

By Rolland O'Regan, F. R. C. S.
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Taxation of Land Values.)

Editors Note:

"Any city, anywhere in the world, that adopts the New Zealand method of waging war on slums, will find that taxing land value instead of the value of buildings and personal property, is 'a silent, wholesome influence that makes for wider and better ownership of land,' according to a world-wide tax authority," Dr. Rolland O'Regan of Wellington, New Zealand."

Dr. Rolland O'Regan is a distinguished surgeon whose lifelong avocation has been the study of taxation. He has, since 1946, served as Chairman of the New Zealand League for the Taxation of Land Values - the most active single unit working to extend the steady progress of land-value taxation in local government. As one of the best informed men on the history and application of land-value taxation in his part of the world, he was invited to contribute the chapter on New Zealand for the book; Land Value Taxation Around the World (published 1955 by the Robert Schalkenbach Foundation). Dr. O'Regan is uniquely qualified to speak on the influence exerted by this system of taxation upon a nation's housing, building industry, and population growth. His visit to the United States comes in response to many requests that land-value taxation be interpreted in terms of the American scene.

During his tour of the United States under the auspices of the Robert Schalkenbach Foundation, 50 E. 69th St., New York 21, N.Y. in the early part of 1963, Dr. O'Regan spoke to a number of important groups on the subject: "Experience With Un-Taxing Improvements in New Zealand", the essence of which is given below. Among the groups addressed on his tour were the Fresno Rotary Club, Fresno, California, where he was introduced by Dr. Karl Falk, member of the California Governor's Housing Commission, and past president of the National Association of Housing and Redevelopment Officials; the Assembly Committee on Revenue and Taxation in Sacramento, California; a regional meeting of Metropolitan Planning Commissions, Portland, Oregon; a public meeting of The National Association of Home Builders at their spring meeting, April 24, in Washington, D. C.; ACTION, the American Council to Improve Our Neighborhoods, in Chicago; the graduates and friends of the Henry George School in St. Louis, Missouri; Mortgage Bankers Association of America at the Waldorf-Astoria, New York; municipal officers, planners and government officials at the George Washington University, and to tax-experts and economists at this universities School of Government; the National Association of Mutual Savings Banks, Washington, D. C.

I want to speak to you on our experiences with un-taxing improvements in New Zealand. But, first, it is necessary to speak a common language and I will explain the terms I use. The units of local government in New Zealand are:

1. Urban - towns, boroughs, and cities. A town is the smallest unit. A borough must have a minimal population of 1,500. A city must have a minimal population of 20,000.
2. Rural - a country is the rural unit. It is called a shire in Australia. Local taxes are called "rates" as in England, and rates are struck on three bases.
 1. The capital value, i.e., the market value of land plus improvements as in U.S.A.
 2. The annual rental value, i.e., the yearly sum the land and improvements would yield if rented out.
 3. The unimproved value, the value of the raw land, i.e., the value of the land alone disregarding the value of any improvements.

New Zealand is a small country, the same area as Colorado. Its population is 2,500,000 - the same as that of the 13 colonies who waged war on England and founded these United States. It is poorly endowed economically. Its principal assets are six inches of top soil, a good temperate climate, and great natural beauty. Local government is financed mainly by a tax on real estate. But the functions of local government are more limited than here and do not include education, police administration, and it has fewer health responsibilities. The total revenue from real estate taxes is a mere \$80,000,000.

I believe, however, that in the matter of local taxation New Zealand may be regarded as a social laboratory and that our experience would be valid for larger units with greater responsibilities. This is particularly true of our experiences with un-taxing improvements and levying the full property tax on the land value only. I say this because as far as my inquiries reach, our experience is paralleled by that of larger units which adopt the same tax plan. In the State of Queensland, in Australia, all local taxes, both urban and rural, have been on land values only since 1890. The Valuer General (or, as you would say in the United States, the state appraiser or assessor) is not even required by law to value improvements for tax purposes. In New South Wales the same pattern is universally used. This State includes, among other urban communities, the city of Sydney with a population of 2,500,000. The city of Johannesburg in South Africa is another large urban unit using this tax plan.

I will speak, however, only of New Zealand experience. Here, my personal knowledge is intimate because I have carefully observed the local government scene for 20 years and during this period 83 local authorities - counties, cities, boroughs, and towns - have adopted the system of "rating on the unimproved value" as we call local taxing of land values only with full exemption of improvements.

New Zealand was colonized in 1840 and the first system of local taxation used was based on the annual rental value - the English system. In the new land this was unpopular. First, because the normal pattern of property holding was not that of a landlord with a rent-paying tenant, but one of property owned and worked by the same person. And secondly, because it was regressive. The more the pioneer labored and built, the bigger were his taxes and the land company and other speculative land owners who labored not, neither did they spin, paid minimal taxes. A change was made, therefore, to capital value rating as you have it in U.S.A. Unimproved tracts of virgin land had a notional and vague rental value but they had a known and proven market value. And by being taxed on the market value the speculator's contribution was increased.

At the turn of the century the position was that nearly all urban areas were using the annual rental system and all rural areas were using the capital value system.

Dissatisfaction with both systems was general. Both still contained one central, irremovable, cardinal fault. Both taxed improvements and therefore the more a property was improved the greater the tax. This operated to the disadvantage of the worker, the builder, and the improver; and to the advantage of the idler, the irresponsible, the speculator, and the absentee owner with no interest in local affairs.

In 1896 the Legislature passed the Rating on the Unimproved Value Act. This gave the local taxpayer power to un-tax improvements and put all taxes on the land value alone. The power was granted not in local councils, but to the taxpayers. If 15% of these signed a petition and presented it to the Mayor or Chairman of a local authority, he was compelled in not less than five or more than six weeks later to put the matter to a vote of taxpayers and if it were approved thenceforth all taxes would be levied on land value only.

Presently, all improvements are tax free in 85% of the urban areas and in 70% of the rural areas and ¾ of all local tax revenue is levied on land values alone. The trend continues and a rating poll is

pending in Auckland - New Zealand's largest city.

The new method of levying property taxes gave an advantage to the worker and improver who put land to its highest and best use and placed a tax penalty on vacant land, blighted land, or land put to any inferior use. This is the cardinal merit of the land value based property tax. It converts the tax from being inhibitory, regressive or actually destructive into a permanent, built-in stimulus to full land use and a permanent punishment for poor or inferior land use.

The explanation of this phenomenon is in the fact that un-taxing improvements alters the incidence of the tax considerably.

The yardstick of this change in incidence is the ratio between improvement values and land value. In any locality there is a General Ratio, i.e., the value of all improvements in the area to the total land value. Now each individual property has a ratio. Where the property ratio is the same as the General Ratio, a change in the taxing system does not alter the tax. Where the property ratio exceeds the General Ratio, i.e., the property is more than averagely improved, the change brings a fall in taxes. Conversely, when the property ratio is less than the General Ratio, i.e., the property is less than averagely improved, the change brings a tax rise. Low ratio properties are vacant land, blighted areas, and good but inadequate buildings on valuable downtown land. High ratios are found in average good middle-class homes, manufactories and good office buildings.

We find 80% to 90% of homeowners are advantaged by the change and this, of course, is a powerful factor in the spread of the system. The results of this change in tax incidence are not easy to assess. They are one of a number of factors affecting land use and any effect must depend on the size of the tax and the relative importance of the tax factor in any particular economic situation. Take, for example, the effect of such a change on land prices.

The tax change undoubtedly tends to reduce them. The capitalized value of the tax is a direct reduction from land price and this must vary with the size of the tax. Even a moderate tax in an area where there are large vacant blocks held speculatively might force the sale of such land and reduce prices by increasing supply. If such areas were small this factor would be small. Against these tendencies in some circumstances the making of improvements tax-free can stimulate construction so much that the demand for land is increased and there is a tendency to a price rise offsetting the first-named factors. On balance, I am of the opinion that these taxes are a permanently important restraining factor on land prices and make a real contribution to economic and social health. If we are to have a property-owning democracy, land prices must be effectively restrained, and I believe that the tax change on land values is an effective way to do this.

I have mentioned the effects of the tax shift on individual properties, but there are important area

Purpose

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The Council seeks to reach men and women who are concerned about the state of the Nation and the creation of an environment in which freedom and individualism can come to maturity. The Council seeks to contact those who want an economic system which can provide unlimited opportunities for everyone without artificial stimulation.

redistributions where different sorts of property are concentrated into zones.

Not all homes have a tax reduction, but only those having a high ratio. But residential areas, in general, as areas, have their taxes reduced and downtown areas get increased taxes. Again, some really well-developed downtown properties have reductions, but central urban areas even in one-horse towns get a substantial tax increase. In my city (population, 220,000) where \$5,000,000 of taxes are raised, 2/3 of this sum is paid by the commercial center and 1/3 by the residential dormitory suburbs. This pattern is general and important. It tends to promote a better mid-city development and lessens the centrifugal forces tending to city sprawl. This factor plus the penalty on vacant land speculatively held makes for a more compact, more economically serviced, more efficient urban unit.

If, as I have suggested, this mode of taxing property is a built-in constant stimulus to better land use, it is clear that the construction industries will be especially benefited by un-taxing improvements. I read that this field attracts some 32% of all capital investment and the construction industries certainly have an enormous impact on employment or unemployment.

In summary, this change in the incidence of property taxes has many attractive features. It puts the powerful profit-motive to work for and not against certain desirable social aims.

1. It tends to cheapen land.
2. It tends to make land speculation unprofitable and even impossible.
3. It initiates economic forces counteracting urban sprawl.
4. It promotes mid-city urban renewal by private enterprise.
5. Insofar as it stimulates the construction industries, it has a real influence on employment levels.

Every new man in a job is another family of consumers. America's biggest potential market is not beyond the seas but among the 32,000,000 of her citizens whom your President says live on the poverty line. This number equals the combined population of Canada, Australia, and New Zealand.

The accomplishment of such a change in the property tax which I have indicated would be beset with great difficulties, but it is first necessary to see the goal like a distant mountain range so as to build the road in the right direction.

This report on the visit of Dr. Rolland O'Regan to the United States is published by the Public Revenue Education Council, Room 308 - 705 Olive Street, Saint Louis, Missouri. You are invited to send for free information and literature about the council and its program of education. PREC is non-profit, non-political, and contributions are tax deductible. It was incorporated in the State of Missouri, January 31, 1952.

Educational Emphasis

The Public Revenue Education Council believes a science of economics has been sufficiently developed that can aid mankind as surely as the other sciences have done. Science is useful only as we understand and use its cause and effect and predictability patterns without prejudice. Engineers can produce engines for power or speed by the use of known laws of physics, chemistry, metallurgy, and the like. Economic science also has cause and effect patterns to help us secure the basic economic results we desire. The educational emphasis of the Council is on the basic facts and principles of the Science of Economics, especially as they relate to public (and private) revenue; and how they may be used to achieve predetermined goals.