

Chapter 15

Land value taxation in action

*His form and cause conjoined, preaching to stones
would make them capable.*
Shakespeare.

WE saw in Ch.12 that Tolstoy had made an attempt in 1902, via the Grand Duke Nikolay Mikhaylovich, to interest the Tsar Nicholas II in the idea of land reform, and that entries in his personal diary for the 20th and 28th August 1909 show him talking to members of the Duma on the same subject. All three efforts, and possibly others unrecorded, ended in failure, for one excellent reason. Nation/States were then all ruled in the interests of people whose wealth had been consolidated or created as a consequence of extensive unconditional landownership. They were therefore resistant to any change calculated to secure a radical and permanent redistribution of wealth away from them.

Much the same thing was happening in England,¹ where the Liberal Party came into office in 1906 largely because their programme included land value taxation. The popular feeling in favour of it may be judged from the fact that no fewer than 173 M.P.s signed a petition late in May 1911 demanding immediate action. These men were, of course, thinking about their constituencies and the next election; but the Cabinet had also to think about the influential people who provided a substantial proportion of the party funds. Being above all adroit politicians, they managed to say enough in public about the iniquity of landlordism to hold the land value taxers in check, while at the same time satisfying the landowners with their masterly inactivity. Here is the Prime Minister himself, H.H. Asquith, at the head of an administration with a clear mandate to tax

land values, talking on the subject at Ladybank on the 5th October 1912:

'The government ... will not embrace what is called the policy of the single tax, which to my knowledge has not a single supporter in the present Cabinet, which ... is consistent neither with justice nor with expediency'.²

There is no need to be surprised: such equivocation is part of the common currency of what is known as statesmanship. As a result of this particular specimen, and of obstruction in the House of Lords, only watered-down measures had reached the Statute Book by 1914, when the war broke out. Nothing more was then done; and even what legislation had been achieved was repealed in 1922; and payments were refunded. The background to the affair has been spelt out as follows:

... Seventy per cent of the entire adult population was excluded from the polls. The numbers returned by this restricted suffrage were a social as well as a political élite. In the House of Commons of 1906, 81 per cent of Conservatives and 73 per cent of Liberals had as their major economic interest landowning or commerce and industry. Of Liberals 33 per cent, of Conservatives 51 per cent had attended a public school; 36 per cent of both parties had been educated at Oxford or Cambridge. Two per cent of Liberals and no Conservatives were trade unionists. The socio-economic background of the Cabinet, and of under secretaries of state, was even more exclusive than that of M.P.s.³

One must record with regret the failure of this attempt to establish a Georgist experiment nationally in a country whose world-wide influence was still strong, and whose example might have been followed. In other places, however, particularly those where English-speaking colonists were recovering, or had already recovered, from the dead hand of land and capital monopoly in the mother country, and had not yet completely succumbed to the home-grown variety of it, limited experiments have been carried out, in the fields of local and national

taxation and the financing of special undertakings. The results have naturally not been such as to fulfil all Henry George's expectations; but they nevertheless encourage confidence that his is the right way towards ultimate economic justice.

In New Zealand, for example, it had become obvious to the settlers, even before Henry George wrote *Progress and poverty*, that the installation of public amenities, paid for out of the rates, increased the value of vacant sites just as much as it did those of sites that had been built on. It seemed to them, therefore, entirely rational that the rates should be based on the value of the land alone. A visit by Henry George in 1890 merely confirmed their views.

The central authorities thought otherwise, with the result that, when practice was consolidated nationally by a law of 1896, the system of rating prescribed was based on the combined value of land and buildings. Despite this, the feeling in favour of land value rating was so strong that an escape clause had to be inserted. If 15 per cent of the ratepayers asked for it, a poll or referendum could be held, as a result of which a simple majority deciding in favour of it could effect the change. By 1988, 81 per cent of the local authorities were using land value rating.

The effect that it could have on the development of a city is aptly illustrated by the contrast between Auckland, where rating has always been carried out on the basis of a putative annual rental value of both buildings and land, as it was in Britain until 1990, and Wellington, where a change to land value rating was made in 1902. In 1986,⁴ for every \$100 worth of land in Auckland, there was \$144 worth of buildings; but, in Wellington, there was \$240 worth! Whereas Auckland is a picture of dereliction, Wellington was self-renewing, that is, redundant buildings would be removed immediately to make room for something more useful. It does not require much imagination to see that the effects of this would be felt beyond the building trade. Where there is an annual charge on the value of a site, buildings will not be put up unless they are going to be used, which implies more employment of other kinds. And the nearer the approach that is made to full employment, the more will wages approximate to the full value

created by labour; as Henry George discovered in San Francisco at the time of the Frazer River gold rush.

Since 1986, the central authorities of New Zealand have been working on behalf of those occupiers of inner city sites who find land value rating little to their taste. The poll was abolished as from the 1st April 1988; and the choice between rating on land and buildings or on land alone was vested unconditionally in local councils. Wellington City Council was the first to change back. The way is now open, and is being used, for property owners going out of business to remove the roofs from their buildings, and to continue to pay tax on the land alone, but at the lower rate appropriate to land and buildings. They hope eventually to sell the land at a profit that will more than compensate for the tax they have paid in the meantime.

Dr Steven Cord, late of the University of Indiana, U.S.A., and a tireless advocate of land value rating in the cities of Pennsylvania, has made a useful compendium of evidence, comparable to that regarding Auckland and Wellington, that 'shifting the property tax off buildings onto land values has ... been followed by new construction'.⁵ He drew his material from records of local revenue raising in Pennsylvania, Australia and the Republic of South Africa.

An outstanding example is that of Pittsburgh (Pa). The City Council there still taxes buildings as well as land, but has been taxing land at a higher rate in the dollar since 1913. Between 1925 and 1979, the rate on land was always at least double that on buildings; but then it was increased to nearly four times. By 1987, after repeated changes, it stood at 5.6 times. If the four years (1974-78) before the major change are compared with the four years after (1980-84), we learn that the value of building permits issued increased in Pittsburgh by a factor of 5.9, but in the United States as a whole by only 1.6.

Another body of researchers has compared the average sale prices of new and existing homes in twenty-four American cities. The figures were obtained from the Federal Home Loan Bank Board in January 1988, and range from \$229,300 in Boston to \$51,300 in Pittsburgh. The explanation is simple. Where there is a sufficiently high tax on the value of land, sellers

are eager to sell and buyers have more choice. As a result there are relatively lower land prices and correspondingly lower ones for houses. The final effect is visible. This is what our authors have to say about the general housing situation in the United States:

New waves of homeless people are appearing daily. Soaring rents and housing prices are pushing even many of the working poor and families with children into the ranks of the homeless.⁶

Even in Pittsburgh, there were until recently publicly financed shelters for the homeless. In the *Washington Post* for the 4th April 1990, however, it was reported that 'shelters in Pittsburgh are being closed', because it is 'rare to see someone sleeping on downtown streets'. The inhabitants of Pittsburgh have been enabled by the two-rate property tax to catch up on their shortfall of adequate places to live.

Spurts in building construction have followed a local tax shift to land values in other Pennsylvanian cities besides Pittsburgh. McKeesport, for example, adopted the two-rate tax in 1980, whereas comparable Duquesne and Clairton did not. During the next two years, the value of building permits issued in McKeesport increased by 38 per cent over that for the preceding two; but there were falls in Duquesne and Clairton of 20 and 28 per cent respectively. History repeated itself two years later in New Castle, where a gain of 70 per cent was recorded for the years 1982-85, as against losses of 66 and 90 per cent in Farrell and Sharon. Similarly, two-rate Scranton out-performed the neighbouring city of Wilkes-Barre. Encouraged by these examples, more and more Pennsylvanian cities are adopting the two-rate tax – fifteen at the time of writing (1991); and some are even contemplating a local tax on land value alone.

Similarly favourable results have followed in Australia from the introduction of a local property tax based on land value alone, to replace one on both land and buildings. In the rural shire of Buninyong, to name one example, the change was introduced in April 1972 on the initiative of the local taxpayers, most of whom were farmers and cattlemen. From then until

1978, the value represented by the annual issue of building permits increased from \$1,897 to \$7,087, the first figure covering three months of taxed and nine months of un-taxed buildings. During the previous three years, the value had been falling from \$415 to \$393.

In the Republic of South Africa, a survey of the 125 biggest towns shows a movement away from a flat-rate tax on both land and buildings to a two-rate tax in the style of Pennsylvania, and from that to a pure land value tax. Towns in the first category, from 1959 to 1979, increased their total building assessments by 486 per cent, in the second by 561 per cent, but in the third by 850 per cent. Those moving during the period from category one to category two recorded an increase of 748 per cent; but those moving from two to three did best of all with a staggering increase of 996 per cent.

One of the men mainly responsible for introducing land value rating into South Africa was the late Hon. Frank A.W. Lucas, Q.C. He recalled that, when he was a student at Cape Town, the Professor of English told the class that, although their essays were not bad, they showed no signs of original thought. He then suggested that it would stimulate their thinking if they were to read Henry George's *Progress and Poverty*. Lucas did not actually do so until about nine years later; but, when he did, he was struck, as Tolstoy had been, with the potential of the land value tax for solving our political, social and economic problems. Elected in 1914 to the Transvaal Provincial Council, he introduced and had passed, as leader of the Labour majority, an ordinance giving local authorities power to rate site values only, and to exempt all buildings. When the system was well established, he expressed the opinion that it would take a dictator to change it. It is ironic that, in a country where a beneficent land reform is steadily gaining support in the urban areas, there should still be strife over land-ownership in the open country, where the bitterness occasioned by old wars is still as alive as ever. Perhaps the example of the cities will in time point the way to a sane solution of the whole land problem.

Denmark is another country where the ideas of Henry

George have had some influence, particularly in the matter of free trade.⁷ During the years 1875 to 1895, the falling price of grain was alleged to be the cause of the devastation of British agriculture; but, in Denmark, the peasantry, determined to take advantage of this very fall, resisted all attempts to impose import duties, and used cheap grain from America as raw material for the production of milk, butter, cheese, bacon and eggs. They made this same ruinous period one of great prosperity for them. The idea of land value taxation has had, and still has, a place in the political life of the Danes; but, although they have established an exemplary system of land valuation, the rate of tax actually levied has been far too small to have any significant effect.

Much more dramatic have been the results of land value taxation related to a specific type of expenditure in California, where the state legislature determined, in 1887, to create Irrigation Districts, so financed, for the purpose of retaining and distributing water during the rainless summer months. The result was the replacement of large, semi-desert areas, exploited only by the cattle barons, with small holdings of which the typical size is about 30 acres. No further state action was necessary.

So far we have considered only applications of Henry George's theory within the existing social framework; but there is never a lack of persons who, when they learn of a new theory, immediately think in terms of forming a miniature community based on it, and cut off as far as possible from society at large. Tolstoy's earlier ideas of self-sufficiency and abolition of all individual property rights were particularly tempting to such people, who set up numerous 'Tolstoyan' colonies, including two English ones at Croydon and Purleigh. Information available up to the beginning of Mikhail Gorbachev's policy of *glasnost* or 'openness' suggested that they all failed, mainly because their members discovered that personal property is very hard to forego. To do Tolstoy justice, he never recommended any such organisations. For example, we are told that, in July 1896, he wrote as follows to a certain John Kenworthy concerning the projected colony at Purleigh:

... I think that a great deal of the evil of the world is due to our wishing to see the realisation of what we are striving at *but are not yet ready for*, and our being therefore satisfied with the semblance of that which should be We are so created that we cannot become perfect either one by one or in groups, but (from the very nature of the case) only all together.⁸

The latest information (1991) suggests that Tolstoyan pragmatists are still, despite the unfortunate record, attempting to set up such groups.

Georgist colonies are fewer in number, and make no demands on their members in the way of unusual life-style. Typical examples in the U.S.A. are the Fairhope Single Tax Corporation,⁹ founded in 1894, and the three Ardens,¹⁰ namely Arden, Ardentown and Ardencroft, founded in 1900, 1922 and 1950 respectively. Roughly speaking, the arrangement is that the corporate bodies own the land, and the tenants' rent goes to pay outside taxes that they would otherwise owe. Such organisations are not, and cannot be regarded as, critical experiments in Georgist theory; for no before-and-after statistics can be produced, nor can meaningful comparisons be made with neighbouring, non-Georgist, communities. Nevertheless, they make no intrusions on the private lives of their inhabitants, and have pleased them all except a minority who wish to convert their leaseholds to freeholds, with a view to future windfall gains in land value. Attempts by such people to dispute the legality of the bodies' constitutions have failed; and the bodies themselves all continue in existence. This in itself is something for them to be proud of.