

TAXATION OF LAND VALUES IN AUSTRALASIA

THE growing interest felt throughout this country in the question of the taxation of land values, as evidenced in the recent debate in the House of Commons, gives importance to the inquiry how far the suggested political experiment has been found to succeed in the countries where it has been tried. The object of this article is to examine the actual effect of the system of land taxation in Australasia, where, except for a few isolated experiments in North America and in Natal, the only serious attempt has as yet been made to adopt the principle as a scheme of practical politics. In old countries, where the land has been appropriated for centuries, and where individual landownership is an integral part of the social system, to confiscate rent would be practically the same thing as to confiscate land; to attack vested interests which have been in existence for centuries, even though the system which gave rise to them may be in itself unjust, is a serious matter: but to prevent land monopoly from growing up in a new country, or to check it in its early stages, is a comparatively simple task, and involves little or no injustice. In Australasia it can be tried under favourable conditions, for there is a vast extent of land not yet occupied, and, though the evils of land monopoly exist, they are of a mushroom growth, and the injustice is more glaring than in old countries.

The cause of the rapid development of land monopoly in Australasia is to be found in the English policy in dealing with the land. The Government aimed consistently at settling a race of small farmers on the soil, but the only system known to English law was that of individual ownership, and it was the creation of individual ownership that made land speculation possible. Until 1831 land was disposed of by free grants, or at a low quitrent—about five per cent. of the value of the land granted, and never over 2d. an acre. These grants were made on condition of residence and improvement, and the settler often had to feed,

clothe, and employ a certain number of convict labourers—an advantage rather than a burden in a country where the great difficulty was to get sufficient labour. In most cases, after a few years, the settler was able to gain the freehold of the soil on very easy terms. By 1831 the Crown had granted away 4,000,000 acres, and had got very little money in return, while the growth of population made a larger revenue necessary. In the middle of the century, experiments were made under Gibbon Wakefield's scheme of colonisation, which aimed at avoiding the waste of public lands and at starting colonies without expense to the home Government. He suggested that land for a new colony should be vested in a company, that the emigrants before leaving England should be formed into some sort of organised group, that grants of land should be sold to them at a minimum price, and the money thus gained be used in defraying the expenses of emigration, in supplying labour, and in public works. The first complete attempt to carry out this system was in South Australia, in 1836, but it was not successful, for the land sold had not been surveyed and was not ready for occupation when the settlers arrived; buyers were allowed to resell without check, and this gave rise to land speculation. The New Zealand Company tried the same plan, but again the mistake was made of selling in England unsurveyed land not ready for occupation, and the colonists were often kept waiting for their farms for years. That the system was not more successful was less due to integral defects than to defects in the methods of carrying it out; land was sold too cheaply, and the result was to accumulate large estates in a few hands. Over pastoral lands Government kept more control, and the freehold at any rate remained vested in the State. In 1831 a £10 licence allowed a squatter to occupy as much land as he liked, and it was not until it was found that one man had occupied as much as 600,000 acres that the area was reduced to twenty-five square miles. In 1847 the squatters were granted licences for a maximum term of fourteen years, and were thus formed into leaseholders, and when, after the discovery of gold, a great deal of the land was put up for auction, they were wealthy enough to buy large tracts themselves. The result was that a great deal of the land sold was withdrawn from agriculture. In 1862, in New South Wales only one-twenty-fourth, and in South Australia only one-sixth, of the land was under tillage. Reeves, in *State Experiments in Australia and New Zealand*, shows how companies and individuals bought up large tracts of land, which they kept out of the market and left unoccupied until growth of

population or other causes increased their value, and then sold them at inflated prices. In Queensland, 130,000,000 acres were owned by forty-five financial institutions. In New South Wales, 40,000,000 acres of the best land had been disposed of by 1884, and in 1891 the process was going on at the rate of 1,000,000 acres a year. Nearly half the land sold was owned by sixty-seven companies or individuals, 15,000,000 acres had been sold unconditionally, large estates had been built up, and for the most part the original settlers no longer held the lands they had bought from the Government. In Victoria, 22,500,000 acres had been sold, and in Tasmania more than a fourth of the island. In Australia and New Zealand together, about 125,000,000 acres had passed by 1891 from the State to companies or private individuals, and of these only 16,000,000 or 17,000,000 acres were under tillage or artificial grass. A much greater extent of territory was covered by pastoral leases, but here the State was still the owner.

To check the accumulation of land in a few hands, recourse was had to land taxation. In discussing this subject it must be dealt with from two points of view—(1) taxation for State purposes, and (2) rating for municipal purposes.

The objects of the Australasian land tax are to break up the large estates, to check land speculation and the withholding of land from market, and to create a population of small farmers; and the methods used to attain these ends are (1) the taxation of unimproved ground values, (2) the exemption of improvements from taxation, and (3) the exemption of small landowners from taxation.

In New Zealand a land tax was first imposed in 1878 under Sir George Grey; but it was repealed the next year by the influence of the privileged classes, and a general property tax of 1d. in the £ on the capital value of all property, real and personal, was substituted, and was continued for the next twelve years. The general property tax was an utter failure. It failed as a fiscal measure, for there was soon a deficiency in the revenue not far short of £2,000,000; and it was unjust and oppressive, weighing unduly on the small farmers and traders, and encouraging the accumulation of large tracts of land in few hands. The farmer found that he was fined for everything he did to improve the land; increase of stock or additional buildings only gained as their reward increased taxation; and if he was in debt he had to pay on all the property standing in his name, whether it was mortgaged or not. Professional men and salary-earners were also for the most part exempt, as the tax fell on property and not on incomes.

The effect was everywhere to discourage improvements and enterprise. The tax was imposed not only on industry, but on the materials of industry, and it fell with equal severity on "plant" in good and in bad years; the taxation of unproductive capital often crippled the working of the mines, and checked the development of new industries. So much land was locked up in the hands of companies, and trade was so bad, that thousands of people were leaving the country to seek for land and work elsewhere—a state of things without precedent in a new country with its resources still undeveloped. Matters were worst between the years 1887 and 1891, when an extravagant Government, run in the interests of the privileged classes, had involved the country deeply in debt, and there were thousands of unemployed. The extent of the evil and its cause were fully recognised by most of the leading men of the country. Seddon spoke strongly against land monopoly. "Everyone knows that the curse of this country is the companies holding large estates: these estates are increasing; the companies do not die, and there is no power to compel subdivision. . . . Most of the fortunes which have been made in this country have been made by the increased value given to the land, week after week, year after year, by the people of this Colony, and not by any exertion or any brain power on the part of those that hold the land." Ballance, who had introduced the Land Bill of 1878, said that "in fifteen years there will not be an acre of land left for settlement in this Colony, and the land will be in the hands of 250,000 people. By that time three out of every four individuals in the Colony will be landless."

By 1890 the property tax had become so unpopular that its repeal was the main point at issue in the parliamentary elections, and members were sent up pledged to bring in a land tax in its place. The following year the change was made, and land taxation was again brought into operation. The law carried in 1901 drew a distinction not only between real estate and personal property, but also between ground values and improvements, and its object was threefold—to get revenue, to make the large landowners pay their share in taxation, and to smash up land monopoly. Personal property was exempted from taxation, and this exemption was extended in 1893 to improvements and stock. An elaborately graduated land tax on unimproved land values was imposed, which pressed lightly on small, and heavily on large, landowners. Ground values under £500 escaped taxation, and thus the smallest class of peasant farmers were altogether exempt, whilst, if the net value of the land was under £1,500 an abatement

of £500 was allowed. A special graduated tax was imposed on all estates with a ground value of £5,000 and over, with the express object of discouraging large estates; this tax, which was paid in addition to the ordinary land tax, was $\frac{1}{2}d.$ in the £ on ground values between £5,000 and £10,000, $1d.$ on ground values between £10,000 and £20,000, and $2d.$ on all estates with a ground value exceeding £20,000. This law is still in force. The large landowners, moreover, in addition to paying a much higher tax, lose all exemptions except those for improvements. Small landowners who have mortgaged part of their land have the value of the mortgage deducted from the ground value liable to taxation, whilst the mortgagee is regarded as part owner of the estate and is forced to pay a tax on the mortgage to the extent that he would have to pay on land. No tax is paid by Maori lands, but a Maori landlord is liable to taxation if he leases land to a European. Absentee landlords pay 20 per cent. more than residents. At first there was a clause, providing that if any landowner objected to the rate at which Government proposed to tax him he could force the Government to buy his land at a little over the valuation which he himself had put on it, but this clause has now lapsed.

The effect of the tax has been satisfactory. To-day 2 per cent. more of the population hold land than in 1888, and the number of small holdings is slowly but steadily increasing; between the years 1891 and 1898, 3,500,000 more acres were brought under cultivation, and there has been a corresponding increase of prosperity in other forms of industry. Everywhere wages are higher, hours shorter, and work more plentiful. Mr. Fowlds, member of Parliament for Auckland, in his evidence given to the Colorado Revenue Commission in 1900 testifies to its success as a fiscal measure: "As for the financial results of the system, it is significant that this year (1900) we have been able to remit £160,000 in customs duties, and it is proposed to begin the twentieth century by reducing postage on letters within and beyond the Colony from twopence to one penny. We have also this year reduced fares and freights on our State railways to the extent of £756,000 per annum. I think it is also safe to add that the land tax induces a tendency to keep land values to their legitimate level." The popularity of the tax is proved by the fact that the Government which brought in the Bill remained in office, and were brought in again in 1899 by an overwhelming majority; members were sent up to Parliament pledged to extend the tax, the opposition was almost annihilated, and their leader gave a pledge that

if the Conservatives came into office they would not repeal the land tax.

An important modification of the land tax, and one that seems likely to have great effects in the near future, was made by the reactionary law passed in 1892, allowing the sale of the freehold for cash or within fourteen years, and permitting leasehold lands to be let for 999 years, at 4 per cent. on their original values. Conditions of residence and improvement are imposed on anyone holding Crown lands; the area is limited, and the land is subject to taxation. The chief defect of the system is the long period without revaluation, by which the State loses the whole increment of value that may take place during that time, whilst, if the value of the land falls and the tenant is ruined, the Government ultimately bears the loss.

The baneful effects of the property tax in New Zealand formed an excellent lesson for the Australian Colonies, and the land tax has been adopted in New South Wales, South Australia, Victoria, and in a modified form in Tasmania. In Queensland and West Australia neither land nor incomes are taxed, and there is only a 5 per cent. tax on the dividends of companies in order to secure for the Government a share of the mining wealth.

In New South Wales there had been a good deal of difficulty with the large landowners, and the attempt made by the Crown Lands Act of 1861 to let the *bona fide* settlers have the soil had not been successful; but the main object of the Land Tax Bill, which was passed in 1895, was to provide a source of revenue to take the place of customs duties. The land tax is levied on the unimproved value at the rate of 1*d.* in the £; mortgages are deducted, and an exemption of £240 is allowed; but if a company or individual holds several blocks, only one exemption can be claimed. Crown lands not subject to rights of purchase, or held under special or conditional lease or as homestead selections, are not liable to taxation. If the tax is more than two years in arrears, the Commissioners can let the land for three years or sell part of it. The result of the tax has been to effect a great improvement in social conditions. At the time when it was started, business and wages were both demoralised; a few years later, wages were higher, work more plentiful, and the number of the unemployed had been diminished by two-thirds. There was an increase in the extent of cultivated land of more than 50 per cent. over the whole amount previously in cultivation, and many of the large estates had been cut up and sold to actual settlers. It must be taken into consideration that these were years of almost

unprecedented drought, in which millions of sheep and stock perished or were only saved at great expense, and which almost paralysed the mining industry. It was feared at first that the tax would drive settlers away from the soil, and turn the land into a sheep-walk, but the effects hitherto have been wholly beneficial. Mr. G. H. Reid, the New South Wales Premier, said in speaking of the case: "It has answered my expectations in this way: that it has stimulated building and enterprise in land in every way; it is not proving a serious burden, and I am happy to say that some of the largest owners in Australia, who have great freehold property in New South Wales, have personally expressed to me their readiness to continue the tax so long as it is in existence."

The land tax of South Australia, dating from 1884, is the oldest in existence. It was not at first very effective, for it did not fall with sufficient weight on the large landowners. In 1890, Cockburn, the Premier, asserted that "In all parts of the Colony the large estates are not only holding their own, but are insidiously creeping onwards, taking advantage of every bad season and every commercial crisis—slowly but surely depopulating the country and strangling the townships." He appealed successfully to the country and got a majority, but the opposition of the landed interests was too strong for him to carry out his policy. Nevertheless, in a short time the land tax law was amended, and fell more fairly on the large landowners. As the law stands at present a tax of $\frac{1}{2}d.$ in the £ is levied on unimproved ground values, with an additional $\frac{1}{2}d.$ in the £ on all ground values over £5,000. Absentee landowners pay 20 per cent. more. There are no exemptions for small landowners, but Crown lands not subject to agreement for sale or right of purchase, park lands, public roads, cemeteries, and land used for charitable and religious purposes are not liable to taxation.

In 1900, Mr. W. Holder, Premier of South Australia, declared the tax to be a fiscal success:—"South Australia has had to contend, for many years past, against very low prices for all our staples, coupled with very bad seasons in long succession. The revenue from the land-value tax has helped to meet our needs, and complaint against it is almost unheard. . . . The fear of the tax did operate to keep some buyers temporarily out of the market, and so stay the accumulation of large holdings; but it has settled down now, so that the value of the land is seen to be what it will produce, and the $\frac{1}{2}d.$ in the £ is all the deduction that is calculated on this. The falling off in the volume and value of produce alone fully accounts for the reduced value of country

lands; and in the case of town lands, if the tax operates, it is to deter speculation of boom prices, and to induce utilisation and occupation of land. There is no political party whose platform includes any repeal of the tax."

In Victoria the object of the land tax was again to break up the large holdings, which were here as elsewhere a great bar to progress. The tax is levied on landed estates, and by a landed estate is meant a block of land—or several blocks, if not more than five miles apart—with an aggregate area of over 640 acres, and a capital value of over £2,500. Values in excess of £2,500 are taxed at the rate of $1\frac{1}{4}$ per cent. per annum. The assessment of the capital value of a landed estate is based upon the average number of sheep it can maintain, and land which maintains two sheep to the acre is valued at £4. The tax does not press heavily, as this does not represent the full value of the land; the average tax paid is a little under 4*d.* an acre. The proprietors as a body pay only on about half the true value of their land, and so the large estates are not broken up; moreover, the tax has been of little use as a source of revenue. "The sole outcome of the tax, therefore, is to extract about £125,000 a year from 887 proprietors who own a mass of real estate probably worth more than twenty millions sterling."

In Tasmania the tax is levied on the total capital value of the estates, and not on unimproved values only, and so it is not a pure land tax. However, some further development in the direction of land taxation is to be looked for in the near future. Land monopoly is there, as elsewhere, the curse of the country; it checks population, obstructs industry, and turns some of the most fertile land in the country into vast sheep-runs. Consequently there is a strong party growing up in favour of land nationalisation, and of taxation of unimproved land values as a preliminary measure.

The other branch of the subject—land taxation used as a system of rating for local purposes—remains to be dealt with. Rating based on the unimproved value of the land has not yet been adopted to any great extent, though a law to authorise it has been agitated for in all the Colonies.

South Australia has had an optional local tax law since 1893, giving local bodies the power to determine whether to use the land tax for local purposes in addition to the tax levied for State purposes. The law has had little effect, for its value was almost destroyed by amendments, but attempts have been made to remedy its defects. In Queensland, where there is no land taxation for State purposes, a compulsory local tax law on unimproved values was passed in

1890, which compels all municipalities and other local divisions to raise practically all their local revenue by a tax on land values only. The minimum amount of the rates is $\frac{1}{2}d.$ in the £, and the maximum $2d.$ in the £, in shires and boroughs, on the unimproved capital value of the land. The effect has been satisfactory, and building operations have increased. In New South Wales the municipalities may levy rates on the unimproved capital value of the land, provided that the ratepayers agree to the alteration by a special vote. Rates are levied on nine-tenths of the annual value of unimproved property, and on 5 per cent. of the capital value of unimproved land.

New Zealand gained a local option law in 1896, after a long struggle in the Legislative Council. It was only a very mild, permissive measure, however, and had little effect, for the ratepayers' franchise was very narrow, and municipal affairs were controlled by the landlords and not by the occupiers. When the franchise was widened, in 1898, the law was amended, and the application of the principle in any locality was allowed if it had been accepted by a simple majority vote. Palmerston North, in North Island, was the first town to take advantage of the Act; it adopted the new system in 1897, and the change has been followed by an increase of prosperity, land values having increased more than enough to compensate even the owners of unimproved land for the additional taxation, and other landowners having had their rates reduced. Building has been going on steadily—three hundred new buildings having been erected in the three years after 1897, as against fifty in the three previous years—and there is no doubt that it was the knowledge that improvements would not mean additional rates that was partly the cause of it.

In Wellington the effect of the new system has been even more striking; and we can quote the evidence as to the growing prosperity of the city given by a Wellington correspondent in *Land Values* for January last: "The result of the rating on land values in this city is causing the property-owners, who have old shanties on valuable land, to pull them down and erect substantial buildings in brick. Many others are putting extra storeys on their buildings; in fact, the central part of the city is being rapidly rebuilt. It is also gradually searching out the vacant sections and causing them to be built upon. Many places that formerly had one house, or a horse grazing on the land, have now from six to ten houses. . . . Then again, this building has created such a demand for bricks and timber that there is an outcry in the newspapers occasionally about the famine and price of bricks. The

brickmakers are having a fine harvest, and are getting from £2 10s. to £3 a thousand for them. . . . Now all this, of course, has caused the word to go around that Wellington is a good place to go to for employment; the result is a big rush from all quarters, and people are coming in faster than the place can possibly absorb. . . . This again reacts in creating a greater demand for houses, which is very difficult to supply on account of the scarcity and price of building material, with the usual result that rent and land values are increasing." The wages of unskilled labour are 10s. a day, and of skilled labour from 15s. to 20s. a day.

Up to September, 1903, about sixty places had voted on the subject, and only seven or eight rejected the new system of rating. That it has not progressed more rapidly is due to the fact that the benefit of the system is not so clearly apparent to everyone in the case of rating as in that of State taxation; for in rating there can be no exemptions for small landowners, and the rates are levied at a uniform proportion on all estates. This has caused some hesitation, for in towns and suburbs the number of small landowners is very large; many shopkeepers and clerks are their own landlords, and workmen often own a small quarter-acre plot, and these lands would be taxed, whilst the houses and plant of the wealthy would escape taxation. Still the rates are very light—so light, in fact, that at present the large estates are not broken up, and the small landowner in many cases finds that his rates are lower than under the old system. The tax is gradually growing in popularity; no municipal body has repealed the rate after it has once adopted it, and many people are in favour of levying another 1d. in the £ on the capital value of land, and of making land taxation compulsory on all local bodies. A step has been taken in the direction of land nationalisation by Acts authorising the State to buy back the land from companies and individuals. Queensland, South Australia, West Australia, and Victoria each have an Act for the resumption of private arable land, and in 1894 a Compulsory Purchase Act was passed for New Zealand, but so much land has been offered to the Government that little compulsion is necessary.

As yet land taxation, even in Australasia, is still in its infancy. Little has been done beyond the initiation of the new system, and Henry Lloyd in *Newest England* points out that the practical effect is still very slight, and the abuses it was designed to remedy still exist. Not many municipalities derive the whole of their revenue from the land tax, and the State revenue is still got mainly from other sources. The injustice of the tariff, which falls mainly

on the necessities of life, undoes a great deal of the good done by the land tax; spirits, sugar, tea, kerosene, tobacco, and currants are the articles most heavily taxed. There is, however, a growing feeling against unduly raising the price of necessities, especially as the money thus gained is often used by the Government in making railways and other public works, from which the large landowners derive most profit. The income tax is still an important source of revenue, and is popular, for it taxes only the profits of industry—i.e., it taxes improvements and experiments only in so far as they are successful, and only in proportion to their success. As a source of revenue the land tax has not as yet been very effectual. In New Zealand only 6·07 per cent., in New South Wales 3·52 per cent., and in South Australia 3·33 per cent. of the total revenue is gained in this way; but there, it must be remembered, the object of its promoters was not so much to raise a revenue directly as to encourage the occupation of the land by the people, and by encouraging prosperity and industry to secure indirectly an increased revenue. That the receipts from the land tax have, in fact, been actually decreasing, although land values have risen, can be explained by the fact that there has been a large increase in the number of small estates which are exempt from taxation, and that the tax is sometimes evaded by the division of a large estate among different members of the same family. Large estates still exist, and the tax is for the most part so light that at present the landowners have more to fear from droughts and low prices than from taxes. "The worst that can be said is that notice has been served on the monopolists, and they must surrender or disappear." Land sales and the grant of the freehold still continue.

On the whole, in spite of the mistakes incidental to the initiation of any new system, it may be said that the recent experiments in land taxation have been successful, and that the effect has been to encourage an even growth of prosperity. Neither South Australia nor New Zealand, the two Colonies which had at that time adopted the land tax, suffered in the bank panics of 1893. These were caused partly by the fact that both banks and patrons had speculated largely in land, and consequently a great shrinkage in land values resulted; in New Zealand the land tax had already checked credits based on land speculation, and the only difficulty experienced was due to the fact that the New Zealand banks had branches doing business in other Colonies. A sure sign of the increase of prosperity and plentifulness of employment is the increase of immigration; in 1898 the four Colonies where the land

tax was in operation had an excess of immigration over emigration of 12,580 persons, whilst the three Colonies without the land tax had an excess of 4,910 emigrants. Private ownership in land has not been abolished, but land speculation has been checked, and land values have been steadied; for when an increase in the land tax seems probable, landowners are anxious to sell for less than the full capitalised value, and *bona fide* settlers can get the land on easier terms.

The justice and fairness of the land tax is universally acknowledged. It is very simple both to assess and to collect, for the property liable to taxation cannot be concealed and its value can be easily discovered; the occasional difficulties met with at first were due to the inexperience of the valuers and to the opposition of the large landowners. The most significant feature of the new system is, however, the fact that the land taxes, light though they are at present, can easily be increased until they make the ownership of unoccupied land a practical impossibility. Little more has been done as yet than "to point the way and take the first step," but still, in the words of Seddon, it is a step in the direction of "establishing our civilisation in this new land on a broader basis in a deeper sympathy for humanity."

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