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State Leaseholds— The Basis for Land Reform

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HENRY GEORGE, in his classical enquiry into why, in modern society, material progress and persistent poverty go hand in hand, showed conclusively that this association could be traced to the institution of private property in land. This institution, he showed, must necessarily result in an inequitable distribution of wealth. The remedy, he boldly said, was to abolish private property in these natural resources. Private property in land, he said, was a "bold, bare, enormous wrong." Others, such as John Stuart Mill and Alfred Russell Wallace, had also pointed to private property in land as the basic cause of the pauperisation of the majority of mankind, and advocated the abolition of this institution.

George's unique contribution to reform was the brilliancy of his advocacy, the tremendous impact he made on world opinion, and the particular plan of practical action he put forward. To destroy private property in land, he said, it was not necessary to confiscate land but merely to confiscate rent, and this, he proposed, should be done by concentrating taxation on rent, and, at the same time, removing taxation from the earnings of labour and capital. Revenue

from this source, he claimed, would be sufficient for the ordinary needs of government, and could even leave a surplus to be used for the common good. He claimed that this taxation would be the only taxation necessary. His followers were therefore called "Single Taxers."

The originality and simplicity of the means proposed has its own appeal. It involves no disruptive social convulsion, and, far from interfering with the operation of a free enterprise economy, it would provide the one condition necessary for a free economy to be stable and socially successful.

I believe Georgists have become so preoccupied and fascinated by the *means* that they have tended to place too little emphasis on the *end* to be achieved. George steered away from any direct means of destroying private property in land, because alternatives such as land nationalisation would require para-revolutionary social action and would put excessive, and possibly dangerous, power into the hands of the state. Further, it would be administratively clumsy and impractical, and would destroy the flexibility and adaptability of the free enterprise system, in which each man, while pursuing his maximum economic advantage, would incidentally, as if led by Adam Smith's "invisible hand" achieve the greatest good for society. Finally, such direct action was unnecessary; all that was necessary was to confiscate rent by taxation and all the advantages of abolishing private property in land would be achieved.

Georgists have out-Georged George in their devotion to a free enterprise *laissez faire* economy. Passages from his works can be quoted to show that George had a deep sympathy for, and an appreciation of, what he called the "truth in socialism," and he even viewed undismayed the possibility of state-distributed welfare benefits from the surplus produced by full land-value taxation. Many Georgists ignore this aspect of George's thinking. It is true that it found only limited expression in his writings, but it is there.

Georgists regard any interference with the free play of economic forces as unnecessary and full of potential dangers, and some would even regard it as immoral. They are committed to an absolutely free economy, and are convinced that the plan of land-value taxation will achieve the truly radical reform they want and preserve this ideal at the same time. Many have a deep distrust of government, which is

surely influenced by anarchism. They are fascinated with the social goal of maximising wealth production and ignore any other social good to be pursued, because they fervently believe that all other social benefits—full employment, civic virtue and a just distribution of wealth, etc.—will necessarily result from a society where full land-value taxation is in operation.

It is, therefore, not unreasonable to make an assessment of the scope and usefulness of land-value taxation as a means to achieve the end for which it is advocated—namely to destroy the “bold, bare, enormous wrong” that is the private ownership of natural resources.

There is no question in the writer’s mind of the goal of our endeavours. It should be to abolish the control, for private gain, of all natural resources, and to bring them under public ownership and use, for the common good. A free enterprise society cannot function and give to each citizen personal and economic freedom while natural resources, the basis of all wealth production, are owned and administered by private persons and agencies for private gain.

The means of achieving this end are of secondary importance, and may well vary in different societies with different economies, history and traditions. Indeed, historically this is a fact. The laws of the ancient Jews, the customs of primitive peoples such as the Polynesians and the Celts, each achieved a common participation in land ownership in different ways; and in our day, it is probable that methods applicable, say, in an underdeveloped country, differ from those suited to the sophisticated economies of Britain and the U.S.A., or between countries with or without a tradition of representative government, and with or without an educated population.

An effective programme of land-value taxation requires widespread public acceptance of the objective, an efficient and just system of land valuation, an incorruptible civil service, a good standard of civic virtue, and an educated people. Without these things, it is not politically possible to implement an effective programme, but this combination is a rare thing in the modern world.

The propositions I shall put forward in this paper are:

1. That land-value taxation is not applicable to certain important natural resources.

2. That it has serious limitations as a means of destroying the evils of private property in land, even for residential, commercial and farming land.

3. That its adoption for such land is a true and important reform, and it could greatly assist in destroying private property in land.

4. That the evils of private property in land can be eliminated only by a change in land tenure from a freehold tenure to a universal crown or state leasehold tenure.

5. That such a change is a practical political objective, at least in New Zealand and Australia; and that it would harmonise with the Georgist objective of an economically free society and would have none of the dreaded features of Marxist-type nationalisation.

LAND-VALUE TAXATION IS NOT APPLICABLE TO CERTAIN IMPORTANT
NATURAL RESOURCES

Some examples of these are underground resources such as minerals, coal, oil and natural gas; forests, exotic and indigenous; and water and water-power in rivers and lakes.

Underground Resources

The absurdity and inequity involved in the private ownership and control of natural resources is surely clear when these things are considered. Potential wealth produced by the processes of nature over millions of years for the use and sustenance of man being claimed as property by individual men, and used primarily for the profit of individuals and groups of individuals, is an outrage alike on justice and common sense. Clearly such resources should be used for the common good of all men in society, and for the good of those who will follow in succeeding generations. On every ground of justice and necessity, such resources should be common property.

Nevertheless, I am convinced that land-value taxation as a means of achieving this end is absolutely useless. Consider oil or natural gas as an example. What is the unimproved value of an oilfield, situated, for example, under the sea on the continental shelf? No one knows nor can know. The valuer or assessor would need to know the total production potential, the cost of production—including exploration costs—market demands and price projected over time. Will he value the surface land (or sea) in the company's ownership or all the area under which the oil or gas exists? Not only

could such a valuation not be made, but if it were attempted, and taxation were based on the result, such taxation could have most anti-social results. If it were excessive, it could cause ruthless present exploitation to maximise profits now, and let posterity go hang. If it were too light, the community would not get its just due. Fortunately, it is merely an exercise in theory. It has no relationship to real life.

I believe the same is true in greater or less degree of all subsoil wealth. In Spain, in 1236, a law was made reserving all mineral rights in land to the Crown. Any concession to mine was made for the life of the king only. Every property owner was authorised to search for and work minerals in his land, or on the lands of others, with their permission, but he had to pay two thirds of the net profit to the Crown. Many countries, former colonies of Spain, such as Mexico, have similar laws. In Britain, and in all countries once colonised by her except the United States, ownership of the so-called royal metals, gold and silver, is reserved to the Crown. I believe it should be a fundamental law of the state that all subsoil natural resources should be the property of the state or Crown. Under what terms these should be searched for, or extracted, would need to be laid down by law. How such resources should be exploited or controlled for the good of society should be a proper area of debate among Georgists and socialists alike. Such resources could be controlled by a government department, a quasi-government corporation, chartered companies, public companies in which the state holds a major shareholding, or by some other administrative organisation that may be devised to meet the need.

Forests

The distribution, use and management of forests both indigenous and exotic are alike intimately involved in soil conservation, river control, water supplies and water-power production. These are all community concerns and not the concern of the owners of timber trees. Effective national control is essential, and in New Zealand forests of both sorts are predominantly state-owned and managed. I will add that most of the problems of defending the common interest arise in the areas where forests are privately owned.

Indigenous Forests

The primeval forests are in economic theory "land," and land-value taxation will fall upon forest growing lands, according to

their capacity to produce wealth by being milled. Milling may be socially undesirable, and it should be strictly controlled because of the factors mentioned above. Land-value taxation could force the massacre of such forests to make a profit and pay taxes, regardless of its effect on water run-off, soil erosion etc. Milling in such forests, in the national interest, must be subjected to control as to amount of cutting, the species selected, the preservation of non-merchantable timber, and many other factors. Such control will be effective, in my view, only if the forests are owned by the Crown, which can stipulate the terms of their commercial use.

Exotic or Planted Forests

(2) These are usually planted on lands useless for farm production. Such forests cannot produce revenue until twenty to fifty years have elapsed. Meanwhile much expenditure is demanded for pest control, fire prevention, drainage, track cutting, thinning, etc. Taxation on any basis during this period has been found to be a difficult problem in all countries, and, of all taxes, land-value taxes are probably the least appropriate, equitable and realistic. Valuation on which to base the tax also presents unusual difficulties.

Crown or state ownership of forests need not, of course, demand management by a state department. In New Zealand, one state-owned forest of 250,000 acres of planted trees is exploited by a public company in which the state is a majority shareholder, and I am sure that other modes of management could be devised to preserve proper community control.

Water and Water-Power in Rivers and Lakes

The rains that fall from heaven form rivers and lakes which must be controlled and used for the common good. Unpolluted water in modern communities is an increasingly precious asset for drinking, for industry, for irrigation and the generation of power. Rivers, lakes and their catchment areas must be publicly owned for the common good. They are natural resources, but to allow them to be privately owned, and for society to collect the economic rent by land-value taxation, is quite absurd. What is the economic rent of a river suitable for harnessing for electric power? No one knows nor can know. The modern Georgist—the neo-Georgist—must extend Henry George's work and thought by finding answers to these questions in the light of the principles he laid down. There are other

natural resources in this group, such as air lanes, and airfields, and that medium once called the ether wherein radio waves are transmitted; but these three examples are sufficient.

It is a constant disappointment to me that the matters here discussed receive so little space in Georgist periodicals and on conference programmes. The Movement, as far as I am aware, has formed no consensus as to how these resources, to which land-value taxation is irrelevant, should be controlled by nation or state so that all the benefits of ownership go to society, or what policies we should pursue to make such "land" common property. *Confronting the Land Question* by the late Jackson H. Ralston is one of the few publications I have seen which even discusses these questions.

LAND-VALUE TAXATION HAS SERIOUS LIMITATIONS AS A MEANS OF DESTROYING THE EVILS OF PRIVATE PROPERTY IN LAND, EVEN FOR RESIDENTIAL, COMMERCIAL AND FARMING LAND

Difficulties Arising from Valuation or Assessment

The agitation for selective taxation of raw land, apart from improvements thereon, compelled the New Zealand Government to set up a Land Valuation Department in 1896. This was the first such department in the world, as far as I am aware. Since that time land valuation techniques have steadily evolved to give just and efficient valuation of all properties subject to taxation. The degree of success has had no parallel elsewhere, even in Australia where the standards and practice of land valuation vary in different States. Certainly, in the United States and Britain, the present valuation methods are not good enough for any extensive introduction of land-value taxation, and our political opponents will use every effort to prevent their becoming so. A satisfactory basis of evaluation for the application of a programme of land-value taxation demands a valuation authority operating over the whole area where taxation is levied, so that methods and standards are uniform. Ideally, land transfers and land title registration should be facile, simple and operational over the same area. All require an honest civil service of high technical quality, immune to political influence and secure in their professional careers. In few countries do these conditions exist, and especially in underdeveloped countries, or politically unstable countries, or countries where popular democracy is a mere form and

power is held by dictators, demagogues or military juntas. In general these are the countries where the right of men to the use of land is most blatantly denied. The necessary conditions for just valuations do not exist, but land reform is urgent and vital. The lesson is that different societies need different methods to reach our goal.

Political Difficulties

In New Zealand valuation problems have been solved, but land-value taxation has made no progress, except in the field of local government. Forty years ago the national land tax produced 10 per cent. of the revenue. The Act exempted properties below a certain valuation from land tax, and the rate of tax was increased as the value of a property increased. Each year the exemption level has been raised and or the rate of tax has been adjusted to keep the tax yield just about £2,000,000 per year. Yet in 1968 income tax alone will bring in about £500,000,000. I will not enlarge upon the reasons why the tax has stayed static, and why it has not been abolished altogether, as numerous taxation commissions have recommended. Georgists used to say that if a tax were put on land values, its results would be so evident and so popular that it would be steadily increased. This is just not true. Indeed, the reverse is the truth. The national land tax in New Zealand was designed to compel the break-up of large holdings, and in the successful accomplishment of this end it undoubtedly played a part; but as the smaller landholders multiplied, so did opposition to any extension of the tax. This experience was paralleled in Australia and in the irrigation districts of California. No one likes paying taxes, and every land tax payer becomes an opponent of the land tax. In addition he has an added motive to oppose a land tax in particular, and I think this is important. A tax on land values reduces the value of a property by the amount of the tax capitalised. Conversely any remission of the tax means an increase in the selling value of the property, *i.e.* a capital gain, and every land owner reaches out at sometime for this glittering prize. This is the motive keeping alive the constant pressure to abandon land-value taxation in the municipal field. Land-value taxers, in their efforts to destroy the evils of private property in land, are fighting a continual battle which is never won, and for this reason I believe a further step is required to secure the gains made; and this step is the adoption of a system of leasehold tenure.

For historical and political reasons these remarks do not apply so forcefully to land-value taxation for municipal purposes. I would summarise the differences as follows:

(1) The power to tax is a prerogative of the Crown, and the Crown has delegated to local bodies, which are creatures of Parliament, in a limited and carefully specified degree, the power of taxation. In Britain and New Zealand this power is practically limited to the power to tax property.

(2) The connection between the work of local bodies and land values in their area is evident to all, and the fairness of such taxes is apparent, especially when the taxes fall on land value alone.

(3) Exemption of improvements from taxation and their concentration on land value alone means lower taxes for the majority of property owners.

(4) The social advantages of such selective taxation of land values is sufficiently evident to win much support on its own merits.

However, even in the local taxation field, the taxation of land values has not won the general support in Australia and New Zealand that might have been expected. Opponents there will always be, because of the capital-gains question mentioned above. But there have been searching examinations of this matter by competent judicial commissions, such as the recent Royal Commission in New South Wales, which have not been so impressed by the advantages of land-value taxation by local bodies that they have whole-heartedly endorsed it or recommended its extension by law. My own belief is that such a course would be fully justified on the evidence of our experience in New Zealand and Australia, but this opinion has not been as firmly endorsed by these commissions as we think the evidence justifies. This, I think, confirms my view that politically the difficulties of advance are very formidable indeed.

Economic Difficulties

No land-value taxation plan can collect all the economic rent. Some of the most enthusiastic advocates of this means to our end have conceded this point and have suggested that some 10 per cent. of the rent must, of necessity, and indeed should, remain in the hands of the land owners. In a dynamic society land values are continually increasing, and to collect most of the economic rent, the land tax must increase at the same rate. This multiplies opposition.

The depreciation of money aggravates the position. If money depreciates at 3 per cent. per annum, and valuations are at five-yearly intervals the tax must increase 15 per cent. due to this factor alone, apart from true rises in land value.

Where land-value taxes are on the selling value of the bare land such taxes decrease the selling value by the amount of the tax capitalised at current interest rates. A steadily increasing land tax thus falls on a steadily decreasing base, and the rate of the tax must continually increase. This raises great political and even mathematical difficulties. The tax base would need to be the market value, plus the tax levied the previous year, capitalised, and this "tax on a tax" would not be accepted readily by the voters. I cannot see any way round this difficulty, even by taxing the annual values of bare land, as some have advocated.

The same difficulty occurs in another form where more than one level of government taxes land values. In New Zealand there is a national land tax and local land taxes, and the latter reduces the base on which the former falls. There are those who advocate that central government should retire altogether from the land tax field and hand it over entirely to local government. If this is done the structure, size and functions of local government must become of vital interest to Georgists, and they should be active in local government to see that all these things are designed to maximise the land-value taxes collected. In Australia there was a federal, a state and local land taxes, all falling on the same base of economic rent. The Federal Government ceased to levy land tax in 1952, and took the power to itself alone to levy income tax. This left the land tax to the States and local bodies and the former have been compelled to retain, and in some cases, increase land taxes, simply because they have had so few alternative sources of revenue. The land tax receipts in Victoria have more than doubled since 1952, but in New South Wales exemption levels have been steadily raised and land tax receipts minimised. I am sure that if the States could get along without land taxes they would abandon the field to the municipalities alone. Land-value taxation should be levied at one level and not two or three, and my belief is that it should be at the municipal level, and it must be the maximum possible at this level. Georgists, at least in New Zealand and Australia, should for this reason become deeply involved in local government in order to shape policies and events.

THE ADOPTION OF LAND-VALUE TAXATION FOR LOCAL AUTHORITY
REVENUE IS A REAL AND GREAT REFORM

I will not dwell at length on the advantages of this reform. They are well known to all Georgists. Such taxes give a bias to urban renewal and the highest economic use of land in all urban and rural areas. Their absence is a primary cause of urban blight and decay. Land-value taxation is the key, or at least an essential ingredient, in any campaign to make the cities of Britain and the United States places fit to live in. Urban renewal, without this reform, is like ploughing the sea. The devoted efforts of urban reformers and town planners are enormously aided by this reform. Were this important weapon fully used Henry George would be the real creator of a multitude of beautiful towns and cities.

Substantial land-value taxation restrains and reduces land values and makes purchases for public purposes, or for establishing a change of tenure, more practicable. It is an invaluable weapon, therefore, in the warfare against private property in land. The gains, however, are in their nature impermanent, unless they are fixed by a tenurial reform.

THE EVILS OF PRIVATE PROPERTY IN LAND CAN BE COMPLETELY
ELIMINATED ONLY BY A CHANGE IN LAND TENURE FROM A FREEHOLD
TENURE TO A UNIVERSAL CROWN, STATE OR NATIONAL LEASEHOLD
TENURE

I have indicated why I believe that land-value taxation alone cannot solve our problem. It is inapplicable in regard to many important natural resources. It cannot collect the full economic rent. It is forever under attack, and alterable with each successive budget. It does not give society the vitally necessary control over land use in the national interest. This concerns soil conservation, rivers and water control, full utilisation of subsoil wealth, town planning and urban re-development and ordered growth, and many other things. The state or municipality must own and control the land.

Georgists have long insisted that the land question is not a question of tenure but of taxation. They insist that, given heavy and progressive land-value taxation, the nature of tenure is not important. "Let them continue to call it their land. Let them buy, sell, bequeath and devise it. We may safely leave them the shell if we take the kernel.

It is not necessary to confiscate land; it is only necessary to confiscate rent"—by land-value taxation. This is true in theory, except for those natural resources to which land-value taxation cannot apply, but it is not politically or administratively possible for reasons I have outlined, even in land as that word is commonly used.

I believe that the question of tenure is of paramount importance, and Georgists everywhere should work for the public ownership of every natural resource. This is no easy task. In Canberra, the Australian Capital Territory, the whole 900 square miles is publicly owned and the sole tenure is a leasehold for ninety-nine years. This bold social experiment is extremely important and merits study in depth by Georgists. A similar experiment in Darwin, initiated in 1945, has apparently failed. We should know why and how the problems of monopoly ownership, valuation, rent determination and legal problems of definition and administration can be overcome. We should be deeply involved in this and similar efforts to kill for ever land speculation and the other evils of private property in land.

The pressure of events is focusing public attention on this question. Every city councillor knows the advantages of municipal ownership of land. Every town planner knows. Every conservationist knows, and all thoughtful persons are alarmed at urban decay and the near impossibility of urban renewal. The problems of agriculture arising from freehold tenure are less obvious and would warrant a paper to develop fully. Recently Mr. Justice Else-Mitchell, Chairman of the Royal Commission on Rating, Valuation and Local Government Finance in New South Wales, read an important paper advocating universal leasehold tenure in Australia.

SUCH A CHANGE IS A PRACTICAL POLITICAL OBJECTIVE, AT LEAST IN AUSTRALIA AND NEW ZEALAND, WHICH WOULD HARMONISE WITH THE OBJECTIVE OF AN ECONOMICALLY FREE SOCIETY AND WOULD HAVE NONE OF THE DREADED FEATURES OF MARXIST TYPE LAND NATIONALISATION

The production and distribution of wealth would be a free enterprise undertaking still, in its entirety. Freehold land would have to be acquired by purchase, because any other course is quite outside our established tradition of property ownership. Any other course could produce grave injustices and a resentment so profound as to inevitably wreck the proposal. The process will take time—probably fifty years—for its completion, but it will bear good fruit in ever-

increasing abundance with each passing year. The main thing is to clearly outline both the path and the goal, and to pursue it steadfastly. I would suggest the following practical steps:

(1) All undiscovered subsoil wealth should be reserved to the state or Crown by law, as was done centuries ago in Spain.

(2) All so-called wastelands should be purchased. They may prove, in time, to be of considerable economic importance, and they are cheap.

(3) Water conservation areas will probably be largely included in (1), but they must be acquired early.

(4) A belt of farm land surrounding all towns should be acquired, or at least the Crown should claim pre-emptive rights over such lands. This is necessary to contain towns within proper limits, for town planning reasons, and to prevent productive land becoming non-productive. New Zealand loses 6,000 acres of its precious farm land by unnecessary urban sprawl annually.

(5) No land owned by the state or any municipality should be permitted to be alienated henceforth. A municipality could transfer title to the Crown and vice versa, but all so-called "freeholding of Crown leases" should be stopped forthwith.

(6) Death duties should be payable in land, and a change of tenure from freehold to leasehold should be encouraged by rebating death duties on a change of tenure.

(7) Land-value taxation should be made the only source of revenue for local government and the area of function of local government should be enlarged.

(8) The state should establish a revolving fund fed by rents and an annual appropriation for land purchases.

The terms of lease are of paramount importance and must be framed within certain principles. Any perpetually renewable lease is merely a disguised freehold. Absurd length of a leasehold can have the same results. For example, some central city Hong Kong leases are for nine hundred and ninety-nine years. Rents should be reviewable at frequent intervals, say five yearly. There must be some provision in rent determination for the depreciation of money

between rent reviews. There must be compensation for unexhausted improvements when the lease runs out. There may be different provisions necessary with different classes of property such as residential, commercial and rural properties.

In New Zealand, and no doubt in all countries, the Crown is a substantial land owner, and what is visualised is merely an extension of this function within the existing political and economic structure. Experience will dictate the numerous adaptations which prove to be necessary to any plan, but here I wish to indicate only the broadest principles and the lines of advance which should be striven for in my own country. Georgists should be active in forming the favourable climate of opinion needed to make such a plan acceptable. They must understand and direct the many forces in modern society which tend to move in the same direction. They must not entertain and inculcate the erroneous belief that land-value taxation is the one answer to all questions. They must be personally involved in local government policies and politics, and they must do much research into the nature of their own society, its history, land systems and property laws. In this way they can help to recreate society and build into it the great principles so clearly revealed in the work of Henry George.

This paper is too brief to contain an adequate exposition of my thesis. It will provoke criticism and it is meant to do so. The original impulse of the Georgist movement throughout the world is largely spent. It needs re-statement in new terms. The base of the movement must be broadened. Its aims must be presented in terms relevant to the problems of our times. We, at this Conference, are responsible to see that this is done.