

Tax Problems of Cities By A. G. HUIE

I HAVE read part two of "The Commonwealth," published in San Francisco on January 21, 1952, reporting that club's discussion on the tax problems of cities. It has occurred to me that some account of experience in N.S.W. [New South Wales] might be helpful. My interest in such questions extends over 60 years and I have had a hand in molding the local tax system used in this state.

Formerly in N.S.W. local councils imposed their taxes (we call them rates) on the assessed annual value of properties. In practice it meant taxes in proportion to the efficiency in the use of land—high taxes where the improvements were good and low taxes where they were inferior, or out-of-date, with nominal taxes, often largely evaded, for vacant land. Thus large areas of Sydney suburban lands were held idle while building went on around them, giving the owners greatly increased values without any effort on their part.

But in 1904 a wise man became Premier of N.S.W.—J. H. Carruthers—the best Premier of this state in fifty years, and I have been more or less personally in touch with them all. Mr. Carruthers reformed and extended local government legislation and gave councils power to impose their local taxes on unimproved land values. To a minor extent that became generally effective in 1907 and 1908. The City of Sydney followed partly in 1909 and wholly in 1916. You see therefore that we have had 44 years' experience. No responsible public man would dare suggest reverting to the old system.

Let me now show what we do in Ashfield, a Sydney suburban area where I have lived for the past 32 years. In 1908 the Ashfield Council imposed a local tax of 4d. in the £ on unimproved land values. It was estimated to and did produce substantially more in local taxes than with the old system. Here are the figures for population, land values and tax revenue for 1908 compared with 1952. Population 18,430 and 45,500. Land values £999,496 and £4,645,036. Tax revenue £17,666 and £125,827.

Ashfield in 1908 imposed one flat rate of tax for all the local services. It still imposes one flat rate for all services. I paid mine recently for the current year. One main source of revenue in one tax makes for simplicity and economy in administration. The Ashfield Council's other sources of revenue consist of town hall lettings, etc., some £15,093 for the current year. You see therefore that land values, apart from the use made of the land, provide nearly 90 per cent of the local revenue. Ashfield may be regarded as typical. In some areas more than one tax is imposed, or a local tax for a portion of the area, but the basis, unimproved land values, remains the same.

Now may I set out the reason for such a method of raising local revenue? Land value is a public or people value. Apart from the people land has no value. For that reason the people should share a value which arises because of their presence and is maintained by them from year to year. On the other hand buildings of all kinds are private value, the result of men's labor in making use of land. For that reason the owners should have the advantages arising from their labor and the use of their capital.

Put it this way, making a road for example means an advantage to adjoining land. It adds to its value. Unless that added value is drawn upon to pay for the road its construction with

public money means an unearned increment added to the value of the land. The idea of the land values system is that those who benefit by public expenditure should contribute towards the cost. Otherwise they are getting something for nothing while those who provide it are suffering a corresponding loss.

The principle is, I understand, practically applied in the irrigation areas of California. I have been informed that the charge for water is based on the value of the farms, not on consumption. For that reason it does not pay to hold farms idle as a speculation seeking riches at the expense of other men's labor. It is just the same in a city, or suburb or anywhere. The onus should be on the efficient use of land in proportion to its value. In this way those who are doing things are able to get the due reward for their labor and capital.

Again, if it is undesirable and contrary to public policy to make available irrigation water to idle land, is it not precisely the same to provide the city services for idle city land, or land with out-of-date improvements upon it? I am thinking of Delfields in Sydney, an old two story hotel on one of the best sites in the city. If the city got taxes in proportion to the use made of the land the amount would be small. But our city council disregards the old building—long since out of date. It taxes the value of the land. If men choose to hang on to old buildings, or hold land idle, it is their own affair. They should not get a bonus from the community for inefficiency in the use of land.

I was struck with this passage on page 34 of the Commonwealth report: "In 1935 about 60 per cent of all public revenue (federal, state and local) was paid by the owners of real estate. With the growth of other taxes the figure fell to about 8 per cent in 1945. During the same period the price of land in cities has skyrocketed." Well, for whose benefit? Say the ten per cent who own the land. And who pays? The *landless* in high living and working costs. It virtually makes them slaves of the landowners.

There are just two or three further points that I would like to touch. There is a tendency to do too much for the people, and sapping the independent spirit of men. Give them opportunities to provide for themselves and put the responsibility upon them to do it. The work of assessors is of the utmost importance. It would be greatly simplified if confined to valuing the land only. Various considerations enter into the value of improvements. Land values are public values, the improvements made by individuals and firms, are private values. All that is needed is a correct assessment of public values.

One of the greatest difficulties in dealing with public affairs is the lack of understanding of their natural rights by the people. A simple understanding of natural rights should be as basic in our educational institutions as learning to read, write and calculate.

A June, 1952 report of the Berkeley City Planning Commission (Calif.) reveals that 7.7 per cent of the total area of Berkeley is vacant land. However, 37 per cent of the land is used for streets and other public and semi-public purposes, that the percentage of privately held lots vacant is actually 12.2 per cent. This is not the full extent of land speculation, of course, as much of the land, while altogether vacant, is inadequately used.