LVT – FOUND AND LOST

(Why was a successful system of LVT lost or abandoned?)

NEW ZEALAND.

The text is presented in the following sequence:

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1. Background History

New Zealand holds a rather special status in that it was notably the first country to introduce a system of LVT for raising revenue (2).

At the end of the 18th century New Zealand was visited only by whalers and trading ships from Europe and America, which traded with the native Maori. Most contacts were generally peaceful, although some of the European settlers were often uncontrolled and lawless (3). Britain, in its period of empire building, laid claim to the territory, which was considered to be an extension of the Australian colony of New South Wales. In 1832 the British government appointed an official 'Resident' to introduce some form of law and order amongst the settlers. The first colonists from England began to arrive in the 1840s, some 50 years after the first arrivals at Botany Bay in Australia (4). However unlike many in Australia these early settlers were free of the stigma of being convicts and so were recognised as free men and women. This no doubt gave rise to a greater sense of equality and democracy amongst the population at an early stage.

In 1840 the Treaty of Waitangi was agreed with the Maori, who were acknowledged as owners of the land of New Zealand. However in England, in 1846, the Secretary of State for the Colonies, who was unhappy with the terms of the treaty, issued instructions to lay claim to all the land not directly occupied by the Maori. But the New Zealand Governor Sir George Grey, believing that this would alienate the Maori, devised a scheme whereby the land, rather than being appropriated, would be purchased piecemeal, albeit for paltry prices. The Maori wars with the British arose basically out of disputes over land ownership and encroaching European occupation.

Initially New Zealand was administered as part of the colony of New South Wales, but in 1841 it became a separate colony. In 1852 the colonial period ended when New Zealand was granted self-government and in 1853 was divided into three provinces.

It would seem that, from the outset, the first British administrators arrived with certain progressive ideas about land taxation, for as early as 1849 in Wellington and New Plymouth, legislation was proposed allowing for rates to be imposed on the value of land, excluding improvements.(5) This was some 30 years before Henry George published Progress and Poverty. However there is no record of any legislation having been acted upon. The first evidence of actual implementation was in New Plymouth, in the Taranaki region in 1855. In the same legislation it was decreed that, if the ratepayers so decided, the rate could be on unimproved land value only (6). This was a clear demonstration of local democracy in action, which established a pattern that was to endure at the local level as a principle for the next 130 years. This local taxation system was adopted generally and continued up to the Rating Act of 1876, when modifications were introduced.

It is worth noting the prominent role played by Governor Grey in promoting LVT for New Zealand. He was the Governor General from 1845 to 1854, and later Premier from 1877 to 1879, both periods in which important advances were made for LVT. Grey was a progressive liberal and was no doubt familiar with the new reformist ideas being discussed in the early 19th century. David Ricardo had published his Principles of Political Economy and Taxation in 1817, and expounded his theory of the 'economic rent', an idea that Grey no doubt took with him to New Zealand. It is known that prior to his term of office as Premier he met up with John Stuart Mill, a powerful advocate of land taxation. (7) Also, in 1871, Henry George published 'Our Land and Land Policy' and in 1890 made a lecture tour of Australia and New Zealand.

Central government revenue in the early years was mainly derived from customs and excise duties and the sale and leasing of land, appropriated or bought from the Maori (8), but as the government started to run out of land to sell by the 1870s, it turned to property taxes and introduced the Rating Act of 1876. This marked the beginning of national property taxation, but the act was seen by many as retrogressive in that it adopted only the British annual rental system (AV) for valuations. At this time the Provinces were replaced by Counties, Boroughs and Town Councils, which continued to administer the local rates.

In the early years of local rating the first communities, that had not elected to tax land values only, naturally followed the British system of basing the levy on annual rental values of land and buildings combined. But this system did not work well in a new country, which did not have the same landlord-tenant structure that applied in Britain, where rental values were easier to assess (9). In New Zealand at this time land was being rapidly acquired and sales were common. It was soon realised that capital values determined by sales were a more accurate way of assessing value for the rates. Capital values also took into account 'waste' land being held for speculation, which had capital value but no rental value. Settlers also became aware that levying the rates on improvements as well as land penalised them for their hard work.

Attempts to introduce a national property tax based on land values was a protracted affair (10) which began in 1878 with the Land Tax Act introduced when Grey was Premier. In 1879 his finance minister John Balance, also an advocate of LVT, introduced a General Property Tax based on the selling value of land only, but this was soon repealed by the succeeding National (Conservative) government. In 1882, legislation was passed to replace annual valuations with capital valuations, for the reasons mentioned above, and also to standardise the methods of valuations throughout the country, and remove the process from the extremely variable local control but, due to local opposition, boroughs who wished were allowed to maintain annual valuations and to make their own assessments. (11)

In 1891, under a Liberal administration, a combined Land and Income Tax Act was passed which ostensibly had the intention of breaking up large estates, so property ownership could be more evenly spread throughout the community (12). Attempts to introduce a full land value tax at national level were often thwarted by opposition within the government itself, which, as in England, had many representatives of the land owning interests. Rolland O'Regan, in his book 'Rating in New Zealand' describes the slow progress:

> *'In 1894 the Rating on Unimproved Value Bill was passed by the lower house but rejected by the upper Legislative Council. The same attempt was made again in 1895 with the same result. Only in 1896 was the bill finally passed by an overwhelming vote in the lower house, although hedged by conditions and applicable to only one part of the rates'.* (13)

As distinct from Britain, the rating system in New Zealand was somewhat more complex. Four kinds of rates had evolved: General rates, General Separate rates, Particular Separate rates and Special rates (14).

With the bill finally passed in 1896, three options were provided for assessing valuations for the rates, subject to selection by ratepayer's poll.

1. Combined land and improvements assessed by annual rental value. (AV) – The 'English' system.
2. Combined land and improvements assessed by capital value. (CV)
3. Unimproved value only. (UV) – Later re-named 'land value'. (LV)

A further attempt at using unimproved value covering all rates was tried in 1901 but was again defeated by opposition in the government's own ranks. (15). It was not until 1912 that the Rating Amendment Act was passed allowing for a full tax on unimproved values on all rates. From this point it could be said that New Zealand had a complete Land Value Tax system in place.

This episode is reminiscent of the struggle that took place in the British parliament after the Liberal government came to power in 1906 with LVT in its manifesto. It attempted to introduce a national LVT in the People's Budget of 1909, only to be defeated by the Lords. Unfortunately, in Britain, subsequent events were overtaken by the first world war and the momentum was lost.

This was the period when Henry George's theories and teachings brought the idea of land value taxation into the mainstream of politics throughout the world, which reached a peak of popularity in the first decade of the 20th century.

In New Zealand the 1912 act continued in force until 1967 when, under a National administration, the local tax on unimproved value, once again reverted to only certain rates – a retrogressive step. Perhaps this was the first move towards abolition, which was to culminate in the events of the mid 1980s.

From 1912 New Zealand had both national and local property taxes based on land values, and it is noteworthy that during the course of the 20th century, where there was freedom of choice at the local level, the ratepayers preferred the UV system, so that by the 1980s the majority of local authorities employed this method.

> *'By 1982 hundreds of rating polls had been held, so that in just 86 years 90% of all municipalities had by poll adopted Land Value Rating, which accounted for 80% of local government revenue'.* (16)

A table provided in the paper by McCluskey and Franzsen (17) shows the comparative number of boroughs using the different systems in the 55 years between 1942 and 1997:

Year	LV	CV	AV	Period
1942	55	37	8	—
1985	80	10	5	43 years
1997	64	30	2	12 years

Commenting on the situation in 2008 Robert Keall states:

> '*Wherever Land Value Rating applies it has been adopted by poll of ratepayers, representing a lot of work and profound social concern. Wherever Capital or Annual Value Rating applies it has been imposed by Government or Councils contrary to the express wishes of the ratepayers in almost every case'.* (18)

With certain exceptions (19) local LVT, assessed through the UV system, was preferred where democratic choice was allowed, but this choice was removed in1988 by the Labour government, which revoked the democratic polls that had kept the local LVT in place for more than 130 years.

The history of the national land tax took a rather different turn. Initially it was successful in raising revenue, but perhaps less so than the new income tax, which, as with most governments throughout the world, was gaining in popularity. It continued successfully well into the next century but from the 1920s went into decline almost as a matter of government policy.

> *'By 1922, the land tax yielded about 10% of the budget. As overseas trade developed and inflation became the accepted means of financing wars or social policy, so land values grew and were protected from any land tax by governments elected to do just that at all costs. Thus by 1989, or 98 years after its confirmation, the land tax yielded only 0.4 percent of the budget and was commonly regarded as an antiquated irritant'. (21).*

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2. Events Leading to Abandonment

The early administrators, led by Governor Grey would have been conscious of the issues that were of concern to the progressive reformers in the home country, one of which were the land clearances and the monopoly power of landed property, which had caused great poverty amongst agricultural workers in Britain. The reason often put forward to justify the land tax, was to discourage the formation of large land holdings (22) rather than as a just means of raising revenue, but Grey and his administrators were very much aware of the latter.

However regardless of the measures that were put in place, the available non-governmental land of New Zealand, as in most developing 'western' countries, eventually became privately owned, not by aristocrats, but by numerous small holders and fewer but more powerful speculators and property companies, who instinctively resisted any notions of a land tax. This resistance increased as land values increased, with the growth of communities, especially in the valuable urban centres. New Zealand was not unique in this sense. All western democratic governments have to a greater or lesser degree been in thrall to, if not in league with, the rich and powerful, who are also usually the land and property owners. Prior to the arrival of universal suffrage, the governments themselves were largely comprised of such owners and therefore resistant to any move that could undermine their interests. These vested interests played a large part (as in Britain and elsewhere) for the inexorable decline of the National Land Tax in New Zealand. After the optimism of the 'Georgist' period prior to World War One, vested interests prevailed and, mainly through exemptions and under-valuations, the national tax was enfeebled and rendered insignificant in terms of revenue collected. (23)

Another adverse influence was also the advent of the new Income Tax in the 19th century, not just in New Zealand, but throughout the world.

Introduced first in Britain as a temporary measure to finance the Napoleonic wars, it later became popular with governments as a means of raising revenue that had an obvious distinction related to means which was easily understood, and enabled it to be seen as 'progressive'. It also lent itself easily to government control. It arrived in New Zealand with the Land and Income Tax Act of 1891, and from the outset became a growing source of revenue, eventually overtaking all other sources, including the land tax.

In their paper of 2001, Barrett and Veal comment:

> *'From the 1940s, around the world, income tax brought many more people into the tax net and, as a consequence, grew exponentially in importance for government revenue. With the ascendancy of income tax, no incentive lay in formulating a better land tax. Another narrative is that of the unwillingness of New Zealand governments since the 1980s to tax capital. In practice the land tax was undermined by exemptions: in 1982, only five percent of total land value was taxed, 'agricultural land being explicitly exempted and residential land effectively exempted by the exemption of $175,000 for all landowners'.* (24)

This of course did not affect the local tax in the form of rates, which survived and flourished for most of the 20th century in the hands of the ordinary ratepayers who enjoyed democratic choice up to the 1980s. So in the story of the rise and fall of LVT in New Zealand, the example of the local rates is arguably more instructive where accountability is concerned.

So what happened in the 1980s to bring national LVT to an end and severely reduce the effectiveness of the local rates based on UV?

After world war two the sequence of political events in New Zealand were very similar to those of Britain; that is the see-sawing of political control between two opposing main parties, one of the 'right' persuasion – National, and the other of the 'left' – Labour. By 1984 the National party of Robert Muldoon had been in power for nine years and the economy was in crisis (25). A new Labour government under David Lange came to power in July 1984 with the express purpose of rescuing the situation, and the prime player in this operation was Lange's Finance Minister Roger Douglas, who was to become instrumental in the demise of LVT. (see appendix 1). Douglas, supposedly on the left of the political divide, and, ironically, an ex-member of the New Zealand Land Value Rating Association (26), introduced a series of right wing policies in his 'radical' solution to the crisis. These measures owed much to the Neo-Classical school of economics, which had always been basically opposed to any Georgist principles. (see appendix 2). An account from NZ history.net describes the events as follows:

> '*It was the era of Ronald Reagan and Margaret Thatcher, and 'new right' policies were in vogue worldwide. But nowhere else were they implemented with the speed and zeal shown by Douglas and his supporters'.*
>
> '*Radical change came thick and fast: deregulation, privatisation, the sale of state assets, and the removal of subsidies, tariffs, tax breaks and price controls. GST (VAT) was added to the mix in 1986. This was a 'regressive' tax – it hit the poorest the hardest'. (*27)

Amongst these 'reforms' the continuation of LVT stood little chance. The National LVT had already become insignificant in terms of revenue and was abolished in 1991. Robert Keall comments:

> 'The tax had become a political football. So to pre-empt a Conservative National opposition promise to abolish the tax, the Labour government did just that'. (28)

On the local rates he notes:

> 'Since the time of restructuring in 1989, combining urban with rural areas the 90% of municipalities which by poll had adopted Land Value Rating has been reduced to about 40%'. (29)

Also:

> 'In the Rating Powers Act of 1988/89 the government withdrew the traditional right to demand a poll'. (30)

Henceforth it became the Local Authorities rather than the people that decided which form of rates to adopt. Between 1989 and 1999 many local authorities switched from UV to CV, most of which were in high value urban areas. (31)

The local rates based on unimproved value, which had always depended on the popular polls for their continuance suffered a great set back when this democratic process was revoked by the government in 1988. (32)

The Labour government made it clear that it preferred valuations based on capital values (which favoured the new growing urban centres with high land values). Accordingly most of the major cities of New Zealand had reverted to capital valuation rating by the end of the 1980s. (33)

Thus, in New Zealand, within a few years in the 1980s, 95 years of national LVT and 133 years of local LVT was lost or severely diminished.

In an article on the Conversation website of November 2015, Dumienski and Ross Smith, commenting on the present state of Australian State land value taxes and local rates in New Zealand, stated:

> '*over the last century these taxes have become significantly debased due to the influence of various interest groups that secured exemptions or low rates*'. (34)

Another reason for the decline of local LVT was through the amalgamation of adjacent boroughs. During the whole of the 20th century amalgamations of local authorities took place in the name of efficiency, especially where authorities had the same rating system. However some amalgamations were exploited to get rid of UV. O'Regan, although a supporter of the principle of amalgamations mentions several instances and comments:

> '*The promoting of an amalgamation to get rid of Unimproved Value has been a well tried technique*'. (35)

Local rating based on land values continues today with certain councils, but its effect is much reduced through exemptions, thresholds and the growing practice of charging direct fixed taxes for particular services. (36)

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3. Conclusions and Comments

The question still remains; why did New Zealand lose its grip on LVT, which for a great number of years seemed to be very well established, at least at the local level?

From the foregoing evidence it would appear that, in the case of the national tax, it was largely a matter of central government indifference or neglect, even downright hostility. In the case of the local rates it appeared to be more a matter of overt ideological government, and later council, opposition.

The national tax was allowed to die slowly over a long period, whereas the local rates went into abrupt decline from 1985 onwards, after a long period in the ascendant. In both cases the opposition to LVT stemmed from the government and latterly the local councils.

The National Land Tax

How does one account for this government hostility? Governments are always searching for ways to raise revenue, and from 1896 the national land tax was:

> '--- *for several years the largest source of government revenue and arguably an important factor contributing to New Zealand's once famed egalitarian character*'. (37)

But, as mentioned earlier, by 1922 the tax had declined to only 10% of the budget and by 1989 this had reduced to 0.4%. (38)

The National land tax was introduced at the time of the new enthusiasm for the radical Georgist movement that was gaining momentum worldwide and which continued up to the time of the first world war. After the war the earlier generation of Georgist reformers had died off and different ideas were in the ascendant. As in Britain the Liberals, who had traditionally been the advocates of LVT, were displaced by the Socialists, who had other ideas about the redistribution of wealth. Also the Income Tax, which appeared to cast its net ever wider was becoming more popular with governments. In the USA the Neo-Classical economic philosophy was gaining ground and inexorably spread its influence throughout the world. The Neo-Classical economists held a view that was diametrically opposed to that of the Georgists, especially over the issue of land, but they were supported by the powerful landed interests and eventually came to dominate economic thought, which continues to the present day. In the inter-war years the original principles of LVT were largely forgotten. After WW2 the revenue from the national land tax continued to decline so that by1967 a government taxation review committee recommended its abolition, quoting the insignificant amount of revenue it brought in and curiously the fact that it was no longer effective in 'breaking up large land holdings'; this reason for LVT still being proffered rather than that of raising revenue (39). Perhaps this report signified the beginning of the end for the national land tax. In 1982 another government report noted that the land tax had: –

> *'No perceptible redistributive effect' and was 'not an adequate indicator of the taxable capacity provided by wealth'.* (40)

And so it would seem that government opposition to the land tax was already under way before the later events initiated by Roger Douglas.

In New Zealand, from the outset, there would always understandably be an opposition to LVT from the new landowners, who instinctively knew from whence their source of wealth derived. This opposition is only held at bay where there is a political will, informed by the principles that lie behind LVT. When this becomes weakened or removed the forces against LVT will inevitably prevail. Opposition to LVT arises from any individual or organisation whose assets are in land. This includes the banks, which receive interest on mortgages where continuing repayments are assured by increasing land values. So throughout the 20th century, and even more so in recent decades, the banks have had a vested opposition to LVT. It is obvious that the banks hold great economic power and in recent years in the western economies where 'financial services' provide an increasing proportion of national economic productivity, this economic power has enabled the banks to exercise a growing political influence. In the case of the USA, the 1916 presidential candidate Bernie Sanders was credited with saying:

> *'the power of corporate America, the power of Wall Street, is so great that no president alone can stand up to them'.* (41)

And so we see national governments in league with, if not in thrall to, their own financial sectors, basically controlled by the banks.

> *'It is the banks that effectively gather the land tax'.* (42).

Furthermore the economists and accountants that staff the financial sectors worldwide have been largely educated in the prevailing neo-classical school of economics, which does not accept land as one of the three elements of wealth creation, but as merely another form of capital. To correct this error would require the retraction of a great many economic models devised over many decades, and the demolition of many academic reputations, so it is hardly surprising that the Georgist / Ricardian idea of LVT, viewed with scorn for many years, would be resisted by the 'economics' establishment. In fact it is contended that the neo-classical school was created for the express purpose of combating the radical Georgist ideas taking root at the end of the 19th century. (see appendix 2)

In the 1970s and 80s the neo-classical school of thinking dominated world economics, including the central banks, the IMF, the World Bank and the Universities. This was the period that saw the rise of 'Reaganomics' in the Reagan-Thatcher era, deregulation, privatisation and the birth of 'neo-liberalism'. It was at the height of this world movement in1984 that the new labour government came to power in New Zealand and under the finance minister Roger Douglas, carried out the drastic right wing policies described above. For those on the right Douglas was the hero that rescued New Zealand from the crisis; but at what cost?

As land values rise with the growth of any community, so does the wealth and power of the landowners, and also their influence over governments, of which they are very often members. There will be an inevitable resistance to anything that would threaten this power base, and a land value tax does just that. A land value tax could only survive where there was a controlling authority that understood the principle (of the economic rent) that lay behind it and unfortunately, in the later years in New Zealand that seemed to be lacking at government level.

> *'To a great extent successive governments allowed the tax to fail'.* (43)

<u>The Local Rates</u>

It has to be noted that local taxes in whatever form only raised a small proportion of total revenue throughout the period.

> *'In 1874 'rates' – taxes paid to local government – represented around 7% of total local and central government taxation, similar to the figure in the 2000s'.* (44)

In the early years of settlement it was the administrators that introduced the idea of land taxation, freshly imported from the progressive political thinkers in Britain. No doubt the administrators saw the opportunity of establishing a system which might avoid the mistakes and injustices of the old country. The system was imposed in a sense from the top, for ideological reasons, and was generally accepted and later preferred by the ratepayers. This fact in itself is interesting. It is doubtful that these early settlers had suddenly themselves become knowledgeable about the Ricardian principle of the economic rent. No doubt they soon realised it was beneficial to them in that they were not penalised for making improvements, but it is more likely they simply did the arithmetic, looked at the bottom line and saw which system gave them the best deal. For the next 130 years, by virtue of the poll, they were able to decide which system, suited them best.

> '*Wherever rating on the Unimproved Value has been adopted it has been adopted by poll*'. (45)

But sometimes the ratepayers changed their minds. Change of status by poll could be volatile; Hawkes Bay County changed from CV to UV in 1921. In 1928 It changed back to CV, then in 1931 changed again to UV which was then retained until the present day. (46)

In 1973 in support of the UV system O'Regan was able to say:

> '*The Land Tax has been in force for at least eighty years and there is not a property in the country subject to the tax which has not been purchased with this impost upon it*'.

Land value tax at the local level was an undeniable success in New Zealand, tried and tested over a long period of time, but as with freedom itself, perhaps is only truly appreciated when lost. The League for the Taxation of Land Values, formed in 1943, tried to maintain an interest, but as Robert Keall notes:

'Over the post-war boom years interest flagged, members died and UV rating became almost universal and largely taken for granted'. (47)

So one can probably say that apathy was another factor contributing to the general eclipse of LVT.

<u>Suggested reasons for abolition</u>

Here are some further reasons for the abolition or loss of LVT proffered in various academic papers and articles: –

1. Robert Keall, on the aftermath of the1896 Land Value Rating Bill:

> '*Despite the rapid success thereafter at the hands of ratepayers there remained a crafty opposition who constantly tinkered with it, confusing even the most assiduous student*'. (48)

And on the later events of the 1980s:

> '*The assault on Land Value Rating, coincidental with the sale of natural monopolies, exemplifies a contrived co-ordination of:*

a. Relieving natural resources of any public charges to enhance the privatised unearned speculative value.
b. Privatising natural monopoly profits – both wrongfully, at the expense of the public sector'.

Also, on the political aspect:

> '*It indicates an infiltration of the Labour party by the World Bank to neutralise effective radical opposition to the new right global agenda of privatising natural resources: i.e. owning the Earth and privatising the rent'.* (49)

Elsewhere Keall comments:

> '*Unfortunately for its proponents, Land Value Taxes are not generally understood. Indeed even at the height of enthusiasm for the Georgian single tax, his sophisticated arguments were understood by only a few in New Zealand and accepted by fewer'.* (50)

He encapsulates what is perhaps one of the most potent sources of opposition to LVT when he says:

> *'Because land (and thus land value) is perceived as sacrosanct private property, land value charges are too often seen as an invasion of private property'.* (51)

2. In their 2001 paper, McCluskey and Franzsen make the comment that

'Land Value Tax as a system is not well understood by ratepayers',

which is no doubt true, even in New Zealand with its long experience. They go on to conclude with the somewhat negative (and, for this writer, puzzling) comment that:

> *'While the land value rating system has been a valued system in the past, its benefits are increasingly being questioned. Even if one accepts that its strength is the encouragement that it brings to develop property it is questionable whether New Zealand is in a developing mode. In addition, land use planning through the rating system is not the most efficient mechanism to attain proper land use controls'.* (52)

3. In a paper of 2003 entitled 'The Abolition of Land Taxation in New Zealand: Searching for Causes and Policy Lessons', Barry F. Reece makes the following observations on LVT:

'Those who are affected see it as a discriminatory wealth tax'. (53)

'The Taxation Review Committee of 1967 recommended that land tax be abolished, pointing out that the revenue from the tax had dwindled to a very minor proportion of total revenue'. (54)

'The removal of the principle residence from the tax base was made in the 1976 Land tax Act - - - - the circumstances in which the principle residence was freed from land tax partly foreshadowed the circumstances surrounding abolition in 1991'. (55)

Reece offers five possible reasons for the abolition of the tax:

1. The tax was unpopular with lobby groups of land tax payers.
2. The tax was unpopular with Labour Party reformist politicians concerned with advancing further the major reform of the New Zealand tax system associated with the introduction of GST (VAT).
3. The bureaucracy was dissatisfied with having an incomplete base for land taxation, as agriculture and principle residence were excluded, and preferred its complete abolition to continuation of the existing emasculated business land tax.
4. Local government wanted abolition so it could expand its tax effort to fill the tax vacuum that would be created.
5. The New Zealand economy had matured to the stage where land tax could be removed. (56)

With reference to item 2: In the 1990 budget speech, the year before abolition, the Labour government claimed that:

' Substantial exemptions meant that the majority of land in New Zealand remains outside the tax base, giving rise to distortions and unfairness in its application'. (57)

Reece states also that the Labour Party believed that:

'Abolition would appeal not only to lobby groups and the party faithful, but to the wider electorate'. (58)

Perhaps reason 5 is the most surprising; inferring that mature and sophisticated economies at some point of development can discard a land value tax, as being only suited to more basic undeveloped (agrarian?) economies.

Reece does state that the most convincing reason is the second, where:

'the action of reformist politicians was paramount'. (59)

We have to accept that there will always be a strong opposition from those whose power derives from land ownership. Such opposition never dies and will take any opportunity to disparage LVT at any time. An example of this is an interesting article entitled 'Taxation of Land – The New Zealand System' that appeared in the Sydney Morning Herald of April 14,1932. (60). The writer expresses his vehement opposition to LVT in the following comments:

> *'The land tax - - - may justifiably be written down as an effort of inexperienced politicians that has been proved by the test of time to be a complete failure'.*

He mentions several times that the prime objective of the tax was to break up large land holdings – an aim that was never achieved.

> *'New Zealand, after 54 years of experiment, recognizes this, and the Taxation Commission of 1925 recommended that as the land tax had failed to achieve the only objective which justified its existence it should be abolished. As a means of raising revenue the land tax is the negation of the cardinal principle of taxing according to the ability to pay'.*

Referring to the later experience of Australia after 1910 he comments:

> *'It had been conclusively demonstrated that the taxation of land was not an effective means of forcing the sub-division of large estates; and this was the intention of the Australian legislators'.*

Finally:

> *'New Zealand, the pioneer of this form of impost, realizes its inefficiency and its flagrant injustice'.*

Earlier in the article he does admit that the tax:

> *' provides one item of revenue which can be reliably estimated by the treasury'.*

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10.1.17.

Appendix 1

Notes on Roger Douglas

As has already been noted Roger Douglas played a key role in the demise of LVT in New Zealand and some further comments on his career are warranted.

His astonishing transformation from a (supposedly left wing) Labour politician to an exponent of 'hard right' policies is revealed in some of the following quotations taken from various sources.

His radical policies, which became known as 'Rogernomics', after the election of 1984 were 'successful' to the extent that the Labour party was re-elected in1987, but finally led to disagreements with the party leader, and his standing down in the election of 1990.

He became a Labour MP in 1969 and served in the Labour government of 1972 to 1975, which however mishandled the economy and lost the election of 1975. The Labour party remained in opposition till 1984, when it returned to power due to the even worse mishandling of the economy by the incumbent National government. Douglas was critical of the previous policies of his own party and was supported by the party leader David Lange who saw him as a 'moderniser'.

> '*By the end of 1983 his thinking had shifted markedly to the economic right.*'(61)

Where policies were concerned Douglas also had allies in the government treasury.

> *'The Treasury's view of economic policy was neo-classical and monetarist, and used commercial criteria as the basis for decision- making. Douglas did not concede that his advocacy of these views placed him on the right of politics.'*(62)

Although Lange was initially in agreement with Douglas' policies, by 1986 he was having doubts and the relationship later became strained. At the end of 1988 Lange replaced Douglas as finance minister, but by then the legislation had been passed. Douglas did not stand at the election of 1990, which Labour lost. But the succeeding National government continued his policies.

In 1993 Douglas co-founded a new party, the Association of Consumers and Taxpayers (ACT), with the purpose of pursuing his earlier policies. He entered parliament again in 2008 for the ACT party, which allied itself with the National party. He finally retired from active politics in 2011. It's interesting to note that In 2011 the ACT party included in its manifesto an un-graduated flat rate income tax, reduced welfare spending, more defence spending and interest on student loans (63). Its leader Rodney Hide is credited with saying '*the entire climate change-global warming hypothesis is a hoax*'.

In an Address to the Liberalni Institut in Prague in 1999. Douglas explained how he responded to those who questioned the policies he advocated:

> '*If you want to sum up the policies we put in place in 1984 to 1987, I can do it in three words: " we abolished privilege".*' (64)

One presumes the irony escaped him, but others had a different view. In an article summarising an interview with Douglas the journalist Bridget Gourlay comments:

> '*Some credit Sir Roger Douglas with single-handedly saving New Zealand from ruin. Others blame his policies for causing a huge gap between the rich and the poor, one that still exists today*'

Also:

> '*Serious money was made as the markets de-regulated. Serious poverty was caused as factories around the country shut down.*'(65)

The prime minister David Lange often disagreed with the extremity of Douglas' measures. In 1996 he is recorded as saying:

> '*For people who don't want the government in their lives this has been a bonanza. For people who are disabled, limited, resourceless, uneducated, this has been a tragedy.*'(66)

Later, Douglas is recorded as saying: '*Socialism has failed the poor*'(67)

It is easy to cast Douglas as the villain of the piece, and there is no question that he led the vanguard in the new right movement, but he did not act alone; he no doubt represented the political sentiments that prevailed at the time as a consequence of the economic crisis in New Zealand.

Appendix 2:

Neo-Classical Economics

Perhaps the most effective underlying force against LVT, throughout the world has always been the neo-classical school of economic thought, which is still the dominant ideology today. Neo Classical Economics arose in the USA in the late 19th century almost concurrently with the rise of Georgism, but represented virtually the opposite ideology, especially where the status of land was concerned.

Georgism continued the classical economic view that there were three basic elements leading to wealth creation, land, labour and capital, which were separate and distinct. Prof. William Batt sums it up neatly when he says:

> '*The price of labour is wages, the price of capital is interest, and the price of land is rent*'. (68)

The neo-classical view was that land was merely another form of capital and therefore only the two elements, labour and capital were significant; Ricardo's 'law of rent' was ignored. This view was highly convenient for landowners and large industrialists who would be able to claim their rightful return on capital – including land.

The political philosophy of Henry George was seen by the rich and powerful as a direct threat to their power base.

> '*Henry George and his reform proposals were a clear and present political danger and challenge to the landed and intellectual establishments of the world. Few people realise to what degree the founders of Neoclassical economics changed the discipline for the express purpose of deflecting George*'. (69)

This opposition to George was seriously organised in the USA. Prof. Batt gives an astonishing account of the influence of the railroad and land 'barons' who through their financial sponsorship of the major universities were able to determine important placements of academic positions favourable to neoclassical economics. (70)

Inevitably the neoclassical school prevailed and came to dominate economics throughout the world. The reformist movement, of which Georgism played a leading part became forgotten in the tumultuous events of the first half of the 20th century – two world wars and a major economic depression. In recent years there are signs that the neoclassical orthodoxy is being questioned as inequalities become more acute and the neoclassical solutions are seen to be failing.

The practise of LVT in various forms is still alive in the world, especially in Pennsylvania in the USA. There is evidence of a revival of interest amongst economists, journalists and academics. (71)

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