

## Handicaps on Building\*

### The Australian and New Zealand Solution

By H. BRONSON COWAN

HERE is a growing volume of authoritative opinion that the depressed condition of the building and allied industries on this continent is due to well-defined causes that are capable of adjustment. Similar conclusions were reached in Australia and New Zealand forty years ago. As a result their municipalities and governments have obtained a long start in the application of solutions that only now are beginning to receive serious consideration on this continent.

An imposing list of findings by Canadian and United States commissions, and of statements by municipal and other authorities, could be quoted to show that there are two principal causes of existing conditions. These are, first, speculation in urban land, with consequent inflated prices, booms and depressions, and, second, heavy taxes upon buildings which discourage their erection. These matters are discussed, and methods of dealing with them suggested, in an excellent report entitled, "Our Cities," issued in 1937 by the Urbanism Committee of the National Resources Committee, a body set up by the Federal Government of the United States.

The Committee emphasized the importance of recognizing:

The injurious results of speculation in urban land,

The necessity for obtaining and using a portion of increasing urban land values for the benefit of the public, and,

Reducing municipal taxes on improvements and increasing taxes on land values.

#### URBANISM COMMITTEE'S FINDINGS

The following statements are taken from the report of the Urbanism Committee:

"Gambling in land values has contributed to alternate booms and depressions, raising false hopes, encouraging over-ambitious structures, wiping out private investors, and, all in all, has been one of the major tragedies of American urban life.

"The dispersive developments of recent years have left blighted vacuums in the interiors of our cities and have themselves been vitiated by land prices at a level too high to permit a desirable standard of urban development." (Page 59)

"A real property inventory of 64 cities made in 1934 by the Department of Commerce and the Civil Works Administrations showed that more than one-sixth of 1,500,000 residential dwellings were substandard, about four-fifths of the dwelling units are made of wood, about one-third are over 30 years old, a large proportion are in a state of serious disrepair. Even at their most reasonable figures rentals are so high that they exclude vast blocks of urban families from housing facilities of minimum standard.

"We are now faced with the problem of arriving at a rational urban land policy which, while affording private owners and developers adequate opportunity for wise and profitable land uses, will curb the forms of speculation that prove calamitous to the investing and the tax-paying public." (Page IX)

"A study should be made of the increment tax on real estate in lieu of special assessments, to see whether such a tax would make possible the financing of public improvements more nearly through tax revenue derived from the increased values which these improvements create, and whether such a tax would aid in combatting speculation in land." (Page 81)

"In order that a large proportion of American urban families should not continue to live in unfit dwellings, and in order to supply the urgent need for housing facilities conforming to an acceptable minimum standard for the low-income groups and thus to attack the serious problems of health, welfare and order, which are directly related to inadequate housing, the Committee recommends that:

"State and local authorities should consider the reduction of the rate of taxation on buildings and the corresponding increase of such rates on land, in order to lower the tax burden on home owners and the occupants of low-rent houses, and to stimulate rehabilitation of blighted areas and slums." (Page 76)

#### CANADIAN FINDINGS

The foregoing conclusion agrees with Canadian findings on the same subject. As far back as 1916 the Ontario Government appointed a Commission on Unemployment. The chairman was the late Sir John Willison. Included on this commission were Ven. Archdeacon Henry J. Cody (now Hon. Dr. H. J. Cody), W. K. McNaught, C.M.G., and other prominent men. In its report to the Government, the Commission said:

"The question of a change in the present method of taxing land, especially vacant land, is, in the opinion of your Commission, deserving of consideration. It is evident that speculation in land and the withholding from use and monopolizing of land suitable for housing and

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gardening involve conditions detrimental alike to the community and to persons with small means.

"Further, land values are particularly the result of growth of population and public expenditures, while social problems greatly increase in proportion as population centralizes. The relief of urban poverty calls for large expenditures from public and private sources.

"It appears both just and desirable that land values resulting from the growth of communities should be available for community responsibilities. Wisely followed, such a policy involves no injustice to owners of land held for legitimate purposes, and the benefits which would follow the ownership and greater use of land by wage-earners justify the adoption of measures necessary to secure these objects as quickly as possible.

"Your Commissioners are of opinion that a reform of the present system of taxing vacant lands appears indispensable to lessen the evils arising from speculation in land which contributed to the recent industrial depression, and which makes more difficult any satisfactory dealing with unemployment in industrial centres."

#### THE REPRESSIVE TAX ON IMPROVEMENTS

A year and a half ago the Dominion Government called attention to the repressive effect of taxes on buildings when it induced Parliament to enact The National Housing Act, described as "an Act to assist in the Construction of Houses." In the preamble of this Act it is stated:

"Whereas, high real estate taxes have been a factor retarding the construction of new houses and it is therefore desirable to encourage prospective home owners to construct houses for their own occupation by paying a proportion of the municipal taxes on such houses for a limited period."

The fact that since the provisions of this Act came into force the Dominion Government has assumed the responsibility for paying 100 per cent the first year, 50 per cent the second year and 25 per cent the third year, of all municipal taxes on buildings, erected under the Act, costing \$4,000 or less, shows how clearly it is recognized that taxes on buildings interfere with their construction. It is of interest, therefore, to note that, whereas, only 12 per cent of the number of single-family houses built for owner occupancy in 1936 were valued at \$4,000 or less, and 30 per cent in 1937, these percentages, after this provision of the act came into force in July, 1938, jumped for the first full year to 56.5 per cent. Such an increase raises the question what the increase might have been had it been announced that all municipal taxes on buildings were to be removed permanently.

#### THE AUSTRALIAN AND NEW ZEALAND SYSTEM

Forty years ago municipalities in Australia and New Zealand began to realize the injurious effects of having land held out of use for speculative purposes and of taxing buildings. In 1901 in New Zealand they began to remove all taxes from improvements and to increase them on land values. The results proved beneficial. Other municipalities soon followed the example thus set. Today 67 per cent of the people living in cities in New Zealand, and about the same percentage in Australia, live in municipalities where there are no taxes upon buildings and where the bulk of the revenue is raised from a tax on land values.

The Sydney Harbour Bridge in Sydney, Australia, affords a striking example of the benefits derived from retaining for public uses a large share of increases in land values created by the expenditure of public monies. It was realized from the start that the erection of the bridge, one of the largest in the world, which cost \$45,000,000, would enormously increase land values in the territories which it would serve. A special tax of one cent a pound (\$4.80) of unimproved land values was imposed in nine municipalities which would be benefited the most. This tax, which was reduced gradually, was in effect from 1923 until 1937. Small as it was, it produced a revenue of \$10,000,000 which was applied upon the cost of the bridge. In spite of the tax, land values increased. Thus no injustice was imposed on the land owners concerned, while the public benefited by escaping the heavy taxes which otherwise would have been imposed. The tax had the further effect of checking speculation in the land enhanced in value by the erection of the bridge.

Other examples of the same kind could be cited. For example, in New South Wales, the development of motor traffic necessitated expenditures upon main roads, which were beyond the means of local municipal bodies to meet. It was realized that these improved roads would increase land values in the territories served. A Main Roads Board was appointed. Part of the revenue of the board was drawn from a tax of one-half cent on each pound (\$4.80) of unimproved land values in the City of Sydney, the adjoining County of Cumberland and the Blue Mountains Shire. In one year \$1,158,273 was raised from this tax and the following year \$1,300,630. This tax was in addition to the bridge tax and the regular municipal taxes on land values.

#### NO TAX UPON BUILDINGS

The building industries received a great impetus when all taxes were removed from improvements and placed



on land values. The immediate effect was that land values were decreased through speculators relinquishing their holdings. This made it easier for those desiring to build to secure land for that purpose. Ultimately the demand for land for building purposes was so great it restored and finally greatly increased the former land values. The new values were actual as they lacked the former speculative element. The following statements by authorities speak for themselves.

Sydney, Australia, Roy Hendy, City Clerk: "Notwithstanding the municipal revenue is derived entirely from land values, land tends to increase in value; having increased, during the past 22 years, from \$155,000,000 to \$235,000,000—51%."

Brisbane, Australia, City Assessor's Department: "Land tends to increase in value. As far as we can judge, the system has come to stay."

State of Victoria, Australia, Frank A. Henry, American Consul, referring to fourteen municipalities: "The incidence is to bring idle land into use. It tends to increase land values."

Wellington, New Zealand, E. P. Norman, City Clerk: "There is no difficulty in getting revenue by this system."

### EXTENSIVE BUILDING DEVELOPMENTS

The effect of the new system of taxation was to create a building boom that was based on a legitimate demand for buildings as well as on sound values. The metropolis of Greater Sydney affords an example. It comprises over 50 municipalities. All these municipalities, except Sydney, adopted the new system of taxation in 1908. The municipality of Sydney, which comprises the central business area of the metropolis, did not adopt it until 1916.

In 1925, Alderman J. R. Firth, who still is a strong advocate of the system, described the results of the first 17 years' experience under the new method of taxation. On that occasion he said:

"In Sydney there has been an enormous development. In the seventeen years from 1908 to 1924 our population has grown from 550,000 to just over 1,100,000 and by Sydney I mean the City and the surrounding forty metropolitan municipalities" (now over 50). "There has been an extraordinary building boom, interrupted in some degree only during the years of the war. The returns for 1924 show that the number of new buildings brought to completion and connected with the water supply is the largest on record.

"The official figures,' says the *Sydney Daily Telegraph* of 24th December last, 'indicate that the building boom has been more than maintained, as the building trades are busier than ever. The result is that the City is being transformed day by day, and as the old landmarks dis-

appear modern and palatial premises fill their places.' The 'old landmarks' referred to mean shanties and antiquated tumble-down buildings.

"Here are the official figures of new buildings in the metropolitan area as published in the *Sydney Morning Herald* of 24th December, 1924, showing the results for the last eleven years:

	Buildings Completed	Cost
1914.....	10,546	£ 6,775,548
1915.....	7,632	5,124,464
1916.....	6,283	4,479,118
1917.....	5,401	3,595,992
1918.....	4,998	3,726,896
1919.....	5,830	4,788,804
1920.....	10,015	9,273,569
1921.....	8,537	9,655,163
1922.....	9,084	9,917,963
1923.....	10,450	10,133,116
1924.....	12,180	14,346,071

"The increased population, all but a fraction of the half-million we have added, has settled in the suburbs where land had been 'held for a rise'. The vacant areas have been peopled and the houses have spread themselves out, because the inhabitants have not been held in by a ring fence of monopoly prices for land. I could give many examples to illustrate this spread of population where room was awaiting it. Thus the municipality of Canterbury, five miles from the central area, had a population of 4,000 people in 1901; today, it has over 50,000 people and I think it would be correct in saying that every one of the houses there has sunlight all round it. In my own borough of Strathfield we have made use of our powers under the law to limit houses five to the acre and we have neither terrace houses nor semi-detached houses. Each is a detached house. The growing population has got land cheaper than it otherwise would, and this has ensured liberal space for each house, larger than was provided before the new system came into operation."

### BETTER BUILDINGS ERECTED

The following statements, made early last year, by municipal and other authorities, concerning the general effects of the Australian and New Zealand system of taxation (it is in use, also, in the Transvaal, South Africa), afford an interesting contrast to the results obtained under the system of taxation followed on this continent:

Sydney, Australia (Population 1,360,000), Roy Hendy, Town Clerk: "It has brought idle land into use, improved housing, and old buildings have been replaced by new buildings."

Brisbane, Australia (Population 360,000), The City Assessor's Department: "It has brought idle land into use, with fewer houses per acre. It has not created congestion. We have no slum areas. It has been advantageous to householders, industry and the public welfare.

Napier, New Zealand (Population 18,500), F. R. Waters, Town Clerk: "It has brought idle land into use, improved housing, and reduced slums. There is very little slum area. It has encouraged more houses per acre. In my opinion, it has been advantageous to householders, industry and public welfare. Value of improvements greatly exceeds that of land values."

Witbank, Transvaal, British South Africa, J. J. Turnbull, Town Clerk: "The system has tended to bring idle land into use for the reason that a man pays the same tax for a vacant piece of ground as he does for a similar site with a valuable rent-producing building thereon. Generally, better buildings are erected now than prior to the introduction of the system. Improvement values are more than four times the land."

COMPARISON OF BUILDING STATISTICS

The April issue of *The Municipal Review of Canada* contained a table giving a comparison of the building activities in eighteen countries. The following figures are derived from that table. The year 1929 is used as an index year.

	1929	1932	1935	1937
Canada . . . . .	100.0	16.8	18.6	24.0
United States.	100.0	17.7	26.9	47.9
New Zealand.	100.0	22.3	49.5	81.8
Australia . . . .	100.0	22.7	80.0	99.5

After the war Canada once more will be faced with the necessity of providing gainful employment for thousands of her soldiers as well as for other thousands now engaged in wartime industries. Might not the adoption of the Australian and New Zealand system of municipal taxation provide a solution for this problem and at the same time place our building trades on a sound basis?

THE first man who, having enclosed a plot of ground, took upon himself to say, "This is mine," and found people silly enough to believe him, was the real founder of civil society. How many crimes, how many wars, how many murders, how much misery and horror would have been spared the human race if some one, tearing up the fence and filling in the ditch, had cried out to his fellows: "Give no heed to this imposter; you are all lost if you forget that the produce belongs to all, *the land to none.*"—JEAN JACQUES ROUSSEAU.

Sydney and New York

By WALTER FAIRCHILD

MISAPPREHENSION has developed among earnest followers of Henry George as to the extent and value of the progress made in Sydney (which has a population of 1,400,000) and other Australian cities, and in New Zealand, toward collecting land rentals by taxation, and relieving buildings from taxation.

Valuable material on the Australian and New Zealand situation is contained in the foregoing article by H. Bronson Cowan, of Peterborough, Ontario. Mr. Cowan has visited all the large cities of Australia and New Zealand, and has had an unusual opportunity to study, at first-hand, conditions in these two dominions. As a supplement to this article, I should like to present some further information obtained from Mr. Cowan on the taxation system of Sydney as compared with that of New York.

Mr. Cowan informs us that he has received a letter from a New York Georgeist, which quotes from an Australian source to the effect that the benefits derived in Sydney have not been as great as anticipated, and which emphasizes the claim that New York is taxing land values more highly than Sydney. It was stated that the rate of taxation in Sydney is only two per cent, whereas in New York it is almost three per cent. This would suggest that New York affords a better example of the application of the Henry George system of taxation than does Sydney, and that Sydney has received much advertising to which it is hardly entitled.

Mr. Cowan has replied to the argument of his correspondent as follows:

"You state: 'The only difference between New York and Sydney is that in the former we tax improvements.'

"That difference is a tremendously important one. The tax you impose upon improvements is a repressive one. The elimination of such a tax would make a great difference. It has in Sydney. I venture to say that there is no comparison between the record for building developments in Sydney and New York over a long period of years.

"You assume that the only tax upon land values in Sydney is the municipal rate of 2% which you mention. Here again you are far from the facts. The whole attitude in Sydney towards the taxation of land values is so far ahead of the attitude in New York, and in this part of Canada also, for that matter, that again there is little ground for comparison. For example, in addition to the municipal tax of 2%, Sydney has at least two additional taxes on land values, and at times more.