

A PLAN OF ACTION

Ladies and Gentlemen:

In this lecture I am undertaking a very difficult task because I am about to put before you for your consideration a plan of action. I want to indicate to you just how the system of freehold land tenure might be replaced by a system of Crown leasehold tenure in an orderly way.

First I must stress that such a reform is not so much an innovation as a return to, and reapplication of, traditional concepts. I am not proposing revolution but a fundamental reform in harmony with our history.

Three factors already existing will facilitate the changeover:

(a) The legal theory underlying the holding of land in New Zealand is in no way violated by this reform. You will recall that in speaking of the feudal system in an earlier lecture I mentioned that it was utterly destroyed and only "the shell of legal theory" remained. That theory is that the Crown — representing the Lord and the whole people — is the sole sovereign owner of the land and we property "owners" are all tenants of the Crown. I would make this theory into fact — by causing each tenant to pay the Crown a just rent.

(b) In 1896 in order to apply national and local taxes on land values and to exempt improvements on land from taxation the Liberal Government passed the Valuation of Land Act. The idea and practice of separate assessment of land and improvement values is essential for a just leasing system because the improvements are the inviolable property of the tenant and the annual value of the raw land is the inviolable property of the Crown which symbolises the community. We have a skilled and experienced Valuation Department without which the implementation of a Crown leasehold tenure would be impossible.

(c) We have a Lands Department which administers the Land Act 1948. This Act can with modification be adapted to the new order. The administrative mechanism for land acquisition, land leasing and land development provided in the Act can be readily adapted to become an ideal instrument to carry out the great reform.

It has been said that the hallmark of a true reform is that it makes other reforms possible. The truth of this aphorism is

demonstrated in the facts I have related. Were it not for these reforms of the great days of the Liberal Government a change of land tenure would be impossible. If New Zealand succeeds in this undertaking it will be due to the work of Grey, Ballance, McKenzie and their colleagues a century ago.

The land must be purchased

Every owner of land in New Zealand has acquired his holding legally and he has a State guaranteed title to it. We have constantly pursued, and society has encouraged the pursuit, of the ideal of a land owning democracy. It would be an enormous injustice if land owners were expropriated. Their legal rights in the bare land must be purchased at a just price and they must retain the ownership of all the improvements to the land they occupy.

The price

In many countries attempts have been made to purchase the land by the issuing of interest-bearing State guaranteed bonds, so that the recipient of the bonds enjoys a continuing income. Given the power of the State to destroy the value of such bonds by an inflationary policy in my view this is not acceptable unless such bonds are absolutely inflation protected. The lands will require to be purchased in the market and gradually retired from the market.

It will be at once objected that the cost of land purchase will be so great as to be completely impracticable. With this view I do not agree. I would not go as far as the late Mr Peter Fraser who once said that: "the nationalisation of the land is not such an impossible task after all. It would cost about one half-penny a square yard or less than the retail price of brown paper".

My stance is somewhere in between these extreme views.

It must be remembered that it is not necessary to purchase improvements.

If a farmer were to convert from freehold to leasehold tenure the Crown would purchase the land only and the farmer would continue to own all the improvements as defined in the lease. Similarly if the Crown purchased a farm and offered it for lease the incoming lessee would have to purchase all the improvements. Again the total cost to the Crown would be the price of the land only. Although all New Zealand lands should in due time become leasehold lands, whether they are used for farming, or a residential, commercial or industrial purpose, we

are at present concerned only with farming lands. This is the area of urgency and the urgency arises from the need to correct the urban drift and stagnant farm production. A slow population growth and a high emigration rate has reduced the impact of urban land problems, and while it has by no means lessened the need for land reform in that area it has diminished its urgency substantially.

In 1976 the gross value of all land in counties was \$5.6 billion. A considerable amount of land in counties is already publicly owned and in addition there are 5.8 million hectares used for farming under Crown lease and licences and about 0.74 million hectares under development by the Department of Lands and Survey. No doubt inflation has increased the total price of land in counties since 1976 but the figure for that year gives some indication of the costs involved. This would be in the vicinity of five billion dollars (1976)*. In a country which can have a budget deficit of a billion dollars or more in one year and contemplate the spending of many billions on energy development, the cost of land purchase is not too alarming.

There are two other important facts to remember. The purchase money does not have to be paid out all at once and as land is purchased rent income begins to come in. Think of it in three phases. In phase one much purchase money is being paid out and there is little rent coming in. In phase two rent is being received in amounts sufficient to help finance further purchases. In phase three all the land has been purchased and the total rent can all be devoted to reducing taxation.

Speculative Value

The second important factor is that in a dynamic society with a growing economy there is a general assumption that progress is inevitable and from this arises the conviction that the best and soundest long term investment is in land. This ever present factor gives to land price a speculative element which is never entirely absent even in Government valuations.

* Since preparing this lecture I have learned from the Government Valuation Department that gross rateable land values in counties have increased from \$5.6 billion in 1976 to \$13 billion in 1980. There are three reasons for this fantastic increase: (a) inflation, (b) government subsidies and incentive payments to farmers, and (c) the change from Unimproved Value to Land Value. This change was incomplete in 1976.

The proposal advanced here means that the Crown would purchase what used to be called the Unimproved Value of a farm and not the Land Value which by present definition includes the value of many improvements.

When a land purchase and subdivision policy was adopted by the Liberal Government in 1890-1900 its plan was helped by a moderate fall in land values. This was caused by this speculative element in land price being squeezed out as much by the Government's announced land tax policy as by the Land Tax itself.

Similarly when a government proclaims a policy of promoting a transfer from freehold to leasehold land tenure a similar effect on land values will occur and land price will fall to a true productive level.

The process of squeezing out the speculative component and reducing land price to a true productive value could be materially assisted by two fiscal measures, viz. land value taxation and estate duties and I will say a few words about each.

Land value taxation

1. When rating on Land Value is adopted in an area previously rating on Capital Value it usually results in increased rates on land improved below average and decreased rates on lands improved above average. The change therefore tends to inhibit poor land use and encourage good land use and at the same time it tends to restrain land price by making it less attractive as a mere investment. It helps the land user and hinders the land investor.

There are still 31 counties rating on Capital Values in New Zealand. Making Land Value rating mandatory in counties would be a useful, if minor and local, force in the right direction.

2. A national Land Tax on rural land might be levied which was completely deductible from any Income Tax payable. The "tax loss" farmer, the hobby farmer and the mere land investor would feel the full weight of the tax. The holder of valuable farm land being used at only a fraction of its potential would also be stimulated into activity by such an impost.

Many hard working and hard pressed farmers today, ploughing back their earnings into land development, pay little or no income tax. Such farmers should be able to claim exemption from that part of the Land Tax which exceeds their income tax.

Farm valuations

Here I must digress to make some comment on land valuation for land tax and rating purposes. Our present

valuation practice is by no means above criticism on two main counts. First with five yearly valuations all at different times, values in all counties cannot be in harmony and the incidence of a national tax cannot therefore be the same throughout as equity requires. Secondly for the purpose of taxation of the kind proposed the dominant factor must not be strictly market price, which is subject to many influences, so much as potential productivity. This need for valuations all to be made at the same date and focused on productivity invites the adoption of new methods of valuation. In my view we should adopt the methods used in Denmark.

In that country, where there is a considerable degree of land value taxation, the whole country is valued — both urban and rural — all in one year. Most of the valuation is done by local people, who are not valuers, working under the guidance of valuation officers of a Valuing Authority like our Valuation Department. Farms are largely valued by local farmers. The procedures have now been operating unchanged for at least fifty years and are totally democratic and efficient for their purpose. In the case of the land tax here proposed I think the Danish system would be more appropriate than our traditional procedures.

Estate duties

Estate duties could be a useful tool in facilitating a change of tenure from freehold to leasehold. The executors of a farming estate instead of having to sell all or part of a property to pay estate duties might elect to sell the land only (and not the improvements thereon) to the leasing authority and take a fifty year lease containing clauses giving priority to a member of the family when at the end of fifty years the lease expired and a new one was to be issued. The sum paid by the leasing authority for the land may pay a part, or whole, or more than the whole, of the estate duty due. When the new proprietor died his successor would pay estate duties only on the value of improvements. The identification of the family with the land would be preserved if selling up were in this way avoided.

There is one further factor which might be mentioned which may facilitate the changeover of some farms from freehold to leasehold land tenure and it is this.

There are probably many young farmers struggling with a very heavy load of mortgage payments who would be pleased

to change their tenure from freehold to a fifty year lease at a rent which would be indexed against the ups and downs of overseas prices. A package deal designed to be attractive to farmers in this situation would represent an enormous advance on such things as the Mortgagees Relief Act of the last great depression which may yet come up for serious consideration in the 1980's.

The immediate future

This comment leaves me to consider what the national response should be if indeed the nineteen eighties prove to be economically disastrous years such as those of the eighteen eighties and the nineteen thirties.

If such should prove to be the case I am forced to the opinion that the disaster will be on a much greater scale than in the periods I have named. A comparison of the circumstances between these previous periods and now will explain why I am of this opinion.

In 1880. The population was about 500,000. There was very little overseas export save in wool, tallow, timber and gold.

The lavish expenditure of borrowed money rather than falling world prices precipitated the crash. Most farms were family sustaining rather than trading enterprises. Large farmers were economically strong. Small farmers were mainly original settlers and were inured to hardship. The distress caused by the depression was largely in the towns among would-be settlers locked out by land monopoly.

In 1930. The population was 1.4 million which was 40 per cent rural and 60 per cent urban. Overseas trade was our national business. Sustenance farming had largely given way to commercial farming. Land values were very high due to a post war boom plus the lavish expenditure of borrowed money in the land market. When overseas prices fell widespread bankruptcy came on the farming industry which supported the superstructure.

In 1980. The population is 3.2 million and is 17 per cent rural and 73 per cent urban. Farming is now totally commercial business and totally dependent on world prices for its products. It supports an enormously increased superstructure. Our national economy was never before so vulnerable. A long period of falling prices for our products must bring very grave consequences.

Inflation has diminished debt-servicing costs somewhat but it has increased all other farm costs already swollen by the policies of protectionism in other sectors. The very measures designed to support the industry in the long run add to farm costs. Only a strong and sustained upturn in world prices can remedy the situation as I see it.

In 1930 the largest item in farm cost was the payment of interest and principal on mortgage. An attempt was made to keep farmers on the farms by arbitrarily slashing these payments under the Mortgage Relief Act and related legislation. Nevertheless thousands of farmers walked off their farms and joined the army of unemployed.

In my view every effort should be made to prevent such a calamity again occurring. Debt servicing is still a very important cost and one way to reduce the debt load and keep a farmer solvent would be for the State to take over that part of the mortgage represented by land price, cancel it and convert the farm into a Crown tenancy with much reduced annual land cost.

The leasing authority.

But I digress from the main theme of this lecture which is to indicate what means may be employed to convert farm tenure from freehold to leasehold. I have said in my opening remarks that it might well be supplied by the Lands and Survey Department within the legal framework of the Land Act 1948.

The Lands and Survey Department is the land administration agency of the Government. The departmental head is the Director-General of Lands. The country is divided into twelve Land Districts each headed by a Commissioner of Crown Lands under his control.

The administration of all Crown lands and the purchase and development of land is done by the Land Settlement Board. The Board, whose chairman is the Minister of Lands and whose deputy chairman is the Director-General, has on it representatives of appropriate Government departments and not more than four other persons appointed by the Minister. The Board appoints one or more Land Settlement Committees in each of the twelve Land Districts. There are at the moment twenty of these. Each such committee has three members; the local commissioner who is chairman and two private farmer members.

This organisation has been buying, selling, leasing and developing land for over a century and with some modification can undertake the task of changing the land tenure of New Zealand once the Land Act has been appropriately amended.

In these lectures I am advocating that the (a) purchase of existing farms, the selling of improvements and the conversion of tenure from freehold to leasehold should be done on a large scale; (b) that large farms purchased should be divided into family farms; (c) that, with due regard for the environment, unproductive lands should be developed for farming, by clearing, drainage or irrigation.

The Land Settlement Board has two main functions:

- (a) buying, selling, leasing and administering land, and
- (b) development of unproductive land.

Under the administration I envisage these two functions would, because of the great increase in the scale of their operations, require two bodies. The development function could well be taken over by the Ministry of Works and the land purchasing, leasing and administration remain with the Lands Department.

The Land Settlement Board's name is traditional but does not match the function and scale here proposed. It would be more suitably named the National Land Commission. Similarly the Land Settlement Committees might be named District Land Commissions.

More than a name change, however, would be needed. The Land Settlement Board should, I think, be enlarged. The members of the present board are seven very senior public servants from departments directly concerned and "not more than four other persons appointed by the Minister". The number should be increased to at least six "other persons" and the appointments should be made from persons nominated by such bodies as Federated Farmers, the New Zealand Law Society, the Counties Association and the Valuers' Institute.

The major adaptation, however, necessary to fit this organisation for its task is in regard to the Land Settlement Committees which I suggest should be named District Land Commissions. These Commissions will be the local agents of the Crown — the ultimate leasing authority. They may have to be increased in number. At present these committees are too small and do not have elected members, I am sure you will agree that any body dealing with matters which so closely affect the daily

lives of citizens must be very close to the people whom they serve. The majority of members must be elected persons and administration must be as far as possible decentralised, local and democratic.

Very soon there will be two Regional Councils and about twenty United Councils established as major elective local authorities covering the whole country. If these bodies were to elect or appoint five of their members to each District Land Commission it would be one way of modifying the present administration. Special representation by ratepayers' or farmers' organisations may be justified. Whatever pattern is adopted the principle of local and democratic participation is essential. This is a case where local administration is good administration. Local decisions must carry great weight and general policy must be the main concern of central authority.

In such a fundamental matter as land tenure any change will demand the modification of many procedures, regulations, rules and Parliamentary Acts. I have no intention even to attempt to discuss them but one especially demands notice.

All land at present in the ownership of public authorities of any kind must so remain and all such bodies should be deprived by law of authority to alienate any land except to the Crown.

All such lands may well in due time be handed over to the National or District Land Commission which in turn must provide any lands required by any public authority or corporation without cost.

The ultimate object of a Crown leasehold land tenure system should be that there will be only one leasing authority in the entire country for all lands whether publicly or privately controlled.

Finance

There is one difficulty which may have occurred to you about the proposed large-scale purchase of land at market price. That is that spending of so much money is in fact monetising land values and this must have a marked inflationary effect. To avoid this result it is clear that either locally borrowed money or taxation money or inflation protected bonds must be used to pay the land price.

My own view is that the money will have to come from all three sources, and some tax money must be diverted from

other areas.

The most obvious extravagance in public expenditure today is on Universal Superannuation which at present is very strictly tapu but it cannot long so remain. The application of an income limit immediately and raising the future qualifying age will release enough money to set the transition in progress. A vigorous land development programme could be financed in part at least out of the savings in unemployment payments consequent on the jobs created by such a programme. The financing of land development could well be supplemented by a reduction in subsidies to those well established farmers who can carry on successfully without them.

I believe

I am going to end this lecture with a succinct statement of some of the fruits of the philosophy which have found expression in these lectures and to restate some of the more salient points.

You will have noticed that I have avoided the use of the term land nationalisation because this is the language of socialism and that honorable name has been degraded by its association with Marxist communism. I am a traditionalist and have taken every opportunity to emphasise that the reform which I advocate harmonises completely with our ancient cultural tradition.

I believe in a free enterprise economy but I do not believe such an economy can function efficiently or produce a just society while we allow resources provided by nature to be bought and sold like chattels.

I believe in private property but to make this statement meaningful I must first answer the question: "Private property in what?" Not many years ago men and women were bought and sold over a large part of the civilised world. When Wilberforce and his colleagues sought to abolish slavery there were those who said that he was striking a blow at private property and the very foundations of the state. Some would say the same when I deny absolutely the equity of private property in natural resources. The right of private property in things produced by human labour is as total as any property rights can be but rights in land ownership are of a different order. The right of the individual to secure, exclusive occupancy and use of land is as far as these rights can go without producing gross

social distortions and injustice. The Crown leasehold system of land tenure, strengthened by every guarantee which society can give, meets all the needs both of the citizen and the state.

I believe land rents, which I propose should be paid to society to meet social needs, are not generated by human labour but by the presence and co-operative activities of society as a whole and they should be paid to society. The state would then have less need to appropriate the earnings of labour by taxation.

I believe that every citizen who needs a piece of New Zealand land for farm or home should be able to get it without purchase price and as of right, provided the land is available and he accepts the terms which society believes it is necessary to lay down. Citizens who cannot or do not participate in land occupancy can participate in the benefits provided by the rents paid to society.

I believe freehold land today has two uses. One is good and one is bad. It can be used for occupancy and production and it can be used as an instrument for appropriating the earnings of another's labour. A Crown leasehold can be used only for occupancy and production. It cannot be used as an instrument of exploitation.

Unfinished business

The golden age of social advance in New Zealand was from 1890-1900 but its liberating work was not completed. There is still much unfinished business to be done and New Zealand cannot advance further until it is done. "Vast energy resources" a decade ahead may lighten the ever growing burden of debt in twenty years but our problems of production must be solved here and now. Social tensions, arising basically from freehold land tenure, are destroying the fabric of our social life now and the remedy must be found and must be applied now, even if it involves a period of "sweat and tears". I believe that given bold leadership New Zealand will respond. I believe that if in this great endeavour we fail to achieve success not only will our society cease to be free but the English tongue will cease to be spoken here.