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SOME EXPERIMENTS AND THEIR LESSONS

PRACTICAL men rely with more assurance on the results of experience than on any untried theory. The taxation of land values has been adopted to a sufficient extent in different parts of the world to make clear its effects on various interests. So long ago as 1877 a beginning was made in Australia. The Victorian Legislature imposed a tax of $1\frac{1}{4}$ per cent. on the capital value of land in that year. The object was to break up large estates, and the Bill was only passed after a keen struggle. In the following year a similar tax was introduced in New Zealand, but in 1879 Sir George Grey's Government was defeated, largely on this issue, and the tax was repealed.

Since 1891 more consistent progress has been made in the reform. The Governments of New Zealand, Victoria, South Australia, and Western Australia, and, last of all, the Commonwealth Government, now levy national or State taxes on land values. In British Columbia the provincial Government has also adopted this system. The effect of the tax has varied, not only with its

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amount, but with the valuation or assessment on which it is based. In the earlier stages this was very imperfect.

For rates or local taxation the principle has been applied to a large extent in New Zealand, to the whole of New South Wales except Sydney, to the whole of Queensland, to the leading cities of Alberta and British Columbia, including Edmonton and Vancouver, and to Kiao-chau, the German colony in China. By raising the whole of their rates from land values these Colonies have gone far ahead of the Mother Countries. To some of those who watched the experiments the results came as a surprise. In Wellington, New Zealand, the rates on improvements were repealed in 1901, and a rate on land values alone was substituted. The general expectation was that such a sweeping measure would certainly reduce the value of land, particularly in the centre of the city. Three or four years afterwards reports to the contrary effect came home.

The most thorough experiment of which we have an official account is that of Queensland. About 1890 the finances of the State were causing grave concern. The subsidies granted by the Government to local authorities had grown to £276,000 under the old system of rating. In that year, Sir Samuel Griffith's Government introduced a Valuation and Rating Bill. It was amended in its progress through the Legislative Assembly, or Lower House, to exclude improve-

ments entirely from the burden of rates. This move called forth the various kinds of opposition which have been offered to similar measures in different countries. The Legislative Council, or Upper House, at first refused to entertain the principle, and a serious dispute arose between the two Houses. The Premier, however, stood firm, and the Bill was ultimately passed.

An account of its passage and effects is given in a White Paper.¹ "The usual forebodings of disaster were not wanting," but none of them have been fulfilled. The new system only got into full operation about 1894-5, but by that time the Government subsidies to local bodies had been reduced to £63,000, and since 1903 they have been entirely discontinued. This should be of interest to our legislators at the moment, when they are seeking a method of dealing with the relation of local and national taxation. The rating of land values enabled the Queensland Government to solve this problem to the satisfaction of all interests.

According to the official report, this "promotion-of-improvements principle . . . has worked in operation with fewer difficulties than its most sanguine supporters could have anticipated." It will be remembered that the Australian financial crisis occurred in 1893. With reference to this fact, it is stated that "the absence of any tax

¹ *Working of Taxation on the Unimproved Value of Land in Queensland*. Cd. 3890, 1908.

upon improvements considerably relieved the tension imposed upon the holders of improved properties during the depression, and also encouraged building operations being undertaken at an earlier period and to an extent that would not otherwise have happened." Architects, builders, estate agents, and men in similar professions have found the system of advantage to their business. When the question of new buildings was under consideration, they were able "to point out the peculiarity of the Queensland system in exempting the improvements from taxation, this fact counting as an encouragement to the expenditure of money to render unimproved land revenue producing."

Reports from New Zealand, where the system of rating land values has been adopted in a large number of towns and rural districts, are to the same effect. No complete or official account has come from New South Wales, in which Colony the principle was applied in all local districts except Sydney in the year 1906. But numerous reports from private sources show that every class is satisfied with this change in the basis of rating from the value of land and improvements together to the value of land alone.

The Commonwealth tax, which came into force in 1911, ranges from 20 per cent. on the value of smaller estates to 70 per cent. on the value of estates owned by absentees. So far from having ruined landowners, it has increased

their incomes, and made the next step not only possible but necessary in the near future. Progress would have been much slower if the anticipations of its advocates and opponents had been fulfilled, if landowners, crippled financially, could appeal from their misfortunes for delay in the infliction of the next blow. As it is, some politicians are already "anxious to make the higher rate effective over a larger proportion of the value,"¹ and this cannot be long delayed.

The recurring order of events in Australia and New Zealand in this connection is curious. A proposal to tax land values is made, and immediately there is a protest from some landlords and land agents. This protest is continued while the measure is passing through the Legislature, and for as long time after as is necessary to bury falsified hopes or fears. Then these same people settle down to enjoy the benefits of the general prosperity largely due to the innovation which they condemned. The most remarkable feature of the situation is that the perpetual grumble which goes on against this beneficent policy is quite inconsistent with the experience of the discontented persons. Their objections or fears spring from a melancholy prospect which is never realized.

Similar demonstrations have attended the introduction of this principle in Great Britain, and to a less extent in Germany. In Western

¹ *Times*, February 28, 1912.

Canada, however, its adoption seems to have easily followed the perception that, in the matter of local taxation, this was far the best business arrangement. Mr. William Short, ex-Mayor of Edmonton,¹ says that in his city the change to the new system was

“ a prosaic matter of business,” that it “ has been an unqualified success, and it is with pleasure that we speak of it. . . . All taxes on business are imposts that should be done away with, and the keener students of municipal affairs here are advocating that now. . . . I can with good grace say in conclusion that no community that will levy its taxes upon land values alone, irrespective of buildings or improvements, will ever regret the change, if it be made with care.”

The Premier of Alberta has now introduced a Bill to make the Single Tax compulsory for local purposes over the whole province within the next seven years.

Further West, in Vancouver and other cities of British Columbia, all rates on improvements have been repealed. In Vancouver the whole local revenue is raised by a rate of 2 per cent. on the capital value of land, equivalent to 4s. in the pound on the annual value. Experience has taught even the large landowners that this policy is favourable to their interests, and on this ground none of them would revert to the old system. The value of land has increased in spite of the direct rate levied on it.

¹ *Single Tax Review* (New York), September–October, 1911.

These Colonial experiments have been thorough enough to furnish tests of theories which have been widely held. It was generally assumed that a direct tax on what is called land value would diminish this value. This has never happened. Those who held this view overlooked the effect of remitting the existing indirect taxes on land value. The remission of the latter has always been the cause of an increase greater than the reduction due to the imposition of the former.

Another economic theory which has long determined economic practice is being rapidly undermined. It was thought that landowners reaped financial benefit by holding up land for a higher price in the future, and that they would lose by the tax which induced them to permit development at the real or current value. Owners now find that this is a mistake, and that it is much more profitable to let development proceed, and to move on with it. "Speculative holders of real estate, who have been content to wait for a rise in value, find now that it does not pay to leave such property unproductive."¹

A common view has been that the mitigation of poverty, or an increase of wages, necessarily involved a reduction of economic rent or land value. The taxation of land values appealed to those who held this view, because they thought

¹ *Canada*, May 27, 1911.

it would bring about this reduction from its first imposition. Some of them resent the testimony of facts or experience, and attribute the increase in land values in the Colonies solely to immigration, railway development and other movements, and not at all to the change in the system of taxation. The effect of such a change, they argue, is all in the direction of reducing land values. This view is contrary to official and unofficial reports. In these it is claimed or admitted that the new system by its influence on immigration, by its encouragement of the expenditure of capital and labour, is the most fundamental cause of the increase in land values. With any other system of taxation these activities would be less vigorous, and consequently land values would be lower.

The change from the taxation of improvements to the taxation of land values increases the value of land, if population remains stationary, or even if it declines ; for, apart from the variation of their numbers, it increases the producing power of the people, and this is the fundamental cause of land value.

So far as experience has gone, landowners have not suffered financially under measures of this reform. Opponents of the taxation of land values object that Colonial experience does not assist us in discussing conditions in Great Britain. It is one thing, we are told, to apply such a principle in a new country, and another thing to

apply it in a country where interests have taken deep root and spread themselves wide. But there is no difference. The interests must be separated and defined in either case. It may involve more work, but this can be done with as much accuracy in an old and densely populated country as in a new and almost empty continent. Through a careful valuation, this principle may enter into the complex economic systems of Great Britain, France and Germany as easily and gently, and with as general approval, as it has entered into the simpler systems of Australia and Western Canada.