# The Opposite Effects Of Taxes On Wages And On Land Value

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**In New Zealand a Royal Commission on Local Authority Finance has recommended that local body rates should be reduced by approximately one-third and the consequent loss of revenue be made good by a tax of 2d. in the £ on wages, salaries and other incomes.**

THIS proposed change in the method and incidence of local body taxation would transfer taxation from property and persons. In the language of economics it would transfer between £6 million and £7 million of local taxation from land values to wages. To appreciate what this means in practice it is necessary to consider what are the effects of a tax on wages and what are the effects of a tax on land values.

All taxes have one common effect in that they raise revenue but all taxes also have secondary social consequences. It is with these secondary social consequences of a tax on wages and a tax on land values that I wish to deal.

The effect of a tax of this kind is perfectly obvious and clear. Wages are immediately reduced by the amount of the tax. The term wages, of course, means all earnings of labour either by hand or brain by persons singly or in combination.

Much of this tax will find its way into prices. For example a manufacturing company must cover its costs in the price of its product and this tax on company earnings is a cost. It must, therefore, include this cost if possible in the price of its products. The principle tendency of a tax on wages is to decrease take-home pay and at the same time to increase prices. Not unnaturally this process, if carried far enough, will generate industrial discontent and stimulate a demand for a wage increase. If this increase in wages is achieved then the tax will certainly find its way into a general increase in prices, and the wages-prices spiral climbs a little higher and everyone is a little worse off than before.

Taxes on earnings are deeply entrenched in our taxation system and as they increase they are bringing problems of ever-increasing gravity. It should be one objective of a constructive financial policy to reduce such taxes if our economic system is to function smoothly. It is dangerous and foolish to increase such taxes needlessly as has been proposed by the Royal Commission. From these considerations it is clear that the secondary social consequences of a tax on wages are essentially bad.

By contrast the secondary social consequences of a tax on land values are almost entirely good. Of course, the paying of taxes is always an unpleasant process for the individual taxpayer, nevertheless a tax on land values can and does accomplish a great deal of social good.

The basic reason from which these good consequences flow is that a tax on land values depresses the selling price of land and makes it cheaper and easier to acquire.

It does this in two ways. First a charge on land values, such as we have in the rates, makes it unprofitable to hold land out of use. It tends to bring vacant and underused land into the market because land which is subject to a substantial charge has to be made to pay its way by being used or sold. This free offering of land tends to lower the price. There is, however, a much more important factor which operates in the same direction and that is that this annual charge on land values in the rates directly diminishes the selling price of land by the amount of the charge capitalised.

## CAPITALISATION

It is very important to grasp this principle of capitalisation to understand this question. It is readily seen that £200 invested at 5 per cent interest would yield £10 a year. Now this statement can be reversed and it can be said equally well that if interest is at 5 per cent, £10 a year is equivalent to a capital sum of £200 , that is £10 a year capitalised is equivalent to £200. This figure is reached by the simple sum:

£10 x 20 equals £200.

Similarly £17 million capitalised at the same rate of interest would be equal to £340 million and a tax on land values of £17 million would reduce the selling price of land by £340 million. This is exactly what the rates do in New Zealand. The total rates amount to £18.9 million.

Now whereever rating is on the Unimproved Value all rates are on land values only and where rates are on the Capital or Annual Value, part of the rates are on land value. Altogether about 80 per cent of the local rates fall on land value and every year because of the spread of rating on the unimproved value the percentage grows. Therefore, out of £18.9 million of rates about £17 millions falls directly on land values and about £1.9 million only on the buildings and improvements.

## £340 MILLION CHEAPER

This £17 million a year reduces the selling price of land in New Zealand by £340 million. In the year 1955-56 the Valuation Department assured us that the unimproved value of New Zealand land was £644 million. If it were not for the rates it would have been £984 million, i.e.,

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£644 million plus £340 million. This reduction in the selling price of land is wholly beneficial to the country.

Let us consider how the reduction in land price affects some few of many things.

**The ownership of property.** It is quite clear that the cheaper land is, the easier it is to buy. Only rich men can buy dear land. More men can buy cheap land. By discouraging the aggregation of land into huge blocks of value and keeping its price down the rates tend to favour the widespread ownership of land. Indeed it may sound paradoxical to say but it is true that one of the principal reasons why ratepaying is so widespread among New Zealand's adult population is because of the rates which make it possible for more people to become ratepayers. These rates, therefore, actively advance the realisation of the ideal of a property-owning democracy.

Modern society suffers from a disease called Monopolistic Capitalism. The principal symptom of this disease is the ownership of natural resources by the few. By putting all local taxes on to land values and keeping them there we tend to eradicate this foul social disorder.

**Housing.** The bottom side of every house is a piece of land. The cheaper the site of the house the easier it is for the prospective home-builder to reach his goal. The soaring price of land is one of the greatest difficulties for the prospective home-owner to overcome. He has to pay this price before he can begin. Heaven knows the prices are high enough, but without the rates they would be a great deal higher and this is what would happen if the recommendation of the Royal Commission was acted upon.

**The Farmers.** Anyone who has any knowledge of the history of New Zealand farming knows that high land values are dangerous, deadly dangerous, to the stability of the farming industry. We have seen it happen before when land is taken up at very high prices. Farmers are very vulnerable to the slightest shift in overseas prices for their products. If these prices should fall, disaster falls on the farmer because of his high mortgages. This is the common mechanism of the slump in New Zealand, and it should be a matter of public policy to use every reasonable means to restrain high rural land values and high farming costs.

The rates on land values as they at present obtain tend strongly in this direction. To reduce the rates by between £6 million and £7 million would give an enormous rise in rural land values, with a resulting detriment to farming and national economic security.

**Land Use.** These charges on land values stimulate the better use of land. Where they are high enough they make it quite impossible to hold land idle or even to use it in an inferior way. These rates, therefore, act as a constant, unwearying built-in stimulus to better land use. This is why they are so heartily detested by the land speculator, who wants to hold land out of use or to use it in an inferior way while he is waiting for the activities of the community and the increase in population to increase its value. If these charges on land values are diminished, it will give great satisfaction to the land speculator, the slum landlord, the mere investor in land and those who farm the farmer.

From these few considerations I think it is a fair conclusion that the secondary social consequences of local body rates on land values are almost entirely good, no matter how unpleasant they may be for the particular individual taxpayer who pays them. In this respect they are in striking contrast to the tax on wages which is proposed in their stead.

## A MISCHIEVOUS PROPOSAL

I think it is not unfair to describe the proposed reduction of rates by one-third as a mischievous proposal. If it is carried out, the present annual charge of land values will be decreased by £6 million a year (taking the lower figure of the estimated yield from the tax of 2d. in the £ on wages). Applying the principle of capitalisation, it will be seen that £6 million a year equals a capital sum of £120 million and this enormous capital gain will go untaxed into the pockets of the present landowners.

As I have pointed out, the principal benefit will go to the principal taxpayers—that is, to properties in the commercial centres of our cities. The richest persons in New Zealand will be made much richer without doing one stroke of work, and, as I will show, future landowners and users will pay this bill.

The benefit will not be reaped by all the landowners at once, but one by one, as properties are sold the prices will be enhanced by the capitalised rate reduction, and when all the properties are sold the gains to the sellers and the loss to the buyers will be £120 million. The magnitude of such a change approaches a social disaster.

To see just how this process would work it is necessary to consider how property is held in New Zealand. There are about 800,000 individual properties in the country and about 50,000 (40,000 urban and 10,000 rural) change hands every year. This velocity of transfer is fairly constant and it means that on the average all properties change hands every 16 years.

Property is constantly being transferred. It is like a game of musical chairs. As each prcperty is sold the reduction in rates capitalised will add to the price. When all the properties are sold, the late property-owners will be £120 million richer and the new property-owners will be £120 million poorer. Most of it will be in increased mortgages. If they had paid much less for their property and continued to pay the £6 million a year in rates, they would have been in a better position. They will not have benefited one jot or tittle by the change.

## A SUBSIDY FOR VENDORS

When the rates are on land values, de-rating is nothing more or less than a subsidy to the selling-out industry. It gives no permanent relief. It enriches some and impoverishes others and it does this permanently. It is economic nonsense and social stupidity of the highest order.

Consider the case of the hospital rate. After a long-sustained agitation, led by cupidity and aided by ignorance, this rate was abolished. This has been an advantage to none but land-sellers. The abolished rate increased land prices. Slowly, any advantage to property-owners has vanished like smoke. No one has been helped but the seller-out, and for this "mess of pottage" local and popular control of hospitals has for all practical purposes been abolished. So it is with all de-rating proposals.

It would not be unreasonable to expect a Royal Commission to be sufficiently informed on economic matters to know what the social consequences of their proposals must be. The astonishing thing is that this fantastic proposal has been put forward to ease the burden of rates on the home-owner.

# "Funny Money" In Canada
## Senator Roebuck's Grim Warning

IN my terminology the rise in prices due to the fall in value of money is inflation. Not all increases in prices are due to that cause. First, you have increases in the intrinsic value of goods. The mousetrap of today may be better built, and therefore it costs more money to make and is a little more expensive to buy. Second, commodities may include materials which have gone into short supply. Third, increased wages will certainly affect prices, as will gasoline taxes, and municipal taxes upon buildings and improvements.

There are quite a number of others, but the greatest to be considered at the moment are the increase in land values and high rents.

All these things add to the cost of commodities and therefore necessarily increase prices. But, I submit, they are not sufficient to account for the billions of dollars of increases in prices. Certainly none of them, nor all of them together, will account for what we have seen in other countries, that is, runaway inflation, or, as it has been called on some occasions, "galloping inflation", an inflation with which, I submit, we are at present threatened.

Measured in dollars, wages have risen, but, measured in the commodities which wages will purchase they have risen very little. As a percentage of the gross national product they have, in my opinion, actually fallen.

Last week I saw a great freight train a mile in length roll by. It was composed of more than 100 cars and was drawn by a three-unit diesel locomotive. It was immensely heavier, it was longer, and was travelling at a much greater rate than did trains of years gone by. And note the point: it was operated by one man less than the number that comprised the crews of freight trains a few years ago. Now, if there was any increase in the real wages—there was in the money wages—of that crew, the increase was infinitesimal as compared with the increased productive power of that train. The slight increase in real wages, if there was one, is not an element to any appreciable extent in the increase in prices of the commodities which that train might carry.

Sometimes I cannot help wondering just why it is that those who seek to blame organised labour for rising prices persistently close their eyes to the fantastically magnified land values and high rents which now characterise the dominion of Canada.

In a class with the monopolisation of the earth and the high prices that attach to it, but of vastly less importance in magnitude, are price increases effected by patent monopolies, cartels, conspiracies for the elimination of competition, and so on. All these things may increase the selling price of goods, but all of them, I submit, are of lesser importance in the problem of inflation—the decrease in the purchasing power of money.

Inflation occurs when the prices of goods go up because the value of money goes down. Why does money go down? There is a classic phrase used by economists and very often heard from the platform and the press: money goes down when too much money chases too few goods. Too few goods I have referred to already, and that factor may not be wholly controllable; but the factor of too much money, I submit, is controllable.

Now observe this: money consists of two things, currency, which is certainly under Government control and is in fact produced by the Government printing press, and bank credits.

Bank credits are very largely in the same category. The excess of credit available for the purchase of commodities is both directly and indirectly within Government control. Indirectly by reason, for instance, of purchases on time of cars, appliances, and so on, and loans (including building loans), which furnish purchasing power to deplete our too few goods, without immediate replacement of them; and directly, by way of Government borrowings, including the issue of Government bonds, which in public possession are like dollar bills for they are Government promises to pay and are negotiable.

The junior senator from Winnipeg gave useful figures which show that from July 31, 1957 to January 7, 1959 the debt of Canada increased by $1,111 million. In a year and a half—and not in wartime—the Government loaded the investment portfolios of investors in Canada with this huge amount, in addition to what had already been absorbed. There is every indication of a continuance of this high-flying finance in the coming year, in the budget that will come down in a few days, and quite likely there

Condensed from Canadian Senate Hansard, March 10. Hon. A. W. Roebuck, Q.C., is a vice-president of the International Union for L.V.T. and Free Trade.