Rates and Rating Systems Compared

REPLY TO LOWER HUTT CITY COUNCIL

By P. J. O'Regan

Two articles, the contents of a circular issued by the Lower Hutt City Council, and setting out the case against rating on unimproved value when a rescinding poll was pending in that district, appeared in "Board & Council" in October last year. To these, Mr. P. J. O'Regan replied at length in our issues of the 28th of November and the 12th of December last, and this leaflet, with slight amendments, is a reproduction thereof.

I have read with considerable interest the ingenious and ingenuous attack on the system of rating on the unimproved value, contained in the circular issued by the City Council of Lower Hutt and appearing in "Board & Council" of the 3rd and 17th October, and would respectfully ask the reader to give his attention to the following reply.

Beyond question, though the circular is fathered by the council, the real author is the Mayor, Mr. Andrews. At any rate, it is an accurate report of the speech made by that gentleman a few days before the recent poll. I do not suggest, of course, that the document does not reflect the opinions of the council, and I concede unreservedly that if we accept the author's premises, the acceptance of his conclusions follows as a matter of course. In the following pages, however, I shall show how readily sophistry may be made to rob accuracy of its sovereign attributes.

To clarify my case, I give a brief historical resume, showing how it comes about that we have three systems of rating in New Zealand. The earliest system is that of annual value rating,, and it dates from the abolition of the Provinces in 1875-76. Prior to that date, local taxation was a matter for each Provincial Government, save that the Constitution Act of 1852 ordained that the Provinces could not levy indirect taxation. The Rating Act, 1876, accordingly was a measure complementary to the Abolition of the Provinces Act, passed in 1875, but coming into operation on the opening of the session of 1876. The leading policy measure of the Grey Government (1877-79), was the Property Assessment Act, which ordained a flat land-tax of one half-penny in the £ on the unimproved value and set up a Valuation Department. That Government was defeated soon after the passing of the Act, and was succeeded by the Hall-Atkinson Government, who lost no time in repealing it. They had it re-enacted, however, under the same title, retaining all the machinery clauses, the only substantial alteration being that taxation at the rate of one penny in the £ was levied on the gross or capital value of property, real and personal. The new measure retained also the provisions for a Valuation Department. So the position remained until 1882, when the Government initiated a Bill re-enacting and consolidating the Act of 1876 and the several amending Acts, and providing for rating on the capital value at the option of the local bodies. Major (afterwards Sir) Harry Atkinson was in charge of the measure, and his speech on the motion for the second reading is of peculiar interest to-day. He emphasised that the two main features of the measure were provision for rating on the capital value of property, and valuation by the Department set up under the Property Assessment Act, 1879. He condemned rating on the annual value, for the reason that it unduly penalised improvers, and commended the adoption of the capital value system, on the ground that it would involve their relief. Evidently he was confident that the local bodies would adopt the system for the reason, as he pointed out also, that they would be saved the expense of valuation involving thousands of pounds annually. Our urban population was numerically much less in those far-off days than it is to-day, and a perusal of the debate indicates that members had in mind rural, rather than urban properties, though, of course, the Bill was of general application. The second reading was agreed to without division, and little, if any, alteration was made in Committee of the Whole. There was little discussion and no alterations in the Legislative Council, but the Hon. Mr. Williamson argued that, from the point of view of improving settlers, both systems of rating were equally objectionable, and that the appropriate remedy was rating on the unimproved value. Mr. Williamson's was not the first voice heard in New Zealand in favour of rating on the unimproved value, however. In provincial days the Province of Taranaki derived all its rate-revenue from the unimproved value, and when the Rating Bill was in Committee of the Whole in 1876, Mr. Button unsuccessfully moved an amendment in favour of the system. The principle of the system had, in fact, been affirmed by the Legislature as far back as 1842, when a heavy penalty was placed on thatched buildings, on the ground, set out in the preamble to the Ordinance, that they enhanced the risk of destruction by fire. Indeed, the erection of thatched houses, after the Ordinance had come into force, was virtually prohibited, by the imposition of a penalty not exceeding £100. The measure in question remained in operation until 1878, when it was repealed.

The next legislation was in 1893, when a Rating Act was passed, in which had been included a clause enabling local authorities by resolution to adopt rating on the unimproved value. The Legislative Council, however, in its wisdom, struck the clause out, and the amendment was accepted by the Seddon Government. In 1894, however, the Rating on the Unimproved Values Bill was introduced as a policy measure and passed by the House, to be rejected by the Legislative Council. This process was repeated in 1895, but in 1896 the Council withdrew its opposition, and the Bill became law. In 1901, the Premier—we did not say Prime Minister in those days—proposed to make the system mandatory but, though the second reading of his Bill was carried, the measure was not proceeded with. Such is an epitome of the history of rating legislation from 1842 to 1896.

According to the Year Book for the year ending 31st March, 1944, there are in this country 527 local authorities levying rates, of whom in 42 per cent the system of rating on the unimproved value has been adopted, including 80 out of 127 boroughs, and 57 out of 125 counties, etc., making the total of 222. It is shown further that, although not quite half the local bodies have adopted the system, the majority of the population are living thereunder. The figures, however, are not quite up to date in that they do not include the Counties of Hutt and Makara, and the Boroughs of Levin, Opunake, Matamata and Rotorua, six districts in all, wherein subsequent polls have been successful. Thus the system now obtains in 59 counties and 84 boroughs. Now I come to an extraordinary mis-statement—and a very palpable inaccuracy it is—on the part of Mr. Andrews and his colleagues. The circular states that "insofar as our research takes us, no place in New Zealand has ever changed from annual value back to unimproved value." The sentence is slightly ambiguous, but as it is followed immediately by a reference to the recent (initial) poll at Green Island, its meaning seems as clear as its inaccuracy. Obviously, when the Rating on Unimproved Value Act came into operation, the capital and annual value were the only systems in vogue. It is not less obvious that rating on the unimproved value has progressed at the expense of each. In the majority of cases the capital value system obtains in counties, and the annual value in boroughs, and to-day, as I have shown, our system is in operation in nearly

half the counties and practically two-thirds of the boroughs. All this has been achieved by people in private life, and despite the opposition of the N.Z. Farmers' Union, the Counties' Association, and the Municipal Association, and frequently by members of the local bodies themselves.

But the statement may mean that there are districts where, annual value rating having been rejected in favour of rating on the unimproved value, the ratepayers have reverted to the system obtaining previously, and in no instance have they rescinded in favour of the unimproved system. If this be the meaning, it is not less inaccurate, however. The latest official figures are contained in the Local Authorities Handbook, 1927. Up to the date of that publication there had been 248 polls, of which only 22 had been for rescission! Of that 22, only four had succeeded. There have been many polls since, of course, but apparently there are no official particulars bringing the figures up to date since 1927. I can recollect rescinding polls, however, in Wanganui City, in the boroughs of Mt. Albert, Cambridge, Rangiora and Lower Hutt, and in the counties of Hawke's Bay and Mackenzie—seven in all. These all succeeded, but two, certainly the most important, namely, Wanganui City, and Hawke's Bay County, have since reverted to rating on the unimproved value. Thus, of 29 rescinding polls, eleven succeeded, but two lost no time in re-adopting our system, and I have no doubt whatever, that the same result could be achieved in the others were it not for the initial difficulty of collecting the 15 per cent of the ratepayers' signatures. The foregoing figures speak for themselves, and it is interesting to add that, since 1928—a period of 18 years—there were only seven rescinding polls, including the two that have reverted to the only rational system of taxation.

Mr. Andrews urges in favour of the annual value system that the local authority makes its own valuations, either annually or triennially. He and his colleagues should know quite well, however, that irregular valuations are something altogether apart from the system of rating on the unimproved value. The Government Valuation of Land Act, 1896, prescribed triennial valuations, and the N.Z. League for the Taxation of Land Values has demanded repeatedly, and we still demand, the restoration of triennial valuations. Adam Smith, with whom Mr. Andrews and his council profess acquaintance, defends the land-tax imposed in England in 1693, but he condemns what he terms "the constancy of the valuation," and is careful to point out that the defect, though serious, is no necessary part of the system itself. The circular, I may add, omits all reference to the expense incurred by the council in making its own valuations. In 1882, Major Atkinson took it for granted that the local bodies would prefer a Departmental valuation, for the reason that they would thereby save thousands of pounds annually. The circular is careful to make no reference whatever to the expense of the valuations. I notice that the Lower Hutt City Council recently advertised for a valuer, and as the Rating Act obliges the Council to have the new valuation ready by the end of January, it is a fair assumption, though the advertisement does not say so, that they are really engaging a second valuer, as they are entitled to do. Of course, the valuers' salaries are not the only item of expense, in that there must be incidental clerical expenses, and the City Council is obliged by the Rating Act to pay the two lay members of the Assessment Court. I would point out further that the circular also claims that one of the advantages of the annual value system is that the valuations are subject to a right of appeal. Mr. Andrews and his council must know quite well, however, that the right of appeal is common to all three systems. That the council must pay the two lay members of the Assessment Court is peculiar only to the annual value system, however.

I come next to what may be called the Council's only legitimate grievance, namely, the devaluation of State-owned properties, the space given to which in the circular indicates that it was the main factor influencing those ratepayers—only 41 per cent of the total on the roll—who took the trouble to vote. Even in this connection, however, our friends are unable to avoid inaccuracy, indeed, I might well use a stronger term. At my meeting at Lower Hutt a few days before the poll, Mr. Andrews insisted that the devaluation was due to instructions given the valuers, and he implied—and the two mis-statements are reiterated in the circular under reply—that devaluation was an advantage enjoyed by the State alone if and whenever land was acquired for the erection of houses. One can only wonder how it comes about that the council's legal adviser did not explain the true position. Perhaps he was not consulted! Here it is:—

In Broadways, Ltd., v. The Valuer General: (1923), N.Z.L.R. 245, an appeal to the Supreme Court from the decision of the Assessment Court under Section 17 of the Valuation of Land Act, 1925, the appellant company was the owner of a block of land situated in a borough. It subdivided the land into building sections and constructed and duly dedicated subdivisional roads. Drainage and water were provided by the payment of a lump sum to the Borough Council. The Assessment Court assessed the capital value and the unimproved value of the land as equal, but the defendant company appealed, contending that by its expenditure in providing roads, drainage and water, it had added to the value of the land, thereby constituting an improvement. The Court (Justice Reed), upheld this contention, and decided that the correct method method pursuant to the statute of valuing the land was to estimate the selling value as a block, without the subdivisional roads, drainage and water, and that, after dividing the total price by the number of sections into which the block was divided, the result represented the unimproved value of each section, while the difference between that value and the selling value of each section with the roading and other amenities, represented the value of the improvements.

That judgment revealed a defect in the Valuation Act calling for immediate amendment. In his evidence before the Parliamentary Committee on Local Government, the Valuer General, Mr. Watters, explained the difficulties and anomalies to which the judgment had given rise. Necessarily its effect must have been seriously to impair the revenue, both local and national, from the taxation of unimproved value of land. Strange to say, however, although that judgment was delivered as long ago as 1923, no correcting legislation was enacted, and we cordially unite with our opponents in condemning the state of the law as revealed by it. Obviously the judgment applies to private land acquisition equally with the State. That the State has, since it was delivered, embarked largely on the acquisition of land for building purposes has, doubtless, given "devaluing" greater prominence, but it is equally reckless and inaccurate to argue that the devaluing is the result of instructions to valuers. The valuers have simply applied the law as declared in the judgment I have quoted.

Already we have had one satisfactory result of the Lower Hutt rating poll, however, in that the Valuation Act has been amended. The Valuation Amendment Act of last session, a measure long desired by the Valuer-General, corrects the defect indicated by the judgment of Mr. Justice Reed in 1933, and removes the only real grievance Mr. Andrews and his friends had, a grievance which was equally ours. Obviously, like the infrequent valuations, it is an issue in itself, which in fairness should not be used to condemn the system of rating on the unimproved value.

That system was adopted in Lower Hutt on the 12th October, 1901, when the voting was 98 for and 64 against the proposal. It was a light poll, certainly, but incidentally we see that the circular is inaccurate again in saying that the affirmative votes amounted only to 69! According to the Local Authorities' Hand Book for 1941-1942—the last number available—the capital value of the borough which has now grown into a city, was £8,531,565, of which

the unimproved value was £2,237,790, and thus the value of improvements amounted to £6,293,775. These figures, the result of the last valuation in 1937, are now eight years old, and as the circular tells us that £600,000 is annually spent on building, it is absurd to argue, as Mr. Andrews does, that revaluation has no bearing on the question of rating to-day. In any event the figures display the unique position of Lower Hutt City in that the unimproved value is little more than one-fourth of the capital value, though in the majority of cases it is one-half. I doubt if another borough in New Zealand is similarly circumstanced. I may point out in passing that the figures are a tribute to the efficacy of the unimproved system in encouraging improvements, and I propose showing later that this is not an isolated instance. Doubtless, however, the disparity is due in part to the effect of the judgment hereinbefore quoted, and most certainly the valuation has been enhanced not merely by the amount already expended by the State in the erection of houses, but by the fact that a great deal more is still to be expended, not merely by the State, but by private people who propose to erect factories.

Judging by the circular, the council views with considerable apprehension the prospective erection of further costly buildings in the city, and it is a matter of local history that Mr. Andrews from the outset has been unfriendly to the erection of State houses in or even about the city. Neither he nor his colleagues can be ignorant of the fact, however, that even the mere prospect of such expenditure enhances the value of land. Every estate agent, of whom there are one or two members of his council, knows that where expenditure is projected, the value of land rises in anticipation before a penny has been spent. Accordingly, the Council's anxiety to the contrary notwithstanding, the ratepayers feel no apprehension whatever—quite the contrary in fact—from the knowledge that some 7000 State houses are in contemplation, or that an overseas firm proposes to spend £500,000 on building in the city.

One of the trump cards of our opponents is that rating on the unimproved value exacts too little from proprietors of costly buildings. Here they are on common ground with those who profess a demagogic antipathy to "capitalism" and "the capitalistic system." Hence, it is not a matter for surprise that the council exults at the prospect of the Ford Company now paying an extra £1200 annually to the City Exchequer. Karl Marx, who wrote three volumes on capital without telling his readers what he meant by the term, does tell us in the first volume that capital is "dead labour, that vampire-like sucks the blood of living labour." The slightest reflection will show, however, that the statement is untrue, and, therefore, mischievous. All wealth is the product of labour, and capital is that part of wealth set aside for the earning of more wealth as distinguished from wealth applied to the immediate satisfaction of desire. Adam Smith has put it correctly enough when he wrote that capital is "that part of a man's stock by which he hopes to increase his revenue." Not the least triumph of modern civilisation is the legal provision for the formation of joint-stock companies, by means of which men are enabled to pool their capital for any common purpose. The co-operative dairy company, with which we in New Zealand have grown familiar, is an outstanding example. Whether the common purpose for which companies are formed is good or evil depends upon circumstances. The proper function of capital is to engage in production—to co-operate with labour in the production of wealth. The erection of a costly building, for example, necessarily employs labour in countless ways—carpenters, bricklayers, painters, carriers, sawmillers, etc., but after erection it no less necessarily employs labour continuously. A building can be maintained in a state of utility only by the constant application of labour, and in every room of the building necessarily too, there are people employed. A building therefore affords an apt illustration of the beneficent use of capital, and assuredly the most efficacious manner in which to encourage industry is to untax it. Accordingly, it is no more than simple truth to say that the more capital is expended in production, the greater is the public interest served, and so it is just and equitable that capital as such should be exempt from taxation. There is a fundamental and ireconcilable difference, however, between capital so employed, and capital applied merely to monopoly, and it is one of the gravest evils of the present system of taxation that the most lucrative pursuit in which man can engage is monopoly of land. Capital "invested" merely in blockading land is certainly dead labour, to use the words of Marx, "that vampire-like sucks the blood of living labour." And not the least beneficent effect of the taxation of land according to its unimproved value is that it penalises, and therefore discourages, the holding of idle land. Were taxation made heavy enough to make the holding of idle land impossible, not the least beneficent result would be the release of an immense fund of capital. All capital applied in the mere holding of land is, as it were, frozen, and as capital is always seeking investment, if mere speculation in land were made impossible, the capital now utilised in preying upon the community would necesarily be applied to the production of wealth. For example, we have it on the authority of the Mayor of Auckland that there are in the City of which he has the honour to be the Chief Magistrate, 10,000 empty sections. All the capital expended in acquiring these, plus their added value since acquirement, is in the fullest sense dead labour. Not only is the capital itself doing nothing for production, but the land is withdrawn from production. A tax heavy enough to compel the sale or utilisation of these sections must not only bring the land into production, but also release the capital now frozen, and not merely useless, but utilised in injuring the community.

In a recent issue of the "Commerce Journal," the official organ of the Auckland Chamber of Commerce, there appeared an article most laudatory of the taxation on unimproved value of land.

I was so agreeably surprised that I called on the editor, Dr. E. P. Neale, to congratulate him on the appearance of the article, and I ventured to enquire the reason for its publication. Dr. Neale replied that his readers were perturbed over the fact that people about to found new industries, for which factories were necessary, appeared to give Wellington and its environs the preference on account of the lighter rates obtaining there! Hence it was that the columns of their journal had been opened in favour of rating on the unimproved value of land! The Lower Hutt City Council, however, appears to be determined, as far as lies in its power, to deprive this end of the island of the advantage which has caused apprehension in the north, and so the council looks with dislike on the outlay of large sums in the erection of factories and is determined to penalise them to the greatest extent possible.

The circular is careful to tell us that Mr. Andrews had made searching enquiries over the past twelve years in Britain, South Africa, Australia and Canada. If he has searched over so extensive an area, he must necessarily have obtained much information. I will venture, however, to supply some particulars of which he has told us nothing. In 1890, the system of rating on the unimproved vlaue was adopted in the State of Queensland by a mandatory Act. Forty years since it was applied in New South Wales, and to-day Sydney is probably the most important centre in the world, in which the system is in operation. In all the other Australian States there is optional legislation, on lines similar to this obtaining in New Zealand. In 1926, Denmark drastically curtailed its local income tax, and replaced it with a rate on the unimproved value of land, and it is interesting to add that the change had the support of 90,000 housemen, the Danish name for peasantry. Since 1926, by the way, the Hon. W. J. Polson has visited Denmark in an official capacity, but

he has observed a stony silence regarding the fundamental change made in the system of rating! In the Union of South Africa, local bodies are empowered to adopt the system by resolution, just as local bodies in this country may adopt annual or capital value rating. Some years ago, it was adopted in Johannesburg, and only last year in Blomfontein. In 1936, the London County Council, by a large majority, promoted a bill ordaining the system for the City of London. It was lost in the House of Commons for a technical non-compliance with the standing orders. We may rest assured, however, that more will be heard of the measure very shortly, inasmuch as the agitation for the adoption of unimproved value rating and taxation has powerful support in England. Apparently Mr. Andrews missed all this information in the course of his world-wide quest. At any rate, he has told us nothing of it, and accordingly it is hereby presented to him in common with all readers of "Board & Council."

The circular enumerates certain centres, including Auckland and Dunedin, wherein the annual value system obtains. We are not told, however, that out of the 542 rating authorities in the Dominion, the number who now rate on the annual value is only 28! And as far as Auckland is concerned, I give a few well authenticated facts: In April, 1923, a deputation representing the Auckland Council of Christian Congregations, headed by His Grace Archbishop Averill, waited upon the then Prime Minister, Mr. Massey, in connection with the deplorable housing conditions obtaining there, indeed, they described it as "a disgrace to any Christian community." Having heard the deputation, Mr. Massey expressed his painful surprise, but had pleasure in assuring them that he would rise to the occasion and would cope with the evil. Accordingly, he promised that he would amend the State Advances Act to authorise advances up to 95 per cent of the value of property! Apparently the guileless Archbishop and his colleagues were satisfied that the problem was now about to be solved, and they cordially thanked Mr. Massey. That gentleman was as good as his word in that during the ensuing session the State Advances Act was amended as he indicated, with the result that there was a recrudescence of land speculation, not merely in Auckland, but throughout the Dominion. The housing question in Auckland, however, was left just where it was, and as I write this I have before me the "Auckland Star" of July 13, 1943, in which there appears an extract from a report by the Society for the Protection of Women and Children, commenting on the shocking housing conditions obtaining in the city—twelve people occupying one room, and rats worrying the children! Finally, we have the published statement of Mr. Allum, the Mayor, a few weeks ago, to the effect that there are in Auckland City, 10,000 empty sections. Assuming eight sections to the acre, this means that nearly two square miles of the most valuable land, served with streets, tramways, lighting, water—all the amenities of a city are held by rich men for speculative purposes! No wonder there is a scarcity of houses in Auckland! In Wellington, on the other hand, we have it on the authority of Mr. Jenkins, the City Valuer, that there are 2000 empty sections. The figures become more arresting when we remember, first, that all Wellington's rate-revenue is derived from the unimproved value; secondly, that the area of Auckland City is 18,253 acres, or using round figures, 27 square miles, while the area of Wellington is 16,289 acres, or 25 square miles; that the population of Auckland is 106,800, while that of Wellington is 120,700. The foregoing facts surely are important enough to deserve consideration, as contrasted with the superior (if not ideal) position alleged wherever rating on the annual value obtains.

A searching so learned as that under reply would be incomplete without an indication that the author is acquainted with Adam Smith. Accordingly, it is unfortunate that the passage in inverted commas, purporting to be a quotation from him, is really two sentences several hundred words apart !In fact, it bears a striking likeness to a garbled quotation from the same author and to the same effect, to which we have replied in our pamphlet "An Open Letter to the N.Z. Municipal Conference." For the information of your readers, however, some further particulars are supplied. Adam Emith, who may be called the founder of the science of political economy, has left two books, "The Theory of Moral Sentiments," and "An Enquiry into the Nature and Cause of the Wealth of Nations," usually styled simply "The Wealth of Nations," and written fourteen years after the earlier work. Both works should be read if the writer's arguments are to be properly understood. In the "Wealth of Nations" the learned author deals systematically with the question of taxation, and it has been frequently remarked that his arguments are indistinguishable from those of the Physiocrats of France, the single-taxpayers of the 18th century. Though the work is outstanding and of permanent interest and utility, certain terms are used which. though still in popular use, are not used nowadays in politico-economic discussion. For example, we use the term "unimproved value" in reference both to rural and urban lands. Smith styles the former "the ordinary rent of land" and the latter he calls "the ground rent of houses." What we call "house rent" in popular language, "Smith calls "the building rent." He is strongly in favour of taxing what is nowadays called the unimproved value of land, indeed he states that a statute setting out the separate value of improvements, indemnifying the owner for his expenditure—that is to say, exempting improvements—should be "a perpetual regulation or fundamental law of the Commonwealth." Such a tax, he says, would encourage the utilisation of land. As far as urban land is concerned, he writes:

> Ground-rents are a still more proper subject of taxation . . . a tax upon ground-rents would not raise rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist. . . . The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents and the ordinary rent of land are therefore perhaps a species of revenue which can best bear to have a peculiar tax imposed upon them. . . .Nothing can be more reasonable than that a fund which owes its existence to the good government of the State, should be taxed peculiarly, or should contribute something more than the greater part of the other funds towards the support of that government.

Any reader of Henry George's works will see that the author of "Progress and Poverty" had a profound reverence for Adam Smith whom he calls "the great Scotsman." No one knew better than he that Smith had preceded him in advocating the taxation of land according to its unimproved value. Mr. Andrews and his council, by the way, deprecate Henry George as "an old-time writer." I may add that Smith was nearly a century earlier!

I will conclude with a prophesy: We are precluded from taking another poll in the Lower Hutt City until three years shall have elapsed, and it may be that, pursuant to our usual policy to have a poll, if possible, on the same dav as the election, we may wait for the local body elections in May, 1950 Be that it is may, however, the ratepayers of the city will follow the example of other ratepayers who have ratified rescinding polls. As the initial poll was taken forty-four years ago, the amending Act of 1911 does not apply thereto, and so the water rate has been continuously struck on the annual value. Once the system has been re-adopted, however, all the rates will be collected thereunder, and thus from the council's point of view the last condition will be worse than the first!