough. It is the will to do the job that really matters. With all the lessons of the past to guide us, with the tremendous material resources that will ultimately be at our disposal, with all the technical, engineering and constructional skill that can be drawn upon, the post-war world unfolds truly amazing possibilities of the better life.

I do not suggest that we shall succeed in reaching Utopia overnight. The solution of many of our problems will be a long, slow and painful process. I think it would be a mistake to set our goals too high, but it would be an infinitely more disastrous mistake to allow the difficulties of our problems to blind us to our responsibilities. Far better that we should tackle with vigor and determination the few particular problems that we know we can solve if the dictates of common sense and social consciousness are allowed to prevail—better to do this than to face up half-heartedly and ineffectually to a whole range of complicated issues with which we are ill-prepared to deal.

True, we may run grave risks by leaving unsolved issues that are pressing for solution. On the other hand, if by taking hold of even one single pressing problem, of devoting to that problem our united skill, wisdom and resources, we can really accomplish results that are worth while—then I feel sure that the more ambitious tasks of national and international reconstruction can proceed on a much sounder and solidier foundation.

If there is one immediate task that justifies attention more than any other, I would say that task is the building of more and better homes on a scale infinitely vaster than ever in the past. I can conceive of no single project which will yield richer rewards in terms of social welfare and national well-being.

Progress in Public Housing

Recognizing this fact, we have made plans in New Zealand for a tremendous expansion of housing construction as an integral part of our post-war reconstruction programme. Already remarkable results have been achieved under the scheme inaugurated in September, 1936, for the construction on a large scale of State Rental Houses. The Labour Government, which came into power in New Zealand at the end of 1935, felt it had a duty to carry good shelter as well as good food, good clothing, good education, good health and working conditions to the people, not to some of the people only, but to all the people all the time. One of its earliest activities, therefore, was to carry out a thorough housing survey covering particularly the major centers of population. Simultaneously, a careful investigation was undertaken of the various housing schemes and housing legislation in other parts of the world. The outcome of these deliberations was the mobilization of all available resources, private as well as government, under a scheme that called for the construction in more than 150 cities and townships of thousands of modern individual homes built in accordance with the highest standards of construction.

By 1941, when shortages of labor and materials compelled the virtual suspension of activities, about 15,000 individual homes had been constructed at a cost of upwards of \$100,000,000. These figures must, of course, be considered in relation to New Zealand's population. In the whole of New Zealand there are less than 1,750,000 people—less, I imagine, than in the Borough of Manhattan. This, however, does not mean that our housing problems and our town planning problems are any less acute or any less difficult, relatively speaking, than those which confront many of your big cities. In fact, it is no exaggeration to say that accommodation has been as

scarce in Wellington as in Washington. I cannot say more than that.

The homes that we have built are available for all classes of the community without discrimination. No income bar and no means test is employed in the selection of tenants. If a 3-, 4-, 5-, or 6-room house is required, those needing it qualify—but there are mansions for none until houses are available for all. The fact that the demand for these State houses continues to far exceed their supply—the fact that the neatest and tidiest portions of New Zealand towns are those occupied by these State tenants—speaks volumes for the success that has been achieved.

I know of no single activity in which the Government has engaged during its seven years of office, and it has engaged in many—too many in the opinion of some people—that has brought more joy and brightness into the lives of thousands of its citizens. I look towards a tremendous extension of this activity, not only in my own country but in every country that has pledged its efforts and resources when the war has been won to the task of making the world a better place for ordinary men and women to live in.

Ample Scope for Private Enterprise

Our difficulties in New Zealand from a housing point of view differ in many respects from those with which you are confronted. Yet we share many basic problems in common. For example, there is the difficulty of determining the proper limits of State or Government responsibilities as opposed to those which can best be shouldered by private enterprise. My own feeling is that the magnitude of the task which awaits us is such that it will offer ample scope for private enterprise to make the maximum contribution that it is capable of making. More and more, however, we are being compelled to accept the need for a more direct and positive role on the part of the Government in matters which so vitally concern the welfare of the community.

We simply cannot afford to pay the tremendous price we have paid in the past by leaving such matters in the hands of those who acknowledge no social responsibility. We cannot afford to leave the way clear in the future for the predatory activities of

the speculator, with the repetition of the muddle and the waste that must always result from unplanned development.

There is the problem, too, of considering housing in its proper relationship to other phases of general regional planning. Industry and housing, for example, must be considered for planning purposes as two parts of a single problem. A building project no longer involves merely the construction of a number of dwellings. The larger the scale of operations, the more we are compelled to pass from purely constructional fields into fields which embrace almost every phase of communal activity. When we commence to plan for housing, on any national scale, we are in effect planning for the future of the nation.

There is the problem also of taking full cognizance of the human factor. The predominant characteristics of the American people, characteristics shared with all other forward-looking nations, are the love of freedom and a deep-rooted objection to interference. We insist on the right to live as we choose to live. There is no contradiction here with collective planning and construction. For that reason it has been truly pointed out that any plan which proceeds without reference to this human factor is foredoomed to failure. "We must always bear in mind the importance of diversity and the wisdom of providing for alternatives. Our problem must always be considered in terms of how people live and not in terms of housing standards alone."

Again, there is the extremely vital problem of making available homes at a cost within the means of those who are in need of them. Rentals are ordinarily graded in accordance with the size of the house, but incomes are not always graded according to the size of the family. This difficulty can be overcome either by subsidized housing or by a scheme of family allowances on a sufficiently generous scale. We have preferred to adopt this latter alternative in New Zealand. The rentals of our State houses range from \$5 to \$10 a week, assessed to cover all charges, including interest, local taxes, insurance, maintenance, and depreciation. The fact, however, that the housing programme has been financed by the Government-owned Reserve Bank has enabled interest charges to be kept down

to a low level. Under our Social Security legislation, on the other hand, monetary benefits are available to every mother where the income of the family does not exceed a certain figure. These benefits are paid for every dependent child under the age of 18 years on a scale that enables the mother of that family to make proper provision for their maintenance and care. New construction projects to be undertaken after the war should largely solve the difficult problem of adequate housing for large families with limited incomes.

Control Over Land Uses

To mention one further issue that is probably as fundamental as any, control over the use of land must always be the key to effective planning. Without such control, we can only proceed haphazardly. This does not imply nationalization of the land or of anything else. That issue could be argued, but it is hardly a realistic issue at the moment. It does imply, however, the right of the community to over-ride individual considerations where those considerations conflict with the greater good. This right is already recognized by most countries in the granting of powers of compulsory purchase* where land is required for railways, road improvements, etc. But, to quote from a recent English study, "the practical application of these measures has often been stultified by the opportunities that they have left for individual landowners to hold the community to ransom."

With all the definiteness that might be required, I affirm that benefits received should be based on services rendered, and the payment should be made to that person or body which renders the service. Values should belong to those who create them. Expenditure of taxes collected from the community should be reflected in services for or benefits to the whole of the community.

This objective, I suggest, can best be achieved through a system of rating on the unimproved value of land. In the light of our New Zealand experience, I am convinced that the taxation of land

*Or "eminent domain", to use the American term.

values in accordance with this principle secures the best results from the point of view of the community, while, at the same time, ensuring as near justice as any known system could to the individual landowner. Because, from the point of view of both community and individual, it means that the tax liability which land bears is in direct relationship to the value due to its site—its access to community facilities, its productivity, including all values other than those created by the owner or occupier of the land.

It is important that we should approach our objectives with a full appreciation of the obstacles we are likely to encounter on the road. We shall reach them quicker to the extent that we succeed in linking idealism with realism and vice versa. "For the past, if it teaches anything at all, teaches us that idealism divorced from realism ends in wrecked hopes and shattered projects." But it is imperative that while we should always keep our feet firmly on the road, we must never at any time lose our vision of the goals towards which we are marching.

How New Zealand's Tax Structure Has Evolved

May I pass now to a more detailed consideration of our experience in New Zealand in the field of land-value taxation. As already indicated, New Zealand's existing tax structure provides for taxation of land values in two general ways.

- (1) By means of a graduated tax on the unimproved value of land, such tax being imposed by the Central Government primarily for revenue purposes.
- (2) By means of the rates based on the unimproved capital or annual value of land which are levied by local authorities, also for revenue purposes.

Strictly speaking, local authority rates cannot be regarded as taxes in the ordinary sense, since to a considerable extent they represent payment by the ratepayer for services received in the form of water supply, drainage and sewerage facilities, rubbish disposal, road maintenance, hospital and transport services, and similar services provided by local authorities.

The revenue from the Central Government's land tax, on the other hand, goes into the Consolidated Fund, that is the general revenue account from which is met the cost of ordinary administration and of services and benefits provided on a national scale in which all citizens share collectively.

The land tax in New Zealand has had a varied history. When first introduced in 1891, it had the double objective of bringing in revenue and of breaking-up large farming estates. Except as to minor details, the system of graduated land taxation during the earlier years remained largely unaltered up to the last world war. The only noteworthy change was the gradual hardening of the graduated rate for the purpose of preventing land aggregation and fostering less scattered settlement rather than of securing additional revenue. Until 1917, the tax consisted of a flat rate equivalent to approximately 2 cents for each \$5 of unimproved value, plus an additional graduated tax starting with land of unimproved value of \$25,000 and ranging up to slightly over 2 cents in the dollar on land with an unimproved value of \$1,000,000 or more. In 1917, a single progressive tax was instituted, rising from 2 cents to 14 cents for each \$5 on unimproved value, plus a super tax of 50%. This meant a maximum rate of tax on the larger estates equivalent to 4½% of their unimproved value, with an additional tax of 50%, bringing the maximum rate to 6¾% in the case of absentees.*

In 1921, the maximum was further increased, but the super tax was lowered 33⅓% and finally abolished in 1924.

Various exemptions have been allowed, the main one consisting of an exemption of \$2,500 in the case of land the unimproved value of which does not exceed \$7,500. On values in excess of \$7,500 this exemption is gradually reduced until it disappears completely where the value of the land reaches \$12,500.

An alternative basis of exemption has been available in cases where the land is subject to a registered mortgage. In such cases, an exemption was previously allowed on the whole of the mortgage

*The present exchange rate does not in any way reflect comparative prices and costs in the U. S. A. and New Zealand, prices of major consumable commodities and services being much lower in New Zealand. The dollar has, therefore, been converted in every case at the approximate par rate of \$5 to the pound.

where the unimproved value of the land was \$50,000 or less, the exemption being gradually reduced in cases where the unimproved value exceeded \$50,000, until it disappeared in the case of properties with an unimproved value of \$100,000 or more.

In 1929, the \$50,000 limit was reduced to \$37,500, above which the amount of the mortgage exemption is now diminished until it ceases to apply when the unimproved value reaches \$75,000 or more.

In 1931, the graduated scale of land tax was abolished, and a flat rate of a penny in the pound of unimproved value substituted, the above-mentioned exemptions being retained. This action was taken by the then Government as a measure of relief to farmers who, at that time, were in serious financial difficulties as the result of falling price levels and acute depression conditions. On the other hand, it was pointed out, very properly I believe, that the abolition of the graduated tax did not in reality assist the majority of farmers but merely had the effect of making a handsome present to wealthier landowners, including particularly large financial and business corporations with valuable urban holdings.

In the first place, the tax had by this time been capitalized in the current level of land values. It had become, as it were, not so much an annual tax as a compounded charge against land to which selling values and owners' equities were adjusted accordingly.

In the second place, the growth of urban areas and the very great increase which had occurred in city values since the graduated tax had been imposed meant that by 1931 more than one-half the revenue from this source was paid by owners of urban property and not by farmers.

The Government which took office at the end of 1935 and which had vigorously opposed the abolition of the tax, accordingly re-introduced a graduated scale of land taxation as from April 1, 1936, since when no significant changes have occurred.

The position now is that where the unimproved value on which the land tax is payable does not exceed \$25,000, the tax commences at a rate of approximately ½% (a penny in the pound) rising to a maximum of 2½% (sixpence in the pound). The exemptions formerly in force have been continued.

Valuing Land for Taxation Purposes

It will be obvious, of course, that the success of any system of national land taxation must depend in a large measure on the adoption of some uniform method of valuing land for taxation purposes. The absence of such uniform valuations would inevitably give rise to serious inequities as between one landowner and another and as between one district and another.

For a few years following the introduction of the land tax, difficulties arose by virtue of the fact that valuations arrived at by valuers employed by different authorities for different purposes varied very considerably, the same property frequently having several values assigned to it. To overcome these defects a new Government department known as the Valuation Department was set up in 1896 under the direction of a departmental head known as the Valuer General, and with a permanent staff of district valuers who are responsible for the actual work of valuation.

The Department was charged with the duty of assessing the value of real estate for taxation and other purposes, both of the Central Government and of local authorities. Three distinct values are assessed by the district valuers in regard to each individual property, namely: (1) unimproved value, (2) value of improvements, and (3) capital value. The *unimproved value* on which land tax is levied is defined as the value of the property less the value of the improvements effected by the owner. Any increase in value due to the successful working of other lands in the district, or to state or local body expenditure on public works, or to the general prosperity and development of the country, is included in the unimproved value of the land.

The land tax, as it stands at present, is designed primarily for revenue purposes. But, if I may again emphasise the fact, it is designed so as to provide revenue on a basis of productive value, such productive value including site value where land is used for building purposes. Here may I again emphasize this fundamental principle that if service rendered is to be accepted as the only morally just title to benefits received, then the unimproved value of all

land (that is excluding the value of improvements effected by the owner himself) rightfully belongs to the community which rendered the services that gave any particular piece of land the value it possesses. (The attainment of this objective is complicated by the fact that much land has changed hands at prices partly based on values created by the community.)

In an effort to achieve maximum uniformity of valuations, the aim of the Valuation Department is to re-value every district once in 8 years. For administrative reasons it has not always been possible to ensure complete Dominion-wide re-valuations at sufficiently regular intervals, with the result that the values entered for certain districts may, at any particular moment, be considerably out of line with those entered for other districts.

When prices of farm commodities are rising, moreover, valuations inevitably tend to lag behind selling prices of land. In spite of these difficulties, the Valuation Department has succeeded to a considerable degree in evolving a synchronized procedure and policy that has minimized the possibility of injustice being done to any individual taxpayer, class of taxpayers, rural area, or urban center.

The second valuation made in regard to each property is the value of "improvements." Improvements consist of all value additions due to labor and capital expended by the owner or occupier of the land, and consist of buildings, fencing, planting, draining, private roads and water-races, clearing of timber, and permanent grassing. No work can, however, be considered an improvement if the benefit of it has been completely exhausted at the date of valuation. It is, in many cases, very difficult, if not impossible, to value improvements apart from the land itself. Much capital sunk in ploughing, cultivating, regrassing, etc., has become indistinguishable from the land itself, and consequently the attempt to arrive at an "unimproved" value is somewhat arbitrary.

The third valuation made is that of the capital value of property, which may be defined as the fair selling value in the open market but not the auction value or value derived at a forced sale.

When Property Owners Appeal

The procedure followed is to prepare for each district a Valuation Roll setting forth particulars of each property within the District. In the event of revision of valuations, the Valuer-General notifies each person on the Roll of the values at which his property is entered. Property owners may then lodge objections to the values assessed. District Valuers are then instructed to reconsider the values in respect of which objections have been lodged. If they recommend reductions as claimed by owners, then the necessary changes are made in the valuation roll. If they do not recommend any change, then objectors may have their cases heard in the Assessment Court, which consists of a President—who must be a barrister or solicitor of the Supreme Court of New Zealand—appointed by the Governor-General in Council, one member appointed in the same way, and one member appointed by the Local Authority or Authorities whose rolls have been revised, provided that the person is not a member or paid official of such Authority or Authorities.

Any reductions allowed by the Assessment Court become effective only after the Valuer-General has endorsed them. If he does not do so, and the objector refuses to accept the former's assessment of a fair selling capital value, then the property may be acquired at this valuation for the Crown. On the other hand the owner of the property may require the Crown to take over his land at official valuation if the Valuer-General refuses to reduce his valuation to the level considered by the former as the fair selling value.

Appeal to the Supreme Court is provided for on questions of law, but on all other questions the decision of the Assessment Court is final.

The land tax has never been very important as a source of revenue for the Central Government. Only in the latter years of the last war and a few years following, when the super tax was in operation, did revenue from this source rise as high as 10% of total taxation revenue. For the current year taxes are estimated to yield £1,000,000, amounting to only 3% of total estimated tax revenue.

The general effect of the graduated land tax since its original inception may be fairly summed up by saying that it has hindered the growth of land aggregation—that it has contributed in some degree to the breaking-up of larger estates while, at the same time, it has not in any way handicapped the small farmer. I believe it will be true to say also that it has assisted over the years in extending the productivity of the country by acting as an incentive to landowners to improve their lands and by fostering the development of more efficient methods of land valuation based on productive values. Finally, the tax has certainly taken, for the benefit of the community as a whole, some of the urban and rural “unearned increment” of value which the community itself has created.

Revenue Sources of Local Authorities

May I pass now to a consideration of local government taxation or of “rates,” as we call local government taxes in New Zealand.

The first point to emphasise in this connection is that the Central Parliament is completely sovereign, local authorities acting only under delegated powers.

The second point to bear in mind is that the responsibility of both the central and local authorities are very much wider than is the case in the United States. For example, police, education, main highways and public health are all National responsibilities in New Zealand. Similarly, both the National Government and local authorities are responsible for providing many services which in other countries are left to private enterprise, including particularly all public utilities. Among the national utilities owned by the Government itself are the railways, hydro-electric power plants, post office, telegraph and telephone service; while such local facilities as street cars and buses, gas and electricity distribution, and in several cases milk supply, are provided by various local authorities.

Generally speaking, the cost of maintaining such services is met from the revenue which they earn.

In spite of the fact that government in New Zealand has become increasingly centralized, there exist a multiplicity of local authorities. Some of them perform a wide variety of functions, while others

are in the nature of *ad hoc* bodies set up for a specific purpose such as electric power boards, hospital boards, harbor boards, etc. The result is that the boundaries of these various authorities frequently overlap, so that a particular area may be within the jurisdiction of several authorities.

This tendency to fragmentation has characterized the history of New Zealand local government since the abolition of the provincial system of government in 1876. The basic reason for this multiplication of areas is the intense local patriotism of the New Zealand rural community. Efforts have been made in recent years to correct this state of affairs by bringing about amalgamations among the smaller local bodies; but, due to the fact that parochial interests have become so strongly entrenched, this is proving a slow and difficult task.

The number of local authorities functioning at the present time is 668, including 125 County Councils, 127 Borough Councils and 55 Town Boards.

With the exception of such authorities as Electric Power Boards, Harbour Boards, Tramway Boards, whose main function is controlling a revenue-producing utility, rates constitute the largest proportion of total local body receipts.*

Local Option in Taxation

There are three main systems of rating: (1) on capital value, (2) on annual value, and (3) on unimproved value. In a few cases rating may be on an acreage basis, while a further variation of some interest is the procedure followed in connection with the system of rating adopted by River Boards. These latter authorities are constituted for the purpose of carrying out river protection work, including flood control, prevention of erosion, and responsibilities of

*The total revenue of local authorities for the year 1939-40 was about \$100,000,000, a large proportion, however, being receipts for services rendered such as gas and electric power revenue, street-car fares, harbor board fees, etc. In the same year the proportion of total revenue receipts of local authorities represented by rates was 36.5 per cent.

Of the total rate receipts 63% came from boroughs, that is from city and urban areas, 31% from counties, 2% each from urban drain districts, harbor boards and minor authorities.

that kind. Work carried out is financed by means of rates collected from owners of all property which benefits from the Board's activities, such property being classified for rating purposes into three or more divisions. Class A, for example, will include property which is most directly benefited; Class B, property that benefits to a lesser extent; and Class C, other property within the River Board's area. The rate will be graded in accordance with the extent to which the property in question benefits from the work carried out.

The local bodies can determine by resolution whether their rating system will be on the annual value or on the capital value. The ratepayers themselves, however, must decide whether the unimproved value or the capital value rating method is to apply in their particular district. At the present time, of the local authorities using these three systems: 49% rate on the unimproved value, 43% on the capital value, and 8% on the annual value.

On a population basis, however, 58% of the people of the Dominion are in districts using the unimproved value system. This represents approximately 44% of the total population of counties, 67% of the total population of boroughs, and 52% of the total population of town districts. It should be explained, perhaps, that, for purposes of local government, boroughs include the larger cities and towns, while town districts include the smaller urban centers.

The Rating on Unimproved Value Act was passed in 1896 to afford local authorities the opportunity of adopting the principle of rating expressed in the title of the measure. The Act is now incorporated in the Rating Act, 1925. It is entirely at the option of the ratepayers of local districts to adopt the system, and provision is made for a change of the system of rating, if desired, every three years. Under the original Act it was necessary for a minimum number of one-third of the ratepayers to vote, and a majority of their votes carried the proposal. Now the question of adoption or otherwise is decided by a bare majority of the valid votes recorded, irrespective of the number of ratepayers who have voted.

The valuation roll is supplied to the local authority by the Valuer-General and the definitions of capital value, "improved" and "unimproved," are those I have previously given.

"Unimproved Value" Method Most Popular

The unimproved value method of rating has been found on experience to be the most equitable. In the case of rural lands it has the advantage of lessening somewhat the burden on those properties which are well cared for and into which the owner has sunk considerable capital in the form of improvements designed to increase the property's productivity. At the same time, it tends to place a somewhat heavier burden on other properties which are left in an undeveloped state. It would also bear less heavily on the small farmer as against the large estate owner. In the case of urban property this system of rating similarly operates to the advantage of the small suburban householder as against the owner of valuable city estate. It likewise puts a premium on making the most effective possible use of land, since with increasing rate burdens it will not pay to keep land idle with a view to reaping the benefit of community-created value.

On the other hand, in the case of city property particularly, it has certain disadvantages. For example, there will be a tendency to encourage over-building within city limits, a tendency which has been evident in recent years in the case of certain of New Zealand's larger towns. There is an element of unfairness, too, in the fact that a small two-story building, let us say, situated on a lot of the same unimproved value as that occupied by a large eight-story building erected out of the surplus assets of some wealthy insurance company, will have to meet the same rate burden, irrespective of the fact that the latter building will require much greater services and will benefit to a much greater extent from the facilities and utilities which the local authority provides.

The same type of anomaly inevitably arises in the case of private dwellings, where one man may have a half-acre section, a large proportion of which he devotes to cultivation of a vegetable and flower garden, thereby adding to the amenities and attractiveness of the neighborhood; whereas his next-door neighbor may have only one-eighth of an acre section to which he gives no care or attention. Yet the former man although he is by far and away the

better citizen will have to pay four times as much by way of rates as the latter.

These are just a few examples of the kind of problems which arise and for which no complete solution has yet been found. Probably these problems would be minimized through more adequate planning and zoning laws. In any event the fact remains that the positive advantages of the unimproved value method have been found, on balance, to far outweigh its disadvantages.

There is one point that might be worth mentioning to round out the picture of New Zealand's local taxation procedure.

Hospital Boards do not possess authority to levy rates. The estimated net deficit of a Hospital Board (excluding government subsidies and payment from the Social Security Fund) is apportioned by the Board among the contributory local authorities within its district in proportion to the capital value of the ratable property within each of such contributory districts. The main purpose of this arrangement is one of administrative convenience. The trend, however, with regard to hospital expenditure is for the Central Government to assume an increasing proportion of the total liability. This has been accentuated with the introduction of the present Social Security scheme and, although hospitals must still partly rely on local tax revenue, there is a move by local authorities to press the Government to assume the entire liability of maintaining the country's hospital system.

The Key to the Future

I have endeavoured to describe to you in a very general way the more significant features of the system of land-value taxation which has gradually emerged in New Zealand as a result of our experience over the last half century or so. There are probably a number of gaps in the story as I have told it, but my aim has been to dwell rather on the principles and methods followed in connection with the Land Tax and Unimproved Value Rating as tax procedures in which New Zealand has some claim to have pioneered the way. I believe that the procedures we have evolved have brought substantial benefits. At the same time, it is recognized that many imper-

fections exist and that the opportunity for further improvement is still very far from exhausted. But the conclusion which most clearly emerges from New Zealand's experience is that existing disadvantages and anomalies can only be fully removed if tax procedure is associated with competent planning to determine the best use of land and resources, having regard first and foremost to the vital interests of the community and the nation. Therein lies the key to the future.

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