

The Progress of the Henry George Movement in New Zealand

Local Land Value Taxation in Practice

By P. J. O'Regan

Since the abolition of the Provinces in 1875, the functions of local government in this country have been entrusted to County Councils and Borough Councils mainly, but there are many smaller divisions controlled by Town Districts and Road Districts, and there are several Harbour Boards. All these bodies are invested by statute with a limited power to levy taxation, direct taxation of course. In this country, however, we seldom use the word taxation in connection with local government, the more usual word being rates. Rates may be levied in any of three ways—on the capital value, on the annual value, or on the unimproved value. The capital value means simply the gross value of the property, taking the value of improvements and unimproved value together. The annual value approximates to what Adam Smith calls the building rent in that it really means the annual value of land and improvements taken together. From our point of view, therefore, there is no difference between the two systems inasmuch as in every case taxation is levied on both improvements and the unimproved value without reference to the fundamental difference between the two. A local body may decide by resolution whether it will levy its rates upon the capital value or on the annual value, but the decision to rate on the unimproved value rests with the ratepayers alone.

The right to levy rates upon the unimproved value of land was first given in this country by the Rating on Unimproved Values Act, 1896, but that Act has since been incorporated, and is now part of, the Rating Act of 1925. The initiative rests with the ratepayers, and not with the local governing body, in that a proportion of the ratepayers is empowered to demand a poll. The proportion of ratepayers empowered to make a valid demand is: Where the number of ratepayers on the roll does not exceed 100, 25 per cent; where the number does not exceed 300, 20 per cent; and where the number exceeds 300, 15 per cent. A demand so signed should be presented to the Mayor or County Chairman, or left at the Town Hall or County Office, as the case may be, and the poll must be taken within not less than 21 days or more than 28 days thereafter. Only ratepayers are entitled to sign the demand, but in Boroughs, ratepayers' wives (or husbands) are entitled to vote.

The first Borough to adopt the system was Palmerston North, the largest inland town in this country, where a poll was taken in March, 1897, when the proposal was adopted by 402 votes to 12. Since then the movement to

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levy rates on the unimproved value has progressed steadily. Altogether there are 119 Boroughs in this country, of which 77 have adopted the system and according to the latest issue of the Local Authorities' Handbook, 66½ per cent of Borough inhabitants reside in towns rating on the unimproved value. We have 124 Counties, and in 55 of these improvements are entirely exempt from local taxation. Including Town Boards and Road Districts, fully 40 per cent of our local governing bodies derive their rate revenue from the unimproved value of land.

Once the poll has been taken in a given district, the proposal cannot be re-submitted to the ratepayers until an interval of three years has expired. Should the proposal have been carried in any district it is competent for the statutory quota of ratepayers to demand a poll for the purpose of rescinding the system. So far rescinding polls have been taken in 20 districts, but these have been successful in five only, and in three of these the ratepayers have reverted to rating on the unimproved value. Naturally the ratepayers are slower to move in Counties than in Boroughs, but it is an interesting fact that there have been only five unsuccessful polls in Counties, and in one County only has a rescinding poll been successful. Naturally the majority of ratepayers in the Counties are farmers, and although farmers are usually considered Conservative, our experience is that they are strongly opposed to the taxation of improvements.

The original Act contained several defects. For example, it was necessary that one-third of the ratepayers should vote to make a poll valid. If less than one-third of the ratepayers voted, even though they were unanimously in favour of the system, the poll failed. That defect, however, has long since gone by the board. A more serious defect was that which limited the operation of the system to the general rate, leaving special rates for charitable aid, sewerage, or lighting still to be levied as before. This defect was of little practical importance in small districts, where all services are provided out of the general rate, but it was a serious blemish in the larger centres. For example, a poll was taken in Wellington as far back as November, 1901, when the ratepayers, by a substantial majority, decided to adopt the new system. Inasmuch as special rates are levied for charitable aid, sewerage, electric lighting, gas, and water, however, a very large proportion of the city's revenue continued to be levied on the annual value of property, and in fact only the general rate was levied on the unimproved value.

By an amending Act of 1911, however, it was provided that in every local district where a poll was taken after the passing of that Act, *all* rates should be struck on the unimproved value if the ratepayers decided to adopt the system. In respect of districts where a poll had already been taken, power was given to the prescribed quota of ratepayers to obtain another poll for the purpose of placing all the rates upon the unimproved value. Accordingly the position since 1911 has been that if and whenever the ratepayers have decided by a poll to levy rates on the unimproved value, all local rates are so levied as from the end of the financial year next following, while in any district where a poll had been taken prior to the passing of that Act, a further poll was necessary. So far there had been several such polls, and in every instance they were successful, a fact which in itself is evidence that the practical application of the system increases its popularity with ratepayers. The most

important district where such extension polls had been taken is my own city of Wellington, where a poll was taken on the date of the Municipal Election in April, 1927, when the ratepayers decided in favour of rates on the unimproved value by 8,169 against 4,262 votes. Wellington comprises a total area of 23 square miles, just about the same area as Manhattan Island, New York, and over that area, there is now a flat rate of 7½d. in the £ on the unimproved value of land, which is practically 3 per cent. The rate revenue of the city last year was £430,000, and during the present year it will probably reach £500,000. I am aware that there are people who belittle what they call the step-by-step system of advancing our cause, but I still believe that there is something to be said for a method under which we have achieved such substantial results. At any rate in taking advantage of the machinery provided by law to levy local taxation on the unimproved value of land in this country, we are doing the only practical work possible in our age and generation, as far as New Zealand is concerned.

Rating on the unimproved value was adopted in the city of Christchurch in June, 1902, but inasmuch as the poll was carried before the extending legislation of 1911, Christchurch still labours under the disadvantage which obtained in the city of Wellington prior to the poll of two years ago. Accordingly, Wellington city affords the most outstanding illustration of rating on the unimproved value in this country. There are people who say that it is no more than a coincidence, but the fact remains that the important industry of building is in a more flourishing condition in this city than in any other centre of population in New Zealand. Personally, I believe that within the next few years this city will be largely rebuilt, and I am satisfied that the main cause is the great incentive given to building—I might call it the great discouragement given to mere speculation in land—by the system of rating on the unimproved value.

To give the Conference some idea of the importance in this country of the movement to levy local taxation on the unimproved value, I may say that the rate revenue of local bodies in this country last year amounted to £5,600,024. This amount is increasing rapidly, and will attain much greater proportions in a few years. It requires no prophet to realise that in a few years rating on improvements will be a thing of the past, and I submit with confidence that it will be no mean advance towards the realisation of the great goal we have in view when all the rate revenue of this country is levied on the unimproved value of land.

Of course, it would be impossible to apply the system if the Act of 1896 had not been accompanied by another statute, passed in the same year, ordaining the separate valuation of land and improvements. I allude to the Government Valuation of Land Act, 1896. It is interesting to point out that Adam Smith in his great work, generally styled *The Wealth of Nations*, in dealing with the question of taxation, advocates the separate valuation of land and improvements, contending that such a measure should be "a perpetual regulation or fundamental law of the commonwealth." The unimproved value of land in urban districts is called by the great Scotsman, "the ground rent of houses," while in reference to rural lands he speaks of "the ordinary rent of land." Of course, he could not be expected to apprehend everything when he wrote his book, but it is to his lasting credit that he was the first to point out that the inefficacy of the land tax, passed in England

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as far back as 1693, was due to what he termed the "constancy of the valuation." In other words, Adam Smith saw plainly that the Land Tax Act, 1693, was defective in that (1) it contained no provision for periodical re-appraisal, and (2) it was levied indiscriminately on land and improvements. I am quite satisfied that our New Zealand legislators who were responsible for the Government Valuation Act, 1896, knew very little about Adam Smith or his book. The fact remains, however, that they "built better than they knew." A land tax had been imposed for national purposes in 1891, but it was found that in practice that it was impossible to exempt improvements without a proper system of valuation. That system has definitely come to stay in this country, notwithstanding the subsequent attempts of certain politicians to palter with it, and it is impossible to consider or describe our system of local option in taxation without reference to it.

To many of you it may appear extraordinary that our progress in this country should have been so slow, notwithstanding the fact that it is more than 30 years since legislation was enacted providing for the separate valuation of land and improvements and conferring upon ratepayers the power to levy all rates upon the unimproved value of land. It is not my intention to worry you with apologies or explanations. There are times in the history of every nation when circumstances appear to combine in favour of reform. At other times circumstances appear to conspire in the opposite direction. I am bound to admit that in the early 'nineties, when we adopted first a national land tax, and then legislation empowering the ratepayers to levy rates on the unimproved value, I was amongst those who hoped for an advance more rapid than has actually taken place. It is an undeniable fact, however, that no people can be engrossed with more than one question at a time, and for the last 30 years, in my opinion, the politics of this country have been distracted by extraneous matters in which we have really no concern. First, came the war in South Africa, the effect of which, as the result of years of propaganda in the Press, was to so distract public opinion as to make it impossible to gain a hearing for anything more utilitarian. The effects of that war had hardly died away when we became absorbed in the European War, and the inevitable result has been to divert the attention of the people from questions of more practical and immediate concern. I think the experience of every country has been similar, and this has led me to the conclusion that the disciples of Henry George everywhere should be the implacable opponents of Imperialism and its inevitable concomitants.

I may say that our system of local taxation on the unimproved value is in strict accord with the principles expounded by Henry George in that there are no exemptions and no graduations. A flat rate is levied on all rateable property. The national land tax on the other hand is marred by an exemption of £500. A section of land worth £1,000 without improvements, for example, pays land tax upon £500 only. Moreover, every taxable property to the limit of £1,500 unimproved value is subject to a deduction of £500. Thereafter the exemption diminishes at the rate of £1 for every £2 of unimproved value, and hence it does not disappear until the unimproved value reaches £2,500. From the unimproved value of £2,500 to £5,000 a tax of 1d. in the £ is imposed. Thereafter the graduated tax begins. This system of exemptions and graduations, while it vitiates the application of the principle, makes the tax more costly to collect. In the case of local taxation, however, the position is

quite different. While rates are stuck on the annual value, the local body makes its own valuation, but once the ratepayers have decided to levy rates on the unimproved value, the valuation passes out of the hands of the local body and under the control of the Government Valuation Department, and the local body is by law obliged to levy a uniform rate on the value of every property after improvements have been deducted. In Wellington City, for example, the last valuation showed the capital value to be approximately £34,000,000, of which the value of improvements was £18,000,000, leaving the unimproved value £14,000,000, and on the latter the Wellington City Council is obliged by law to levy its rates.

I do not venture to forecast the future, beyond saying that what we have gained we shall certainly hold. Moreover, we shall continue to take advantage of the law conferring local option on the ratepayers, until the whole of our local rates are derived from the unimproved value of land, and I feel assured that ere many years have passed the local taxation of improvements will have gone for ever.

As one who has laboured in this remote corner of the earth for 40 years in the greatest cause in which men can engage on this side of the grave, I long to be with you who are assembled at this memorable Conference. If I may be allowed to say so, I am with you in spirit, and I hope one day to have the pleasure of meeting some of you in the flesh. To my old friends and co-workers, Messrs. Paul and Madsen, though I have become acquainted with them by correspondence only, I offer sincere thanks for having imposed upon me the pleasant duty of compiling this hastily written memorandum regarding the progress of our movement in New Zealand.

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