

## LETTER TO THE NEW ZEALAND PRIME MINISTER

Mr. Bolger in his New Year Message told us 1992 will be a better year than 1991. Certainly there are some positive indicators.

### UNEMPLOYMENT

Unemployment continues to increase and the economically informed pick growth in employment as likely to be the last aspect of the economy to show marked improvement. Because of the destructive effects of unemployment on individuals and on the nation, I am making proposals about the rating system which would make a worthwhile contribution to increasing job opportunities.

### LAND PRICES

The following figures are taken from the NZ Yearbooks:

Year	Value of Land (in millions)
1960 .....	\$ 1,779.6
1965 .....	\$ 2,644.5
1970 .....	\$ 4,170.7
1975* .....	\$10,433.6
1980 .....	\$21,230.6
1985 .....	\$41,509.4
1989 (the last year available) .....	\$70,987.0

\*from 1971 unimproved value was changed to land value

The rapid increases in land value have had very important effects on the economy. Money and effort have been spent on buying and selling land instead of that money being channelled into maintaining and developing productive enterprises. Equally important, the expectation of rising land prices has caused an artificial scarcity of land on the market and so raised prices and rents. This has squeezed the profits of small and medium sized businesses of all types, and many have gone broke or failed to expand. Home building has been inhibited. In the process jobs have been lost and employment opportunities have not been created.

### LAND RENT

It is often overlooked that the rent a user pays for a home or workplace has two components: rent for the land on which the building stands and a payment for using the building.

Office and retail accommodation on Lambton Quay command higher rents than equally good buildings in some other parts of the city. The higher rent is attributable to Lambton Quay's nearness to Parliament, its convenient location for staff who commute from the Hutt and up the coast, the well

maintained infrastructure, the nature of existing businesses and hence the greater availability of customers, servicing organisations and suitable employees.

This illustrates that land value is a social product resulting from what Central Government and the local authority do and from what the public do in providing services, consumers and a workforce.

### RATES

Many people oppose rates on land value, and indeed any other rating system, in the belief that the purpose of rates is solely to pay for the services local authorities provide and that such payments should conform to the user-pays principle. This is too limited a view. A public revenue system must never just raise revenue. It must raise it in a way that is just to all citizens and is conducive to the nation's economic and social well-being.

As it is the body of citizens, not the individual owner of land, who creates the amenities and facilities that make all city land useful and some city sites especially so, rates on land value merely recoup for the public coffers some of the value which that public creates. They also act as a deterrent to the withholding of land from use and thus make land cheaper and easier for employers and homeowners to acquire.

These observations apply equally to farming, industrial and residential land.

### UNIFORM ANNUAL CHARGES

These give a superficial appearance of fairness but are anything but fair. The use of libraries and parks and the cost of their upkeep cannot be related to the number of people in a family, nor the number of taps to the amount of water used.

Two drawbacks to uniform annual charges are that they add an unnecessary complexity to the revenue system and tend to discourage some improvements, e.g. a second toilet. This is employment inhibiting. When uniform annual charges are applied to commercial and industrial premises the same objections pertain.

### LOCAL BODY INCOME OR SALE TAXES

It is obvious that these are a hindrance to employers and contract the public's ability to purchase goods and services. Further comment seems unnecessary.

### CAPITAL VALUE RATING

Capital value rating is a poor system compared with rating land values. It is unjust to tax improvements attributable to the individual improver. It is anti-economic and anti-social in that the better the property the higher the rates.

Because of this it has a directly adverse effect on employment in the building industry through discouraging improvements and building replacement. It does little to reduce land prices. Trades ancillary to building are adversely affected and less able to offer jobs.

### INCOME TAX DEDUCTIBILITY OF RATES FOR HOME OWNERS

All rates should be income-tax deductible. This would make a useful shift by reducing taxation on earned income and decreasing the rewards of capital gains made from land ownership which are unearned income. It would increase the incentives for the able to improve their financial position through investment in productive activities which require labour.

### GETTING THE ECONOMY GOING AND BUILDING CONFIDENCE IN THE ECONOMY

It cannot be too strongly emphasised that for any type of employment land and labour are equally important. No one can produce anything at all without the use of land. Yet, it is not recognised that land held out of use depresses the economy as seriously or more seriously than the withholding of labour through strikes, epidemics, etc.

### GOVERNMENT GRANTS TO LOCAL BODIES

Presently the Central Government foots much of local body expenditure by way of grants, etc. Local authorities should be required to fund all their expenditure entirely out of rates. This would boost employment by stimulating productive activity through lower land prices and better access to optimum locations.

### EVERYONE PAYS RATES

There is a mistaken belief that rates are paid only by ratepayers. This is not so. In a family those members not on the rating roll contribute. In a rented property the owner includes rates when calculating his investment. The hotel owner does likewise. However, higher

rates on land value would not increase rents because of the stimulus they would give to domestic and business construction through lower land prices thus restricting the market for rental property.

#### **DEFINITION OF LAND**

The present definition of land in the Rating Act includes some improvements. In the interest of equity and to diminish disincentives to production, land should be defined to exclude from the rating base all improvements except those which are permanent, invisible and irreversible and they should not be rated for say, 20 years.

#### **PUBLIC ACCEPTABILITY OF THESE PROPOSALS**

Prior to the Government withdrawing the right of ratepayers to a poll between 80 and 90 per cent of local bodies adopted land value rating as the result of a ratepayers' poll. The changes I recommend should therefore be welcomed by the majority of electors though doubtless the small numbers of people who find land speculation very profitable would be disproportionately vocal.

#### **RECOMMENDATIONS**

1. That the Government make land value rating mandatory.
2. That local government expenditure be funded entirely from rates.
3. That uniform annual charges be abolished.
4. That home-owners rates be made tax deductible.
5. That land value be redefined in rating legislation.

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