Land Tenure and Land Monopoly in New Zealand: II

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LAND TENURE AND LAND MONOPOLY IN NEW ZEALAND. II

In Part I of this article an account has been given of the forms of land tenure, and of the growth of land monopoly in New Zealand. A solution of the monopoly problem has been attempted in a series of legislative enactments, a discussion of which is undertaken in the following sections.

REMEDIES

A. THE LAND FOR SETTLEMENT ACT, 1894

Measures were introduced by Rolleston, Sir George Grey, and Ballance, at various times, having for their object the acquisition and cutting up of large estates for closer settlement. But "The Land for Settlement Act, 1894," which was passed under the guidance of Sir John McKenzie, forms the substantial starting-point of this policy. Under that act, with its amendments, properties are purchased under the advice of a Board of Land Purchase Commissioners. The amount which can be expended annually in such purchases is limited to £500,000. The lands are divided into small farms and leased (formerly for 999 years but now on a lease renewable every 33 years) at a 5 per cent. rental on a capital value fixed at a sufficient rate to cover the total cost of the estate, including survey, roads, etc. Where the price could not be agreed on it was formerly fixed by a Judge of the Supreme Court and two assessors, one chosen by the government and one by the owner. But this system proved highly unsatisfactory; the litigation was protracted and costly, and there was flagrant conflict of opinion between alleged experts as to the value of the land. For example, in the case of the last estate acquired by the government under this system there was a difference of no less than £30,000 between the average valuations of the property by the government and the owner—the average of the government valuation being £100,000 and of the owners £130,000. To overcome these difficulties it was enacted in 1907 that the compensation payable to the dispossessed owner

should be the unimproved value of the land as appearing in the government valuation roll plus 10 per cent. where the value does not exceed £50,000, and an additional 5 per cent. on the value in excess of that amount. The amount payable for improvements is still valued by the Compensation Court and a further 2 per cent. on the total compensation is added for the compulsory taking.

Naturally this new system of compensation disgusts the large landowner and vastly amuses the proletariat. For the "wool king" is placed on the horns of as pretty a dilemma as ever was constructed. If he seeks to have his property valued at a low figure he reduces the amount of his land tax but increases the risk of its being purchased by the state for closer settlement. If, on the other hand, he increases his valuation (as he may do by law), he avoids the risk of being expropriated by the state but, at the same time, he subjects himself to a high graduated land tax.

The number of properties acquired by the state under the Land for Settlement Act, up to March 31, 1908, was 182. The total area acquired was 1,122,134 acres, and the total cost to the state (including cost of roading, etc.) was £5,217,254. The total revenue for the year was £249,273: 6*s*. 9*d*., and the interest paid on the money borrowed for purchasing these estates were £209,060: 19*s*. 9*d*. The total number of tenants was 4,292.

It has been stated that these lands are leased out: in areas of 640 acres where the land is what is called first-class land; of 2,000 acres where the land is second-class. The properties have all been purchased by the state with money borrowed from abroad. The interest on these loans must be remitted to the foreign bondholder, and the only surplus which accrues to the state is the difference between the rents received from the tenants and the interest paid away on the loans. This difference amounted in the period from 1894 to 1908 to £317, 400.

It is here that the main defect in the policy of the act occurred. Had the lands been leased under a system which allowed of a reappraisement of the rents at stated intervals the state might have thus secured the increasing value of these

lands; or had the tenants been allowed to purchase these lands in limited areas the state could have devoted the proceeds to the purchase of further estates for closer settlement and thus avoided the necessity of fresh foreign loans each year for further purchases. But neither of these courses was adopted. The lands were leased at a fixed rental of 5 per cent. for 999 years; and the evils of this tenure have been already pointed out. It was a tenure which combined all the evils of the freehold with all the evils of the leasehold.

In 1907 the 999 years' lease was abolished for the future. Its place was taken by "the renewable lease" which, in the case of what are called "land-for-settlement lands," involves a re-appraisement of rent every 33 years. This is a vast improvement on the former tenure, but it does not lessen the need for continual recourse to the foreign money market for further loans.

But the difficulties in the way of continuing the policy of purchasing large estates are increasing year by year. There has been during recent years a marked rise in land values due partly to high prices for staple products such as wool, mutton, etc., partly to the large loan expenditure on railways and public works, and partly to the state entering the market as a large buyer of land. The result has been a boom in land values. Every year it becomes more difficult for the state to buy land at a price which will allow of subdivision and leasing at rentals which tenants can afford to pay. It is becoming obvious that the state cannot go on indefinitely investing millions in land and remitting the greater part of the rents abroad by way of interest. It is true that the loans are reproductive. But it has already been demonstrated in New Zealand that a large state tenantry is a political force; and just as they have clamored for the freehold so in times of depression they may clamor for a reduction of their rents and thus imperil the financial stability of the Dominion. Speaking in 1907 the present Prime Minister said:

> I would like to ask how many honorable members are prepared to continue obtaining loans year after year in order to carry on the lands for settlement on the present system? There is not a member of the House who, realizing his responsibilities, will contradict me when I affirm that

it would be impossible for the Colony to go on borrowing and spending £750,000 a year by the issue of debentures in order to acquire fresh lands for settlement. . . . . The position is an impossible one.

In the same year the Attorney-General admitted that the state had to pay too much for a great part of the land taken. "When depression came, as come it must some day, he supposed, either the crown tenant would have to pay more rent or else he must go and ask the state to take the burden from him."

How the tenant was to pay more rent in times of depression the Attorney-General did not explain. And the only conclusion is that the loss would fall on the state.

Summing up the results of the land-for-settlement policy it may be said that while it has placed many settlers on the land it has done so at too great a cost and at too great a risk to the community. The system must in time break of its own weight.

No doubt it is for these reasons that the state has recently turned its attention to another method of inducing subdivision of which we will now give a short account.

B. GRADUATED LAND TAX

It seems likely that the graduated land tax will be increasingly resorted to as a more rapid and less costly means of bringing about closer settlement. Before 1907 the scale of taxation in force had no appreciable effect in this direction. Such effects as it had were largely negatived by family subdivisions and other methods of evasion. The ingenuity displayed in avoiding the tax was worthy of the best traditions of the legal profession. The present Minister for Lands in a recent speech gave an interesting example. A man with £50,000 worth of land would subdivide it into five parts and make a bogus sale of four parts to four of his shepherds for £10,000 a piece. The supposed buyer paid £5 on account of the purchase money and gave the owner a mortgage for £9,995. When the officer who purchases land for closer settlement called, he was referred to the four shepherds as owners. The individual areas were useless for subdivision after the individual shepherds had retained the areas which by law they were entitled to retain on purchase by the

state. And so the real owner escaped from the operation of the Land for Settlement Act. Then the taxation officer arrived to ask for the graduated land tax. He also was referred to the shepherd who replied, "Yes, the land belongs to me, but before paying graduated land tax I deduct the mortgage of £9,995, and therefore I have no graduated tax to pay." The shepherd, of course, could not pay the interest on the mortgage, so what did he do? He leased the property to the mortgagee, and the rent was fixed at the same amount as the interest on the mortgage. Furthermore, the mortgage moneys became due on demand and the real owner could at any time resume possession as the obliging shepherd could not pay up. Meantime the owner's sheep grazed all over the property, and everyone was happy except the tax gatherer.

The Attorney-General, speaking in 1907, explained no less than eight different devices for evading the tax. It was known that the state lost £19,000 in two years by these expedients. What the real loss was cannot even be guessed. The chief means of evasion were bogus partnerships, one-man companies, collusive sales and leases, declarations of trust, and nominal gifts. A common device, of course, was to cut the property up amongst members of the family but to continue to work it as one estate.

The official figures as to the large estates show a steady decrease in those of 10,000 acres and over.

It is misleading to quote values for purposes of comparison, because land values have risen greatly in the last decade. But the following figures as to acreage are interesting:

Acres	No. of Owners		
	1892	1902	1906
10,000 and under 20,000	148	123	129
20,000 and under 30,000	45	40	40
30,000 and under 40,000	30	21	14
40,000 and under 50,000	9	9	8
50,000 and under 75,000	14	12	8
75,000 and under 100,000	6	6	4
100,000 and under 150,000	4	2	0
150,000 and over	6	3	1
Total holding over 10,000 acres	262	216	204

In considering these figures it must be remembered, however,

that some of these estates have been divided in only a nominal way. The *Official Year Book* for 1908 says:

> It would appear that there has been a reduction in the total held in areas of 10,000 acres and over of 2,797,658 acres during the period 1889–1906. Purchases by government contributed to this result, but only to the extent of about one-third, voluntary subdivision accounting for the balance. The average area held by owners of 10,000 acres and upward shows a steady decrease since 1889 as follows:

Year	Average area held in acres
1889	30,009
1892	29,924
1902	28,312
1906	23,061

To bring about the further subdivision of large estates "The Land and Income Assessment Act, 1907" was passed. It was drawn by a skilful hand and seems likely to open a new chapter in the prevention of land monopoly by closing many of the doors of escape formerly in use. Prior to 1907 the ordinary land tax was 1*d.* in the pound on the unimproved value of the land, subject to an exemption of £500 when the total value did not exceed £1,500, and beyond that a smaller exemption was allowed which ceased when a total value of £2,500 was reached. Above £5,000 a graduated land tax commenced. This tax has been raised on three occasions.

Under the act of 1891 it commenced at ⅛*d.* in the pound and gradually rose until it reached 1¾*d.* in the pound on an unimproved value of £210,000 or more.

The act of 1893, while reducing the ordinary land tax by exempting all improvements, increased the graduated tax in such a way that 2*d.* in the pound was reached as the maximum payable when the value was £210,000 or over.

Ten years later the graduated rates were again increased so as to reach a maximum of 3*d.* in the pound when the value was £210,000. In 1907, however, a heavy increase was made wherever the unimproved value exceeded £40,000. In addition to the existing graduated tax an additional 8 shillings for every £100 over £40,000 was added which increased progressively thousand by thousand by ⅛ of a shilling up to 2 per cent. until an unimproved value of £200,000 was reached. Above this no further

increase occurs. But this is not all. After the lapse of one year the graduated tax is increased by 25 per cent.! At the same time the absentee tax was increased by 50 per cent. and the definition of an absentee made more strict to catch those who were in the habit of paying flying visits to the Colony to evade the tax.

It is too soon to say whether the new scale of taxation will disintegrate the large estates. But it will either do this or largely augment the revenue from land taxation. The following example will show the effect of the new law. Under the old system an estate of the unimproved value of £140,000 might be nominally subdivided among a family of 10 who would then pay graduated tax at $\frac{5}{16}d.$ in the pound which would amount each year to £182: 5*s.* 10*d.* Under the new act the estate would be treated as a single estate and would be liable to 28 shillings per cent. This would yield a yearly contribution of £1,960, as joint owners are assessed jointly and severally and joint occupiers as if they were joint owners.

On an estate worth £200,000 the graduated tax is £2: 10*s.* per cent., and this, with ordinary land tax in addition, would amount to £5,833: 16*s.* 8*d.* If the owner also lived out of New Zealand and came within the definition of an absentee, his total tax on such a property would equal £8,750: 15*s.*

The following table affords comparison between the old and the new rates:

Unimproved Value	Graduated Tax at Old Rate	Graduated Tax at New Rate Increased by 25%
£	£	£
40,000	145	200
50,000	208	313
60,000	281	450
70,000	365	612
80,000	458	800
90,000	562	1,012
100,000	677	1,250
150,000	1,407	2,813
200,000	2,396	5,000

Naturally these large increases in taxation have been hotly assailed by the large landowners. One paper which supported

the new scale of taxation was accused in its own columns by a prominent capitalist of "doing its best to turn a colony of self-reliant, hardworking people into a race of slouching cadgers who in another generation will want to give up work altogether for the congenial pastime of filching the property of those who have anything left to be stolen, if the latter have not already cut the country." But there can be no question that the people as a whole approve of this new attempt to disintegrate large estates. The motive can hardly be said to be that of expropriating the capitalist as a capitalist, for no serious agitation has been made to increase the income tax. The argument for land taxation is that it is limited in area and incapable of extension. The Austrian economist, Dr. Menger, has noted that in England the socialist movement directs its main attack against landed property and concerns itself but little with profits and property in capital. On the other hand German socialists see in movable capital and interest the root of all economic evil. If the people of New Zealand are actuated by socialistic ideas in their principle of graduated land tax, they are so in the same way and for the same reason as in England, namely, for the reason that the chief form of capitalistic monopoly that has been met with has been in the concentration of landed property. They are determined to remedy the evils that have already manifested themselves in this way and to prevent them from arising in the future. Some writers have predicted that the appetite for this method of reform will grow with eating and that the taxation will be increased and the exemptions diminished from time to time. But it is obvious that the lower the limit that is imposed the larger will be the body of landowners whose hostility and whose political influence will have to be reckoned with.

C. LIMITATION OF AREAS

In addition to the methods already described for breaking up existing large estates, the legislature has sought to impose an effective barrier against their acquisition in future by limiting the area which a person may hold. Since "The Land Laws Amendment Act, 1907" was passed it is not legal to acquire

from the crown any land if such land, together with all other land owned or occupied by the applicant under any tenure, would exceed 5,000 acres. For computing the total areas each acre of first-class land is reckoned as 7½ acres, each acre of second-class land as 2½ acres, so that in effect the standard areas recognized are 640 acres of first-class land, 2,000 acres of second-class land, or 5,000 acres of third-class land.

First-class land is land of an unimproved value of £4 an acre or upwards. Second-class land is of less than £4 but not less than £2 per acre. Third-class land is of less than £2 per acre. The result is that land sold by the state after 1907 will not be freely marketable by the owner. He cannot sell to anyone who would thereby acquire more than the area which he is entitled to hold. Very stringent provisions are inserted for enforcing compliance with this law.

CONCLUSION

We have now sketched briefly the two main aspects of the land question in New Zealand—the question of tenure and the question of land monopoly. There are many other questions of native land tenure, of special experiments, such as the village homestead system, and of administration, which are of great interest. But the facts and figures relative to many of these questions are set out in the admirable *Year Book* issued by the government, and the reader must consult it for information on these questions.

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