APPENDIX 2

CASE STUDY: THE NEW ZEALAND EXPERIENCE

LVT—Found and Lost: Why was a successful system of LVT abandoned?

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This account of New Zealand's experience of LVT is an abbreviation of the full version, which may be found on my website: http://landvaluetaxguide.com/category/related-essays/

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New Zealand holds a rather special status in that it was notably the first country to introduce a system of LVT for raising revenue.[1]

As part of the process of empire building at the end of the 18th century, Britain laid claim to the territory of New Zealand, which was considered to be an extension of the Australian colony of New South Wales. In the early 1800s the first colonists from England were Christian missionaries, followed by settlers, some 20 years after the first arrivals at Botany Bay in Australia.

The number of settlers increased rapidly and led to disputes with the native Maori, especially over land.

The Maori wars with the British arose basically out of disputes over land ownership and encroaching European occupation. In 1840 the Treaty of Waitangi was agreed with the Maori, who were acknowledged as owners of the land of New Zealand.

However, in England, in 1846, the Secretary of State for the Colonies, who had been unhappy with the terms of the treaty, issued instructions to lay claim to all the land not directly occupied by the Maori. But the new Governor, Sir George Grey, believing that this would alienate the Maori, devised a scheme whereby the land, rather than being appropriated, would be purchased piecemeal, albeit for paltry prices.

In order to raise local revenue, taxes were applied to property in imitation of the rates system in Britain where the building and the site were valued in combination. But it would seem that under the Grey administration certain progressive ideas about taxing only the land were brought from Britain.

As early as 1849, in Wellington and Marlborough provinces, legislation was proposed allowing for rates to be imposed on the value of land only—excluding improvements.[2] This was some 30 years before Henry George published *Progress and Poverty*. However, there is no record of any legislation having been acted upon.

The first evidence of actual implementation was in the town of New Plymouth, in 1855. In that legislation it was decreed that, if the ratepayers so decided, the rate could be on unimproved land value only.[3]

This was a clear demonstration of local democracy in action, which established a precedent that was to endure at the local level as a principle for the next 130 years. This local taxation system was adopted generally and continued up to the Rating Act of 1876, when modifications were introduced.

It is worth noting the prominent role played by Governor Grey in promoting LVT for New Zealand. He was the Governor General from 1845 to 1853, and later Premier from 1877 to 1879, both periods in which important advances were made for LVT. Grey was a progressive liberal and would have been familiar with the new reformist ideas being discussed in the early 19th century. David Ricardo had published his *Principles of Political Economy and Taxation* in 1817 and expounded his theory of the 'economic rent', an idea that Grey no doubt took with him to New Zealand.

It is known that prior to his term in office as Premier he met up with John Stuart Mill, another advocate of land value taxation.[4] Also, in 1871, Henry George published *Our Land and Land Policy* and, in 1890, made a lecture tour of Australia and New Zealand.

Central government revenue in the early years was mainly derived from customs and excise duties and the sale and leasing of land, appropriated or bought from the Maori.[5] But as the government started to run out of land to sell, by the 1870s it turned to property taxes, and introduced the Rating Act of 1876. This marked the beginning of national property taxation. But again, it was the British combined rating system that was generally adopted.

Attempts to introduce a national property tax based only on land values was a protracted affair, which began in 1878 with the Land Tax Act, introduced when Grey was Premier. In 1879 his finance minister John Balance, also an advocate of LVT, introduced a General Property Tax based on the selling value of land, but this was soon repealed by the succeeding National (conservative) government. Attempts to introduce a full land value tax at national level were often thwarted by opposition within the government itself, which as in England had many representatives of land-owning interests. Rolland O'Regan, in his book *Rating in New Zealand*, describes the slow progress:

> In 1894 the Rating on Unimproved Value Bill was introduced as a policy measure. It was passed by the House but rejected by the Legislative Council. The same process was repeated again in 1895. In this year it was carried by an overwhelming majority in the House and defeated by one vote in the Legislative Council. In 1896 the same bill again passed the House. This time the Council withdrew its opposition and it became law.[6]

A further attempt to use land value only for all rates was tried in 1901 but was abandoned due to opposition in the government's own ranks.[7] It was not until 1912 that the Rating Amendment Act was passed allowing for a full tax on land values on all rates. From this point it could be said that New Zealand had complete land value tax systems in place at local and national levels. The 1912 act continued in force until 1967 when, under a national administration, the local tax on land value was applied again to only certain rates—a retrogressive step. Perhaps this was the first move towards abolition, which was to culminate in the events of the mid-1980s.

At local and national levels, the rating systems evolved so that three options were provided for assessing valuations, subject to selection by ratepayer's poll:

- Combined land and improvements assessed by annual rental value. (AV)—the British system.
- Combined land and improvements assessed by capital value (CV).
- Unimproved land value only (LV).

At the local level, it is noteworthy that during the course of the 20th century, where there was freedom of choice, the ratepayers preferred the land value tax system (LV), so that by the 1980s the majority of local authorities employed this method. In an article on the history of rating in New Zealand, Robert Keall notes,

> By 1982 hundreds of rating polls had been held, so that in just 86 years 90% of all municipalities had by poll adopted land value rating, which accounted for 80% of local government revenue.[8]

The figures of Table 6 are taken from a paper by McCluskey and Franzsen, which show the number of boroughs using the different systems in the 55 years between 1942 and 1997.[9]

Year	AV	CV	LV	Duration
1942	8	37	55	—
1985	5	10	80	43 years
1997	2	30	64	12 years

Table 6. Different Local Tax Valuation Systems: 1942–97

In a general observation Keall states:

> Wherever Land Value Rating applies it has been adopted by poll of ratepayers, representing a lot of work and profound social concern. Wherever Capital or Annual Value Rating applies it has been imposed by Government or Councils, contrary to the express wishes of the ratepayers in almost every case.[10]

With certain exceptions[11] local LVT, assessed through the LV system, was preferred where democratic choice was allowed, but in 1988 this choice was removed, ironically by a Labour government, which revoked the democratic polls that had kept the local LVT in place for more than 130 years.

The history of the national land value tax took a rather different turn. Initially it was successful in raising revenue, but perhaps less so than the new income tax, which was gaining in popularity with most governments throughout the world. The land value tax continued well into the next century but from the 1920s went into decline almost as a matter of government policy. On the national tax, Keall comments,

> By 1922, the land tax yielded about 10% of the budget. As overseas trade developed and inflation became the accepted means of financing wars or social policy, so land values grew and were protected from any land tax by governments elected to do just that at all costs. Thus by 1989, or 98 years after its confirmation, the land tax yielded only 0.4 percent of the budget and was commonly regarded as an antiquated irritant.[12]

In the course of the 20th century, New Zealand followed the pattern of other western capitalist systems being in thrall to, if not in league with, the rich and powerful, who were often landed property owners. These vested interests played a large part in the inexorable decline of the national land value tax in New Zealand. After the optimism of the 'Georgist' period prior to World War One, vested interests prevailed and, mainly through exemptions and undervaluations, the national tax was enfeebled and rendered insignificant in terms of revenue collected.

A significant event, contributing to the decline of the tax was a provision in the 1976 Land Tax Act in which principal residences were exempted. This of course reduced the tax base and seriously undermined the effectiveness of the tax. But perhaps the main reason for the decline was the attitude of successive governments which were indifferent or even hostile to the land value tax, preferring instead to raise revenue through income and sales taxes.

By contrast, in the hands of local ratepayers, the local land value tax, fared much better, but even this was brought to an abrupt end in the rather dramatic events of the 1980s.

So what happened at that time?

After World War Two, the sequence of political events in New Zealand were very similar to those of Britain; the see-sawing of political control between two opposing main parties, one of the right (National) and the other of the left (Labour).

By 1984 the National party of Robert Muldoon had been in power for nine years and the economy was in crisis. A new Labour government under David Lange came to power in July 1984 with the express purpose of rescuing the situation, and the prime player in this operation was Lange's finance minister, Roger Douglas, who was to become instrumental in the demise of LVT. Douglas, supposedly on the left of the political spectrum, and ironically, a former member of the New Zealand Land Value Rating Association,[13] introduced a series of right-wing policies in his radical solution to the crisis. Contrary to his previous Labour background, he introduced a series of measures, which were straight from the neoliberal school of thought prevailing at the time (see Appendix 1). An account by the journalist Simon Louisson of the New Zealand Press Association records:

> The United States was in the grip of Ronald Reagan's free market Reaganomics while Margaret Thatcher was also pursuing Chicago School of Economics' monetarist policies. But neither went as far as New Zealand under Finance Minister Roger Douglas…[14]

An article on the website New Zealand History.net describes the events in 1986:

> Radical change came thick and fast: deregulation, privatisation, the sale of state assets, and the removal of subsidies, tariffs and price controls.[15]

Among these reforms the continuation of LVT stood little chance. The national LVT had already become insignificant in terms of revenue and was abolished in 1991. Robert Keall comments,

> The tax had become a political football. So, to pre-empt a National opposition promise to abolish the tax, the Labour government did just that.[16]

On the local rates he notes,

> Since the time of restructuring in 1989, combining urban with rural areas, the 90% of municipalities which by poll had adopted land value rating has been reduced to about 40%.[17]

And also,

> In the Rating Powers Act of 1988–89 the government withdrew the traditional right to demand a poll.[18]

Henceforth, it became the local authorities rather than the people that decided which form of rates to adopt. Between 1989 and 1999 many local authorities, which were in high value urban areas, switched from LV to CV, to the advantage of wealthier residents.[19] The local rates, based on unimproved value (LV), which had always depended on the popular polls for their continuance, suffered a great set back when the government revoked this democratic process in 1988.[20] Thus, in New Zealand, within a few years in the 1980s, 95 years of national LVT was lost and 133 years of local LVT severely diminished.

The question still remains. Why did New Zealand lose its grip on LVT?

For a great number of years, it seemed to be very well established, at least at the local level. From the foregoing account it would appear that in the case of the national tax, it was largely a matter of central government indifference or neglect, even downright hostility. In the case of the local tax, in the final years it appeared to be more a matter of overt ideological government opposition. The national tax was allowed to die slowly over a long period, whereas the local rates, after a long period in the ascendant, went into abrupt decline from 1985 onwards. In both cases the opposition to LVT stemmed from the governing authorities, not from the people. In a paper on land taxation in New Zealand Barret and Veal make the comment that, 'To a great extent successive governments allowed the tax to fail.'[21]

After World War Two the revenue from the national land tax continued to decline, so that by 1967 a government taxation review committee recommended its abolition. Perhaps this review signified the beginning of the end for the national land tax. In 1982 another government report noted that the land tax had 'no perceptible redistributive effect' and was 'not an adequate indicator of the taxable capacity provided by wealth.'[22] And so it would seem that government opposition to the land value tax was already under way before the later events initiated by Roger Douglas.

In the 1970s and 80s the neoclassical school of thinking dominated world economics, including the central banks, the IMF, the World Bank and the universities. This was the period that saw the rise of 'Reaganomics' in the Reagan–Thatcher era hallmarked by deregulation, privatisation and the dominance of neoliberalism. It was at the height of this world movement in 1984 that the new Labour government came to power in New Zealand and under the finance minister Douglas, carried out its drastic right-wing policies.

For those on the right, Douglas was the hero that rescued New Zealand from the crisis, but for those on the left the words of former prime minister Lange are perhaps more significant: In 1996, relenting on the effects of Douglas' policies he is recorded as saying,

> For people who don't want the government in their lives this has been a bonanza. For people who are disabled, limited, resourceless, uneducated, this has been a tragedy.[23]

Land value taxation, at least at the local level, was an undeniable success in New Zealand. It was tried and tested over a long period of time, but as with freedom itself, as the old adage goes, it is only appreciated when lost. For LVT enthusiasts there are clearly lessons to be learnt from the New Zealand experience.