

CHAPTER VII

Practical Results of the Application of Ground-Rent Collection Over the World

THE PROGRAM proposed in this book is radical. It is as radical as the proposal to abolish slavery was one hundred years ago, in the South. The program proposed is according to natural law and is just, and will have to be adopted if civilization is to be improved on, if not to continue. A civilization that does not obey natural law is doomed to die. We live in that kind of a world. The verdict of history supports this contention.

The proposed change, while it is radical, can be made without disturbing our methods of taxation. At present our man-made law takes part of community-created ground rent for community expenses by levying a tax on land values. Most of government revenue is obtained by the tax on wealth of its citizens. To make the proposed change it is necessary only to increase the amount of ground rent collected to its full amount and stop collecting taxes on the wealth of the citizens.

This chapter consists almost entirely of quotations from the book *Land-Value Taxation Around the World*, published by the Robert Schalkenbach Foundation.

A long step in this direction has been taken by the city of Pittsburgh, Pennsylvania. The following quotations are taken from a report by Percy L. Williams, who is a native of Pittsburgh. His report is based on experiences covering over forty years with a law that goes a considerable distance in collecting ground rent for the community expenses. He writes as follows:

Pennsylvania has the distinction of being the first state in the Union to make provision for the application, in a manner constitutionally

sound, of a concrete plan for cities to tax improvement values at a lower rate than land values. The two second-class cities, Pittsburgh and Scranton, have operated under such a plan for 40 years; the 47 third-class cities have had the option since August 1951, but as yet none of them has used it.

Pittsburgh adopted in 1914 the policy of placing the principal burden of municipal taxation upon land values. And so far as the city administration is concerned, this policy has been steadfastly maintained until it has come to be regarded as a permanent feature of its public revenue system. In order to inaugurate this important change, it was necessary at that time to provide for a similar change in the tax system of the other city of the second class, which is Scranton. But Pittsburgh, as the pioneer, has naturally received the greater attention and publicity.

The Graded Tax Plan has been in full operation since January 1, 1925, when the half rate on buildings became effective. The Act of 1931 provided for the partial exemption of improvements by gradual stages, with the ratio increasing at each triennial assessment. There were five successive steps, at each step a certain proportion of the tax burden being shifted from buildings to land. In the first period, 1914-15, the tax rate on buildings dropped to 90% of the rate on the assessed value of land; in the second period, 1916-18, to 80%; 1919-21, to 70%; 1922-24, to 60%; and in 1925 and thereafter, to 50%.

Mayor Magee, who had been returned to office in 1922 and thus was directing the city administration when the act became fully effective, said in 1925:

"As a result of fifteen years of legislation we have gradually relieved ourselves of an awkward tax situation, both unwise and unjust. I am principally interested in two things regarding taxation—the progress of the Graded Tax Law and the problem of assessments for public works. Both concern the unearned increment, the profit of the landowner who becomes rich through the growth of the community without effort on his own part."

The Graded Tax Plan also enlisted strong newspaper support. Commenting in 1927, after two years of its full operation, the *Pittsburgh Post* said:

"Formerly land held vacant here was touched lightly by taxation, even as it was being greatly enhanced in value by building around it, the builders being forced to pay the chief toll, almost as if being fined for adding to the wealth of the community. Now the builders in Pittsburgh are encouraged; improvements are taxed just one-

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half the rate levied upon vacant land. Building has increased accordingly.

"Here is illustrated how ideas once thought radical and impractical come gradually into general acceptance."

There is, of course, no loss of revenue to the city through the graded tax. It simply brings about a shift in burden from buildings to land. Its effect is upon the respective tax rates on land and buildings, which are fixed annually by the City Council at such figures as will produce the sum estimated as necessary to meet the budget.

For the year 1953 the city tax rates for Pittsburgh were \$32. per \$1,000 (32 mills) on land, and \$16. per \$1,000 (16 mills) on buildings. The total taxable real estate valuation was \$1,065,173,432 of which \$414,326,522 represented the value of land and \$650,846,910 the value of buildings.

What the Plan Has Achieved

The Pittsburgh tax plan as it now stands, is a moderate tax reform. While it represents a distinct departure from the practice prevailing in other American cities, its effects have been limited by reason of the fact that the owners of improved and unimproved real estate in Pittsburgh are subject to very considerable tax levies for school and county purposes over which the city administration has no control or jurisdiction whatever, and which are therefore not affected by the Graded Tax Law. Unfortunately, no single act of legislation could be drafted that would include tax levies of the school district and the county.

Another place where land value taxation has been tried out is Denmark. This is chiefly an agricultural country. One hundred years ago the farmers in this country were in a bad way. Since then, the Folk Schools have educated the farmers on how to farm to the best advantage, and have taught a larger proportion of the people of Denmark that ground rent is the natural source of revenue for government, more than has been so taught in any other country. So far as I know, it is generally admitted that Denmark is now the most prosperous country in Europe.

The following quotation is taken from a report prepared by K. J. Kristensen on "Land-Value Taxation in Denmark":

Accordingly, the result seems to be that, in Denmark, through land-value taxation, the increment duty and public ownership of land, nearly half of the total economic rent is being collected by State and local authorities for the benefit of the whole nation.

Land-value taxation in Denmark is operating successfully, and this is due in large measure to the way in which the assessments are carried out. Each valuation district is small, and the valuations of the properties are made by local people under the general control of a county-valuation board, a Directorate of Assessments, and the Board of Assessments chosen partly by the government and partly by Parliament.

The system of adult education provided through the Folk High Schools has taught farmers in Denmark how to be good managers and has emphasized the important part which land plays in the whole economy. Co-operatives are providing farmers with marketing facilities and are keeping them well informed concerning current prices and other factors relating to marketing conditions. They exist in almost every branch and have become the very backbone of modern Danish agriculture.

As already stated, Denmark is the first country to have a political party formed for the purpose of making land values the principal and, if possible, the only source of tax revenue in the country. This party, known as the Justice Party, was originated in 1919 and is now represented by six members in the House of Parliament.

Australia is the country in parts of which they collect a larger proportion of community-created ground rent than in any other part of the world. For example, New South Wales received from its tax for local purposes on land values £20,329,844 for the year 1953. E. J. Craigie shows in the following quotation how Australia has worked out some of her tax problems. He states:

The Commonwealth of Australia is a federation which was established on January 1, 1901. It consists of six states, all previously independent colonies—New South Wales, Queensland, Victoria, South Australia, Western Australia, Tasmania—and the sparsely populated Northern Territory which is controlled by the Federal (Commonwealth) Government. The total area of the Commonwealth is 2,974,581 square miles. At the time of the federation, the designation of "colonies" was changed to "states" for all but the Northern Territory, which retained its original designation.

The Commonwealth also owns and controls the 940 square miles of the Capital Territory in which the capital city, Canberra, is located. This arrangement is comparable to the one in the United States, where the federally controlled District of Columbia is the site of the city of Washington. However, the Commonwealth owns all the land in its Capital Territory and will retain title to it, merely granting leases for

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a term of years. In this way all of the economic rent of the land, the "unearned increment," will go into the public treasury.

The taxing of land values has been practiced in Australia by federal, state and local governments, and in the two latter groups the system is spreading. In Queensland and in New South Wales, local authorities are raising the whole of their revenue from land values. In Western Australia the tax is levied by 132 of the 147 local taxing units, and in Victoria, South Australia and Tasmania the tax is optional.

All rates collected by local bodies in Queensland are levied upon land values. This system of rating was initiated under the Valuation and Rating Act, 1890. Many amendments to the act have been made since that date, and in 1936 a Consolidate Local Government Act was placed upon the statute book. This classified local government bodies as cities, towns and shires. There are now 12 cities, 11 towns and 121 shires within the state.

The total local revenue raised through the land-value tax was, for the year 1952-53, £7,316,185.

The effect of land-value taxation where it is practiced in South Australia has been to lower the price of land to legitimate users and to force underdeveloped land into use where it is needed. An example of the latter is to be found in the municipality of Thebarton.

In 1906 Thebarton desired a recreation park. In the center of the town was a 134-acre vacant tract owned by an absentee family. The agent was approached and asked to give a price for a few acres, and the reply was that the land would be available at £150 per acre. This land had cost the absentee owner 12s. an acre, and the only use to which it had been put up to that time was growing two crops of hay and being used as a training track for race horses. The rates paid on these 134 acres under the annual rental-value system were £31-10-0 per year. When Thebarton adopted land-value rating in 1907, the rates on this land went to £225-10-0, with the result that within two years of the increase, more than 200 houses and two factories had been erected on what had hitherto been bare land. Doubtless many other examples could be found to illustrate how land-value rating operates to force underdeveloped land into use.

The amount of state land tax collected in Victoria for the year 1951-52 was £875,746.

Local Land Tax

By 1952, land-value rating had been adopted by 24 cities, towns, boroughs and shires. The rate in the pound varies from a minimum of 5d. in the shires to a maximum of 10d. in the cities. The amount of

revenue collected from this tax in these 24 units was, in 1951-52, £2,420,520.

Local option obtains here, as in South Australia. There have been seven demands for reversion polls, but in all but one case the principle of land-value taxation has been reaffirmed by big majorities even though the voting basis at reversion polls is different from that at the adoption polls and gives increased voting strength to owners of vacant land.

In his summary of progress, Craigie says:

All the Australian states raise some revenue from land values. This revenue is derived in three ways: from land rents received by the Crown for the leasing of public lands; from land taxes imposed by the separate states; and from local government taxes. Of these three, by far the most important are the local government taxes. Crown rentals are paid only by certain properties, and the same is true of the state land taxes which, except in Tasmania, South Australia and Western Australia, are levied only on lands above a certain value. The local government taxes, on the other hand, fall directly on all land. Many years ago all local governments used the annual-value system (taxing land and improvements), but the majority have abandoned it and now tax the unimproved value of land only, exempting improvements. The following table summarizes the extent to which the change in systems has been made:

STATE	LOCAL TAXING UNITS PER STATE	RATING ON LAND VALUES
New South Wales	244	244
Queensland	134	134
Victoria	198	24
South Australia	143	27*
Western Australia	147	132†
Tasmania	49	0
Capital Territory	1	1
<i>Total</i>	916	562

* In South Australia one town that was operating under the land-value principle had to revert to annual-value rating when it amalgamated with adjoining local government areas where polls had not been taken. This reversion was compulsory under the Local Government Act.

† Thirty-two units levy all rates on land values. The remainder use both systems, levying certain rates on land values only and certain on land and improvements. In the 128 road districts, 83.46% of the rate revenue is collected from land values; only 16.54% comes from annual-rental value.

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As the table shows, in two of Australia's six states, all local taxing bodies rate on land values. In three others, Victoria, South Australia and Western Australia, the tendency is for land-value taxation to spread.

The Systems Compared

The question may be asked: What economic and social benefits, if any, are derived under the unimproved-rating system where only land values are taxed for local purposes, as compared with the annual-value-rating system where land and improvements are taxed together? Studies made by the Land Values Research Group, of Melbourne, of which Mr. A. R. Hutchinson is the Research Director, provide material for several important comparisons. The studies, made prior to 1945, have been accepted as reliable in Australia, and the results have been published in a 32-page booklet entitled *Public Charges Upon Land Values*, and in two folders entitled, respectively, *Housing the Nation and Rating Land Values in Practice—Results in Greater Melbourne*. What follows has been taken from the booklet, which is still in print. The states have been grouped and will be referred to as Group One and Group Two. In the first are Queensland and New South Wales, where unimproved rating is universal on the local level, and Western Australia, where it is widespread. The second group takes in South Australia and Victoria, where both systems are operating, and Tasmania, where annual-value rating only is used.

The first comparison to be made is of the weight of taxation falling upon land values through federal, state and local taxes, as levied, and the degree to which this taxation reduces the selling price of land. This is shown as a percentage of what the selling price would be if no taxes were imposed on land values at all.

Weight of Taxation on Land Values Federal, State and Local

STATE	REDUCTION IN THE SELLING PRICE OF LAND BECAUSE OF TAXES IMPOSED ON LAND VALUES
GROUP ONE	
Queensland	54.5 per cent
New South Wales	29.8 " "
Western Australia	16.6 " "
GROUP TWO	
South Australia	14.4 " "
Tasmania	8.8 " "

It will be seen that in Queensland more than half the ground rent is taken through taxation, while Victoria and Tasmania take only a small portion. For both South Australia and Victoria the percentage is not indicative of land-selling prices throughout the state. The greatest reductions occur in the districts rating on land values and are not found in all districts.

Such wide differences in the weight of taxation and in the resultant lowering of the selling price of land might well be expected to lead to differences in economic and social development. From the following comparisons of key indicators of prosperity it will be seen that the development shown by the land-value-rating group has been greater than that of the other states. Not only are the group averages greater, but the degree of prosperity shown in the individual states appears to follow in order of the weight of taxes imposed on land values. In all the items compared, Queensland, the state where half the ground rent already is being collected, easily heads the list.

This is apparent in comparing the areas devoted to "all crops" for the period 1929-38. In this period the selling price of land in Queensland, per head of population, reached its lowest recorded level.

Agricultural Development
1929-30-1938-39

STATE	ACREAGE INCREASE OR DECREASE	PERCENTAGE INCREASE OR DECREASE
GROUP ONE		
Queensland	688,544 acres' increase	65.8 per cent increase
New South Wales	1,548,411 " "	22.0 " " "
Western Australia	153,253 " "	3.4 " " "
		—
<i>Group Average</i>		21.5 " " "
GROUP TWO		
South Australia	242,826 acres' increase	4.9 per cent increase
Victoria	559,959 " "	10.0 " " "
Tasmania	22,269 " "	8.4 " " "
		—
<i>Group Average</i>		7.6 " " "

Queensland, in particular, has been able to increase her production of wheat at prices which have caused states in Group Two to reduce their acreage. This has been possible because of the lowering of land prices in Queensland. Tasmania has very little wheat acreage, and the

figures are of no significance for this state and are included only for completeness.

The most significant single indicator of progress is to be found in the increase in the number of dwellings that are built in any country. This is at once an indicator of the extent of real settlement and of the general level of prosperity, for the building industry is a basic one, and activity in it is reflected in many dependent industries.

In making interstate comparisons, some modifying factors must be considered. It is not sufficient merely to compare dwelling increase with population increase to establish a stimulating effect owing to taxes on land values. Account must be taken of the age composition of the population, for, clear, if in one case the increase is mainly of infants by natural increase, less new houses would be required than where the increase is of adults. These difficulties of comparison are overcome if we compare the dwellings built with the marriages taking place in any period.

In the following table this comparison has been made for all states for the period between the census of 1921 and that of 1933.

*Dwelling Construction Compared to Marriages
1921-33*

GROUP ONE	NEW DWELLINGS CONSTRUCTED	TOTAL MARRIAGES	DWELLINGS BUILT PER 100 MARRIAGES
Queensland	58,501	80,692	72.3
New South Wales	174,914	237,639	73.6
Western Australia	30,756	37,671	81.5
<i>Group Average</i>			74.0
GROUP TWO			
South Australia	31,768	52,311	60.5
Victoria	104,092	165,833	62.6
Tasmania	5,987	20,050	29.7
<i>Group Average</i>			59.3

These figures are illuminating. They show that the land-value-rating group had a dwelling-construction activity 25 per cent greater than that for the annual-value-rating group for the same period. Not only that, but the activity in each of the states in Group One is con-

siderably above that of any state in Group Two. Further still, some of the districts in South Australia and Victoria rate upon the land-value basis, while in Tasmania none at all do this. It is significant, therefore, that Tasmania is at the bottom of the list.

The direct connection between the rating systems and dwelling construction may be pursued still further within the two states that have some districts rating land values. It is then seen that these are the districts which contributed most to their states' better showing than Tasmania.

In Victoria, although at the 1921 census only 16 per cent of the states' population was in the 14 districts rating land values, these districts accounted for 46 per cent of the total increase in dwellings for the state between the two census years. Moreover, in Melbourne (Victoria), over the 20-year period from 1921 to 1940, the municipalities rating land values built 2.12 times as many houses per acre available for building as did their counterparts rating on the annual-value system. Similarly, evidence submitted to the Commonwealth Housing Commission in South Australia showed that dwelling construction in the districts rating only land values was markedly superior to that in the districts rating both land and improvements under the annual-value system.

The ratio of the value of improvements to unimproved land value in 1939-40 was 151 per cent in the land-value-rating states to only 79 per cent in the others, and it was highest, 198 per cent, in Queensland, where the land-value tax is highest. Further, the average total value of improvements per land tax-payer was fully twice as great in the Group One states as in the others. This would seem to indicate that the exemption of improvements has tended to encourage the construction of not only more, but better, improvements, and that these benefits are directly related to the weight of taxation placed upon land values.

Another comparison made between the two groups is of the average income received by non-property owners having incomes high enough to require them to submit a Commonwealth income tax return for the income year 1938-39. The figures here are only slightly favorable to the Group One states. On the other hand, the proportion of persons receiving these higher incomes is considerably greater (40 per cent greater) in the states in this group.

The average annual wage paid to adult male workers in factories, according to the Commonwealth Year Book for 1939, was £237 for Group One, and the real wage index, having regard to changes in the cost of living, drawn from the same source, was 1274. For Group Two,

the group average was £219 and the index figure 1160. (Nineteen-eleven as base 1,000.)

"One of the most delicate tests of whether conditions are favorable or not in any country," says Hutchinson, "is the flow of migration. If more people are coming to that country than are leaving it we may be sure that the new citizens regard the prospects in their new home as better than those in the land they are leaving. Conversely, when departures exceed new arrivals, it must be regarded as an ominous sign." The data show a net migration into the Group One states between 1929 and 1938 amounting to 8.8 per 1,000 of 1929 population, and a new outflow from the other states averaging 10 per 1,000. The inflow for Queensland, the state with the highest level of land-value taxation, was the greatest, 16.5. All of the "annual-value-rating states" show an outflow. For Victoria this is slight. For both South Australia and Tasmania it is considerable, 29.1 per 1,000 and 15.5 per 1,000, respectively.

No doubt it can be questioned whether conditions in the two groups of states are sufficiently similar to make the conclusions reached, purely from the data given, wholly reliable. To remove this doubt would require an analysis of political conditions and other factors, more detailed and extensive than time and space permit. But certainly it must be admitted that the data presented, pointing consistently in the same direction, make a sufficiently good *prima facie* case for the Group One states where the land-value taxing principle is universal among the local governments of two of the states and widespread in the third, and where the weight of total taxation on land values is greater than in the Group Two states. In none of the comparisons are the figures very close. In some of them the differences are startling.

In western Canada taxation of land values and exemption of improvements has been rather generally adopted. The following information is taken from a report made by Herbert T. Owens:

By the opening of World War I, the principle of levying municipal taxes more on land values and less on improvements had become an integral part of municipal practice in the four western provinces of Canada—British Columbia, Alberta, Saskatchewan and Manitoba.

In British Columbia there are 104 taxing units—34 cities and the city of Vancouver, 28 district municipalities, and 41 villages. According to 1952 statistics, the over-all picture is that, of these 104 municipalities, 54 are exempting improvements 50 per cent; 13 are granting more than 50 per cent, and 35 less than 50 per cent. Two, the District of Spallumcheen and the village of Kinnaird, are continuing full exemption.

*Revenue From Petroleum and Natural Gas Collected by Alberta
1930-31 to 1953-54*

FISCAL YEARS TOTAL REVENUE FROM FEES, RENTALS, ROYALTIES
AND PURCHASE PRICES FOR LEASES

1930-31	\$198,256.30
1940-41	869,179.57
1945-46	1,094,731.76
1948-49	13,289,071.30
1949-50	33,449,867.60
1950-51	44,339,438.80
1951-52	40,005,601.35
1952-53	57,219,580.24
1953-54	44,950,000.00 *

(Figures supplied by the Dominion Bureau of Statistics, Ottawa,
Public Finance and Transportation Division.)

Saskatchewan

The City Act, 1908-09, specified that improvements should not be assessed at more than 60 per cent of their actual value, and an amendment to that act, adopted a year later, permitted this percentage to be reduced at a maximum rate of 15 per cent per year until full exemption had been attained.

By 1914 all of Saskatchewan's seven cities were granting exemptions in excess of the legal minimum. Two gave 85 per cent; one granted 75 per cent; three gave 70 per cent, and in only one city was the exemption as low as 55 per cent.

Today all the organized communities in Manitoba—that is, the cities, towns, villages and rural municipalities, exempt improvements $33\frac{1}{3}$ per cent. For more than half a century farm homes and farm buildings in the four provinces have been relieved of a large part of local taxation.

From the foregoing reports we gather that the experience of the world with the limited adoption of the collection of ground rent for the community expenses, and the abolition of the taxation of wealth, is good as far as it goes. It cannot be expected that such a far-reaching change in our method of raising revenue for government expenses will be adopted overnight. It will take a long time and a great deal of education to convince the major-

* Estimated.

ity of the people in the United States that the community should collect the ground rent it produces, and not allow landowners—who do nothing as landowners to produce it—to collect this ground rent.

Laws and customs that have existed since the dawn of history seem natural and just. Just as natural as the generally accepted idea 2,000 years ago that the earth had to have something to support it.

In communistic countries, the government uses its power to deny many of the natural rights of the individual. Therefore, over the rest of the world, the emphasis is on preserving the rights of the individual—which is just as it ought to be. At the same time, it must be remembered that the community and government have rights that the individual should respect.

When it is proposed that the community collect the ground rent, it is immediately apparent that what the community creates the community should collect and use for its expenses. It is immediately apparent that land values are the result of man-made laws that do not recognize the natural rights of the community. Just as slave value resulted from man-made laws that did not recognize the rights of the individual, so when the natural rights of the community are recognized, and government collects ground rent, selling value of land will practically disappear and the individual will enjoy the right to get land to use, to make a living without having to pay some other man for the privilege of using freely of what the Creator provided free for all men.

It took thousands of years for our man-made law to recognize the rights of the individual and to abolish slavery. Let us hope it will not take so long to recognize the rights of the community to collect what it produces.