

Local Taxation in New Zealand

An Historical Résumé

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IN his great work, "An Enquiry into the Nature and Causes of the Wealth of Nations," Adam Smith (Book V, Ch. II) expounds his principles of taxation, and few readers, it seems to me, realize that the learned author was in fact a precursor of Henry George. For instance, he points out that the cardinal defect in the English Act of 1693, which provided for the imposition of an annual land tax according to the "true annual rental," is "the constancy of the valuation," meaning, of course, that there should be periodical revaluations. Moreover, Smith maintains that legislation ordaining the periodical valuation of land, indemnifying the owner for his expenditure—that is to say, exempting improvements—should be "a perpetual regulation or fundamental law of the commonwealth." When he is referring to rural land, Smith refers to "the ordinary rent of land," but when he is referring to the community (unimproved) value of land in centers of population, he calls it "the ground rent of houses," and in that connection he writes: "Nothing could be more reasonable than that a fund, which owes its existence to the good government of the state, should be taxed peculiarly and should contribute something more than the greater part of other funds towards the support of the government." As he is really a pioneer in the literature of political economy, the great Scotsman may be pardoned for overlooking the fact that "the ordinary rent of the land" and "the ground rent of houses" are different names for the same fund.

Curiously enough, we have had on the statute-book of New Zealand since 1896 the Government Valuation of Land Act which conforms in all respects to Smith's requirements. Under that Act there is a Valuer-General, the head of the Valuation Department, and a staff of valuers, and the value of all land and improvements, the unimproved value being shown separately, is ascertained and recorded. The intervals between valuations are in the discretion of the Valuer-General—a defect, in my opinion—but it is only a matter of time when the Act will provide for valuations at prescribed intervals.

It is a remarkable fact that Adam Smith's name was not mentioned during the debates on the measure prior to its becoming law, and there can be no doubt that the Seddon Government, who fathered the legislation, "builted better than they knew." The fundamental importance of the law is shown by the political commotion a like measure has provoked in England where legislation of the kind has been attempted twice unsuccessfully. We can only hope that in due course our friends in England will return to the attack, inasmuch as the taxation of the unimproved value of land

is impossible without the separate valuation of land and improvements.

Originally the Parliament of New Zealand did not concern itself with rating, as local taxation is called in this country. The country was divided into Provinces, each of which was governed by an elective council of its own. The Provinces were disabled by law from imposing indirect taxes, and so necessarily all their tax-revenue was provided by direct taxation. In 1875 the Provinces were abolished, however, and in the following year was passed the Rating Act, setting out the provisions under which the counties and municipalities, by which the Provinces had been replaced, could levy rates. The Act prescribed rating on the annual value, meaning the rental value of land and improvements. In 1882 the original Act was repealed, and the Rating Act enacted that year allowed local governing bodies to rate on the capital value of land and improvements, if they so desired. In adopting either system the ratepayers were not consulted. All that was necessary was a resolution of the local body. Rating on the capital value was suggested by the Property Assessment Act, 1878, which ordained for national purposes a direct tax on the capital value of all property. Under that Act a Valuation Department and Commissioner of Taxes were set up, and the legislation of 1882 provided that where the local body adopted rating on the capital value it had to accept the valuation prescribed by the Act of 1878. Those bodies rating on the annual value, however, were allowed to make their own valuation, as theretofore. It had since been enacted that when rating on the unimproved value had been adopted, the rates are to be levied on the government valuation.

In 1894 the Seddon Government submitted the Rating on Unimproved Values Bill to the House of Representatives, and the measure passed the Representative Chamber by a substantial majority. The Legislative Council—our Second Chamber—rejected it, however, and did so again in 1895 after the House had reaffirmed its decision by repassing the Bill. In 1896 the measure was again passed by the representative branch of the legislature, and this time the council withdrew its opposition and the Bill became law.

Since it was enacted 45 years ago the Rating on Unimproved Values Act has been repealed, but has been incorporated as part of the general Rating Act, and thus the whole of the legislation relating to local taxation is embodied in one statute. The law makes the ratepayers masters of the situation in that a proportion of them in any county, municipality, or other local district, may demand a poll, to be held within one month after the presentation of the demand to

the chairman or Mayor, and a simple majority of the voters decides the question. A rescinding poll may be held after three years, but rescinding polls are becoming rarer as time goes on.

The foregoing historical sketch will show your readers that we have in this country now three systems of local taxation—rating on the annual value, rating on the capital value, and rating on the unimproved value, and such is their chronological order. The two earlier systems are really identical in principle in that they both involve the taxation of improvements. I am satisfied that whether the legislature intervenes or not to make rating on the unimproved value mandatory, the annual and capital value systems will disappear, and that rating on the unimproved value will become general, permanent and irrevocable.

The movement to levy the local taxation on the unimproved value continues to make unostentatious but steady progress. There are in this country 121 boroughs or municipalities, of which 81 rate on the unimproved value, the most important being the capital city of Wellington. We have 129 counties, and of these 58 rate on the unimproved value. The latest gain is Hawke's Bay County, covering 1,600 square miles of territory. The ratepayers in that county adopted rating on the unimproved value six years ago. Three years later "our friend the enemy" got busy and obtained a second poll at which the system was rescinded. Three years more had barely expired, however, when a third poll was held, and rating on the unimproved value was readopted by a majority so decisive that we may be assured there will be no more polls in Hawke's Bay County.

Wellington City comprises 16,180 acres, or a little more than 25 square miles, and its population is 123,000. The capital value of land and improvements is £45,012,257,* of which the unimproved value is £18,238,110, and the value of improvements £26,774,147. The rate-revenue last year, again using round figures, was £600,000, not a penny of which was paid by improvements. The total rate-revenue of all the local bodies in New Zealand last year exceeded £7,000,000, and is increasing from year to year. Surely to raise all that from the unimproved value of land must be a great stride in the right direction, and we are going to see that stride taken, and that before long!

One great fact in connection with rating polls is that they break up political parties. To illustrate what I mean: In Wanganui, for example, two of the greatest benefactors by the change in the system of rating are wealthy companies, one a meat freezing concern, the other a fertilizer manufacturing company, having branch factories in all the main centers. These are what our Socialistic friends describe as capitalistic undertakings, and hence, were we to believe their arguments, are entitled to no consideration. The reply, of course, is that there is a fundamental difference between

capital applied to the production of wealth and capital utilized in blockading land. In the one case capital is fulfilling its proper function—cooperating with labor in production. In the other, capital is utilized to *prevent* the utilization of land, and therefore the employment of labor. Karl Marx's "Das Kapital" comprises three volumes, in neither of which does he make any attempt to define what he means by capital. In the first volume, however, we are told that "capital is dead labor which, vampire-like, sucks the blood of living labor." The fallacy here is that Marx makes no distinction between capital applied to production and capital utilized in monopolizing land. As a matter of fact, the joint-stock company, a device whereby men are able to pool their capital for a common purpose, is one of the triumphs of modern civilization, and no Henry George man will sympathize with any denunciation of such combinations of capital as long as they are applied to the production of wealth. In Hawke's Bay County, where our system has just won a great victory, there are several large slaughtering and meat-freezing companies which have spent huge amounts in erecting buildings and machinery. These are what Adam Smith calls fixed capital. Their erection and maintenance implies the constant employment of labor, and the very best way in which to encourage expenditure of this kind is surely to untax improvements. If this argument be stressed, being true, it must make an impression, and in connection with our movement for rating reform it is used frequently and with a salutary effect. In Wellington City one of our most enthusiastic supporters was a shipping company, the taxation on whose buildings was reduced by two-thirds.

In the national land tax, levied in this country since 1891, there are several serious blemishes, of which the greatest is the graduated exemption. This exemption does not entirely disappear until the unimproved value reaches £2,500. This has a sieve-like effect, and is the cause of a large annual loss of revenue. Another blemish is the graduated tax. Above the unimproved value of £5,000 the graduated tax is levied, the avowed object being to induce the subdivision of land. However, in the boroughs, where many properties are liable to the graduated tax, land there cannot be subdivided to any extent, and the Georgeist will readily understand that one of the effects of the graduated tax is to make land value taxation unpopular with people who fail to realize that graduation is no part of our policy. Fortunately, however, the rates on the unimproved value for local purposes are levied in strict accordance with Henry George's principles in that there is a flat tax without exemption or graduation. Thus we have an object-lesson along right lines.

Many visitors to New Zealand who have studied the matter are decidedly of the opinion that we have achieved something of world-wide importance—that the exemption of improvements from taxation and the taxing of the unimproved value of land are reforms so salutary that they can be safely adopted elsewhere in the world.

* One pound is approximately equal to four U. S. dollars.