

Sydney, Mtrls

RAMADA® HOTEL

PARRAMATTA

Olympics

Credible crossing signals

Ramps

Space between train & platform: 1 foot
2 decker. Quiet. on time.

Minor vandalism

Meat - long visitations

Sydney - origins of name.

No tax on bldgs. Compact.

✓ Mitchell - do

Send bird book to Fergusons.

Lee Leys

Louisa Sutton

Ed Hayward

Phil Anderson

Even us. prices - no. retail sales tax

*Hear the World's Leading Georgist Speaker
talk about current economics*

PROFESSOR MASON GAFFNEY

**'Neo-classical Economics as a
Reaction to Henry George'**

This talk, given under the
Walsh Bequest administered by Macquarie University,
is the Henry George Memorial Lecture for 1993.

V E N U E :

**The Australian National Maritime Museum
Conference Centre, Darling Harbour**

D A T E :

Wednesday, 22nd September, 1993

The lecture begins at 7.15 p.m.

ADMISSION IS FREE

Secure parking is located at 320 Harris Street, Pyrmont,
with access at the corner of Harris and Allen Streets.

A parking concession is available.

Refreshments will be served after the lecture.

For full details ring (02) 744 8815, (02) 319 3313, or (02) 805 8488

Integrating Land-Value Taxation with the Internalization of Spatial Externalities

T. Nicolaus Tideman

This paper describes procedures that might be used to combine collection of the full rental value of land for public purposes with assignment of appropriate taxes and subsidies for activities with spatial externalities. The paper begins with a discussion of reasons for pursuing these goals and the conditions that would obtain if they were satisfied. Next, procedures for collecting the full rental value of land for public purposes, and for internalizing spatial externalities, are described. The proposed procedures for internalizing spatial externalities are then compared with zoning. The following sections discuss the connections between the two sets of proposed procedures and the implications of the proposals for government structure. The paper closes with a brief summary.

I. REASONS FOR THE GOALS AND CONDITIONS FOR ACHIEVING THEM

Collecting the full rental value of land for public purposes and internalizing spatial externalities complement each other as two parts of a system in which individuals are rewarded according to their marginal products and charged prices that reflect the marginal social costs of the activities they choose to pursue. These conditions are well known to economists as ones that are needed to induce individuals, out of concern for their own well-being, to make choices that maximize the aggregate market value of all activities.

The internalization of spatial externalities is a straightforward application of marginal cost pricing. If spatial externalities

were fully internalized, then for any activity that a person might undertake at any site, if the net benefit to all persons at all other sites were positive, there would be a subsidy of that magnitude for the activity, and if the net benefit to all persons at all other sites were negative, there would be a tax of that magnitude on the activity. An ideal system would not only match the external benefit or cost with a subsidy or tax, but would also collect money to finance the subsidies, and distribute the proceeds of the taxes collected, according to the impacts of the externalities. If these conditions could be attained, not only would each land user have an incentive to undertake each activity at precisely the efficient level, but every change in activities would be a Pareto improvement, making the person undertaking the activity better off and no one worse off.

A system that would filter proposed changes, permitting only efficient ones to pass, and would implement these as Pareto improvements, has long been a Holy Grail for economists. The Arrow Theorem (Arrow 1963, 12-31; 96-103) and the Gibbard-Satterthwaite Theorem (Gibbard 1973; Satterthwaite 1975) make it reasonably clear that this goal will never be achieved. These theorems nevertheless leave open the possibility of close approximations to the ideal, and that is what is sought in this paper. The closeness with which the ideal can be approximated will depend on the extent to which the preferences of individuals can be estimated by response of other individuals. If preferences could be identified perfectly in this way, then the ideal could be achieved. To the extent that preferences are imperfectly identified, there will be un-

intended redistribution in the implementation of efficient changes.

The collection of the full rental value of land for public purpose fits into the marginal-cost-pricing-marginal-product-payment framework in several ways. Since no one produced land, no one has a respectable claim to its unimproved rental value (George 1879, 333–94). Collecting this value and using it for public purposes is a way of sharing what no individual can rightly claim. Furthermore, some of the rental value of land arises as a consequence of publicly financed activities. Public collection of this value rewards governments for their productivity and provides them with revenue with which to finance valued activities. To the extent that the rental value of land is an externality arising from activities undertaken at other sites, public collection of this value provides governments with revenue with which to appropriately subsidize these activities. Collection of the rental value of land also obviates the need for taxes that would produce departures of prices from marginal costs, resulting in inefficient allocative decisions. For urban public finance this means in particular that if land were fully taxed it would be possible to remove taxes from improvements, so that individuals might be motivated to make efficient use of the land they held. In addition, private collection of the rental value of land induces individuals to seek public expenditures that increase the rental value of the land they hold, even if the total cost exceeds the total benefit. Removal of this opportunity for private gain from inefficient public decisions would eliminate the incentive for wasteful, "rent-seeking" uses of resources in promoting inefficient decisions (Mills 1989), thereby improving the prospect for efficient public decisions. Finally, the information about the rental value of land that is obtained by the institutional structure for collecting it publicly is useful for the purpose of internalizing spatial externalities.

If all of the rental value of land were collected publicly, the sale value of titles to land would be approximately zero. This means that it is not possible to implement

the public collection of the full rental value of land by a tax on the sale value of land. If the full rental value of land is to be collected for public purposes, the tax must be levied not on stocks but on flows. The base must be the rental value of land inclusive of taxes (which does not fall as taxes on it increase), and the rental value must be identified by a procedure that does not rely on the sale prices of titles to land. The next section describes a procedure for doing this.

II. COLLECTING THE FULL RENTAL VALUE OF LAND FOR PUBLIC PURPOSES

If there were no durable, immobile capital, the rental value of a site for a particular year could be defined simply as the greatest price that a person would be willing to pay for the use of a site for that year. Rental values could be observed as actual prices paid. However, because the most valuable uses of land, particularly in urban areas, generally involve combining land with durable, immobile capital (buildings), leases of unimproved land for just one year are generally not observed in urban areas. While longer leases of unimproved land do occur, there would be no justification for assuming that the rental value of the land was the same in every year, and therefore such leases do not provide a basis for ascertaining current rental values.

The fact that durable, immobile capital must be employed to make the best use of land complicates the definition of the rental value of land. If land cannot be used most valuably unless there is time to amortize buildings, and if there is no reason to assume that rental value is constant through time, what is the meaning of the rental value at a given time? A reasonable answer to this question is that when efficient land use requires durable, immobile capital, the rental value of a site for a particular year can be defined as the minimum return that an existing use of the site must yield to justify postponing the next use of the site for one year. In mathematical terms, define $V(x,y)$ as the present value at time x of the

stream of net returns from the site under consideration, beginning at time y (with y at the same as or later than x), from that sequences of uses from y to infinity that maximizes the present value of net returns, starting with bare land at time y . Then the rent of the site for the span of time from x to y is defined as $V(x,x) - V(x,y)$. That is, the rental value of a site for the span of time from x to y is the cost, calculated at time x , of postponing the starting time for the next use of the land from x to y . (If the optimal path of development entails postponing construction at present, then the current rent of a site, by this definition, is its value for agriculture or parking.)

While the definition above suffices to express the rental value of land in theoretical terms, it does not in itself specify a way of observing rental values. To observe rental values, there must be a market in which a corresponding right is traded. The right in question would be the right to use a site for the current year, with an option to use it in future years upon payment of future rental value. And the right would have to be traded in a competitive market. While such a market could not be expected to develop spontaneously, it would be possible to induce its development, within an understanding that land is the common heritage of all persons.

What is needed is a competitive assessment process, such as the following. Each December, rental value assessments for the next year would be requested. Anyone who wanted to become an assessor would be permitted to do so. To become an assessor, a person would post an interest-bearing bond (for something like 2 percent of the rental value of the land she assessed) and specify a function describing land rents per square foot within a convex domain of her choosing, provided that the domain contained at least, say, 200 sites. The actual assessment for any site for the succeeding year would be the maximum, among all assessment functions whose domains included the site in question, of the rental value assigned to the site. (What is meant by a "site" is a connected area under the control of a single individual or corpora-

tion. Smaller units of analysis, such as square feet, would not be workable as the units for which assessments were assigned, because the unit used must be such as could conceivably be transferred to another person.) The assessor who provided the greatest assessment would be guaranteeing that if the site became available during the succeeding year, someone could be found who would be willing to pick up the title and pay the rent she specified, pro rated for the proportion of the year remaining. The assessor would have the option of being the one who did so; but if she did not wish to exercise that opinion, there would be an auction of the title, carrying with it the right to use the site for the rest of the year, and in future years upon payment of future rental value. Any shortfall from the rent specified by the assessor would be taken from her bond. The assessor assigning the highest rental value to each site would be given a small percentage (something on the order of 1 percent) of the assigned rent, for her services. Because different assessors would choose different domains and assign rental value functions of different shapes, it would be possible for an assessor to be the winning assessor for some sites in the domain she chose, but not others.

If there were no further rules, assessors would have an incentive to assign higher values to improve sites, because a person who owned durable, immobile improvements attached to a site would find it in his interest to pay more than the rental value of the site for its use, if he had to, rather than lose his improvements. The prospect of such losses would discourage improvements, thereby defeating the purpose of a tax confined to land. To avoid this additional taxation of those who improved, restrictions would have to be placed on the manner in which rent per square foot might vary over the domain that an assessor assessed. It would then be possible to take advantage of the principle of adverse selection to ensure that improvements were not taxed.

Suppose first that a city had a rental value per square foot that was known to be uniform, but of some unknown magnitude.

And suppose that while the city was generally built-up, there were a few sites that were either vacant or occupied by structures that had come to the ends of their economic lives. Assessors could then be told, "You must assign a rent per square foot at which you would be prepared to accept any site in the city." An assessor would find it unprofitable to name a rent that took account of improvements, because the sites that would first be offered if the assigned rent exceeded the rental value of vacant land would be ones without improvements. Competition among assessors would then reveal the unknown rent.

Next suppose the city is known to have a rental value per square foot that varies with distance from its center, but the shape of the rental value function is unknown. And suppose again that there are some sites, now scattered throughout the city, with no improvements of economic value. Assessors could be asked to specify, within the domains they chose to assess, the manner in which rent varied with distance from the center of the city. The prospect of receiving only unimproved sites would again keep assessors from assigning more than the rental value of unimproved land.

Now suppose that in addition to distance from the center of the city, land rents are influenced by a variety of other factors: corner effects; elevation effects (better views); positive effects from proximity to schools, parks, fire stations, libraries, and other public services; negative effects from proximity to freeways, sewage treatment plants, and airport landing and take-off routes; and effects that might be either positive or negative, from proximity to private activities such as a golf courses, parking garages, shopping malls, gas stations, junk yards, and high-rise apartment towers. As long as there are some sites throughout the city with no improvements of economic value, or sites that might, with non-negligible probabilities, be put in that condition by such accidents as fires, and assessors are constrained to offer "smooth" land rent functions, they will find that it does not pay to assess at more than the rental value of unimproved land; if they do

so they will find themselves renting unimproved land for more than it is worth.

An assessor would name a base rental value that applied throughout the domain she assessed, with adjustments for identified effects. Any such effects would be specified as additive or multiplicative adjustments to rent per square foot, with the amount of the adjustment varying in a specified way with distance from the site of the activity.

This set of procedures could be expected to yield a very close approximation to actual rental values. Values that were systematically too low would create opportunities for new assessors to make profits by naming higher values. Values that were systematically too high would create losses for the assessors naming them when overassessed sites that were ready for new uses became available and the bonds that the assessors had posted were docked for the shortfalls in offered rents.

A mathematical analysis of profit maximization by assessors provides further insight into this process. Let Z be the assessor's profit. Let p be the assessor's subjective probability that she will be the assessor who names the highest rent for a site. Let A be the rent that the assessor assigns to the site. Let f be the fraction of the rent that the assessor with the highest rent receives. Let g be the assessor's subjective expectation of the probability that the site will be relinquished by the current user. To allow for the differing consequences of offers at different times of the year, g should be expressed as the assessor's expectation of the fraction of the year for which she will be responsible for the rent. Let R be the assessor's estimate of the true rental value of the site—the rent that the site would yield if its use were offered at auction. Let C be the cost to the assessor of developing her estimates. Then the assessor's expected profit is

$$Z = p[Af - g(A - R)] - C. \quad [1]$$

In terms of [1], the reason that an assessor would expect negative profits if the assessments she submitted were much too

low is that then it would be virtually certain that someone else would submit a higher assessment. p would be insignificantly different from 0, so that the $-C$ term would make profits negative. And if an assessment were extremely high, then p would be insignificantly different from 1. The $-g(A-R)$ term would then dominate the expression and would be negative. On the other hand, positive expected profits are possible in intermediate cases. For example, if A equals R and the assessor is confident that no one else will enter the assessment competition, then Z reduces to $Af - C$, which will be positive as long as f is generous enough to cover the cost of being an assessor.

It can confidently be expected that at least one person would find it profitable to be an assessor because, if no one else were assessing, the first entrant could obtain a return from the most cursory and inexpensive assessment function, deliberately erring on the low side to avoid risk. Since the returns to assessing would fall with the number of assessors while costs would be independent of the number, their number would tend to stabilize at a level where all of them had positive expected profits but no new entrants could expect positive profits.

At the level of assessment that maximizes an assessor's expected profit, the derivative of [1] with respect to the variable that the assessor controls, A , is zero. Thus

$$\frac{dZ}{dA} = p[f - g - \frac{dg}{dA}(A - R)] + \frac{dp}{dA}[Af - g(A - R)] = 0. \quad [2]$$

Solving [2] for $A - R$, which is the excess value in the assessor's estimate,

$$A - R = \frac{p(f - g) + \frac{dp}{dA}Af}{p\frac{dg}{dA} + g\frac{dp}{dA}}. \quad [3]$$

Thus to motivate an assessor to report her estimate of the rent accurately, the numerator of the right-hand side of [3] must be zero. Let the elasticity of p with respect to

A be denoted by

$$s = \frac{A}{p} \frac{dp}{dA}. \quad [4]$$

Then the condition for motivating accurate statements of rental estimates (the condition that the numerator of the right side of [3] be zero) can be expressed as

$$p(f - g + sf) = 0, \quad [5]$$

or

$$f = g/(1 + s). \quad [6]$$

Equation [6] specifies a condition upon the "commission rate" to be awarded to the assessor with the highest assessment, to motivate accurate assessments. The parameter g could be estimated by the frequency with which sites are redeveloped. The parameter s would be harder to estimate but could conceivably be derived from patterns of bids and plausible expectations. If there were only one bidder, because everyone recognized her skill and reliability and thought it not worthwhile to compete with her, then s would be 0.

In evaluating the idea of paying commissions to competitive assessors, one might wish to know how much assessment costs under existing institutions. To take one example, the city of Philadelphia has 84 assessors and 564,000 parcels (one assessor for each 6,714 parcels) and obtains about \$300 million per year in real estate taxes.¹ If the payroll cost for each assessor is \$50,000, then the assessors cost 1.4 percent of the proceeds, so 1 percent of the proceeds is in the neighborhood of the costs of existing procedures. However, much of the cost of the existing procedures arise from the fact that both land and improvements are assessed. Ted Gwartney, a California appraiser and former assessor, has offered the estimate that if only land were assessed,

¹Remarks of Albert Letson, of the Philadelphia Board of Assessors, to the International Union for Land Value Taxation and Free Trade, Philadelphia, July 31, 1989.

it ought to be possible to do assessments with just one assessor per 50,000 parcels, while four or five times as many assessors are needed to assess both land and improvements.² (It is the spatial continuity of land values that make them so economical to assess.) There are also clerical costs, but it is hard to know whether these would be larger or smaller under the proposed institutions.

So far, only the first-order condition for profit maximization has been considered. The earlier comments about how the expected profit of an assessor would be negative for very low or very high assessments, but positive, in at least some cases, for intermediate assessments, explain why the maximum of profits will be at an interior rather than an extreme assessment. A mathematical statement of the restrictions on parameter values required for the second-order condition to be satisfied, and for there to be therefore a unique interior local maximum of profits, is as follows:

The second derivative of the expected profit condition [1] is

$$\begin{aligned} \frac{d^2Z}{dA^2} = & P[-2\frac{dg}{dA} - \frac{d^2g}{dA^2}(A - R)] \\ & + 2\frac{dp}{dA}[f - g - \frac{dg}{dA}(A - R)] \\ & + \frac{d^2p}{dA^2}[Af - g(A - R)]. \end{aligned} \quad [7]$$

If f is set equal to $g/(1 + s)$, then $A = R$ when profit is maximized, so that every term that includes $(A - R)$ multiplicatively is zero. This leaves as the second derivative

$$\frac{d^2Z}{dA^2} = -2P\frac{dg}{dA} + 2\frac{dp}{dA}(f - g) + \frac{d^2p}{dA^2}Af. \quad [8]$$

The terms P , dg/dA and dp/dA are definitely positive, while $(f - g)$ is non-positive, so that the first term is definitely negative and the second is non-positive. In the third term, A and f are definitely positive, so that the sign of this term depends

on the sign of d^2p/dA^2 . This second derivative must be negative for very large values of A , since dp/dA is positive and p has an upper limit of 1 while A is unbounded. But to guarantee that there is a unique interior local maximum of profits, this second derivative must be negative everywhere, or at least not so positive as to outweigh the first two terms. The procedures described thus provide a way of using a competitive assessment process to collect something very close to the full rental value of land for public purposes, implying that land titles would change hands at prices that reflected only the value of the improvements to the land.

Potential complications are created by situations in which the value of the improvements is negative, as when a building has come to the end of its economically useful life, and it is time to demolish the building and replace it with a new one. The "value of the improvements" is then the negative of the cost of demolishing the building. The profit-maximizing action of the owner of the site at that point would be to abandon his claim. To guard against such events, any person who transformed a site in a way that made it expensive to restore that site to a condition of "bare land" could be required to post an interest-bearing bond that would run with the land, against the contingency that his site would be abandoned and require restoration. If this bond were posted at the time of construction and were calculated to be the present value of expected demolition costs at the end of the useful life of the improvements, with some margin of safety, the amount would in most cases be a small fraction of construction costs.

One of the ways of transforming a site that potentially makes it less valuable is to subdivide it. While it is possible that subdivision is required to make the best use of land, it is also true that land for which title has been subdivided can be used for projects that require large parcels only if an expensive assembly process is undertaken. It

²Conversation with the author, August 4, 1989.

might seem that, with all of the rental value of land being collected in taxes, the sale price of all land would fall to virtually zero and the land assembly problem would disappear. This is not so, however, for two reasons.

First, subdivided land would typically be used for a variety of different purposes, involving improvements that depreciated at different rates. It would thus be possible for subdivided land to have a higher rental value as a whole than as a set of separate sites, while at the same time the whole had a lower rental value as bare land than the aggregate rental value of the sites in their improved states. In this condition, if the sites are renewed at disparate times, it may never be efficient to reassemble the site, even though the rental value of the reassembled site would be greater than the sum of the rental values of the separate sites. Unsubdivided land, from this perspective, is like an exhaustible natural resource such as oil, and the theory of the optimal rate of subdivision is akin to the theory of the optimal rate of exploitation of an exhaustible resource.

A second reason why land-value taxation does not entirely solve the land assembly problem is that even if the value of the improvements on all of the parcels required for a potentially valuable assembly was virtually zero (which could occur prior to redevelopment even while each parcel had improvements that had some use), each holder would know that his consent was required to achieve a significant efficiency gain. This could lead to a profit-maximizing calculation that it was in one's interest to hold out for a substantial fraction of that gain, at the same time that no competitive assessor would be prepared to guarantee that any individual site, if auctioned, would yield a corresponding rent. Thus, the fact of selling prices that are generally very small does not in itself solve the assembly problem.

This hold-out aspect of the assembly problem could be solved, or at least greatly ameliorated, by complementing the tax on land based on competitive assessments with a self-assessed tax, at a very low rate,

on the right to continue using a site. That is, each holder of title would specify a price at which he was prepared to part with the site, and pay a tax at a very low rate (perhaps 1/10 of 1 percent per year) on that value. Then a land assembler could announce one day that she was acquiring all of the land in a designated area, and the existing users would have a specified time (perhaps six months) to remove any of their improvements that they wished to remove. People would report self-assessed values that reflected both the economic costs of moving or abandoning their improvements and the psychological costs of moving, but because the tax rate would be so low (\$100 per year for a \$100,000 house) they would be able to afford it. At the same time, since assemblers would be able to act without any delays, a person could profit from holding out only if he had very good, very private, information about which sites were likely to be assembled. The tax rate that would motivate a person to report his true opportunity cost and neither more (speculating on profits from assembly) nor less (desiring to save on his tax bill) would be a rate equal to the person's subjective probability that the property would be acquired by an assembler (Tideman 1969, 61-69). Such a self-assessed tax can be conceived of as a charge for the diminution of social flexibility that results from putting immobile improvements on land.

From the perspective of the legal theory of entitlements, such a dual tax system can be described as protecting land titles by a combination of liability rules and property rules, each carrying a separate price. Payment of the self-assessed tax establishes the "damages" that are due if someone else wishes to acquire title to one's land without obtaining one's consent. This is a liability rule at work. Payment of the tax assigned by the assessor provides one with the protection of a property rule for exchanges at prices below the self-assessed value. Such exchanges must have the consent of the title holder.

The competitive assessment process has two possible shortcomings. One is that the rewards to assessors will be too low to in-

duce them to incorporate all the gradations in assessments that might be observed. There will be incentives: The failure to incorporate a negative effect will raise the risk of having to make up a deficiency in rent, while failure to incorporate a positive effect will mean that one is passing up higher commissions and risking the possibility that another assessor will be the one with the highest assessments in that area, who therefore receives all of the commissions. The level of effort at accuracy that these will call forth is what might be questioned.

The second possible shortcoming of the competitive assessment process is the risk that assessors will find ways of raising the assessments of improved sites above those of unimproved sites. An area that had been completely developed could be assigned an excessive value without much risk that the assessor would be called upon to make up a deficiency of rent. There are two ways of responding to this concern. One is to say that since the probability of redevelopment, g , is lower in more highly developed areas, the fraction of rents assigned to the highest assessor, f , should also be lower. The lower commission rate would reduce the incentive to raise assessments, though it would also lower the incentive to incorporate all observable variations in rent. The other possible response is to use the competitive assessment process as an input into a process in which public officials determined the actual assessments, as with the existing property tax. They could use then their discretion to decide when "hills" of assessed rental value represented a competitive response to the lower probability that sites would be offered rather than truly higher rents. In any case, even if some improved value did get into the tax base, the tax cost of undertaking improvements would be lower than with existing institutions, where improvements are intentionally taxed on their value at the same rate as land.

III. INTERNALIZING SPATIAL EXTERNALITIES OF LAND USE

The competitively developed maps of land rents that are produced by the proce-

dures of the previous section, with their identification of the sources of spatial anomalies in land rents, provide data that is needed to internalize the spatial externalities of land uses. For every activity that is identified by one or more competitive assessors as a source of positive or negative effects on the rent of surrounding land, it will be possible to compute the hypothetical increment or decrement to the aggregate of all rents that would result from the elimination of this activity. In most cases it would be appropriate to charge this increment, if positive, or pay the increment, if negative, to the person undertaking the activity that generated the effect.

An example of the kind of case where it might *not* be appropriate to charge an activity that generated an externality is as follows. Suppose there were a private school for handicapped children that was observed to depress the rent of the residential land around it. Assessors were agreed on this and occasional auctions confirmed it. The community might nevertheless decide that even if the presence of handicapped children did observably depress land rents, this was not a cost that ought to be borne by those who provided services to handicapped children and then passed on to the parents of those children. There may thus be some "aesthetic externalities" that individuals are entitled to impose on whoever experiences them. Such cases, however, are likely to be quite exceptional. I cannot think of an example of an activity that would be likely to generate a positive effect on land rents, but where there could be reasons of public policy for not awarding to the person undertaking the activity the increment in land rents that it generated. And it should be noted that under 100 percent land-value taxation, it would be the whole community rather than the immediate neighbors of the school that would experience a reduction in income by virtue of the external effects of the school.

Note that there is distributional neutrality in the practice of assigning increments and decrements in land rents to the activities that cause them. If an activity reduces surrounding land rents, not only does the activity pay this cost, but those who

hold the surrounding land are compensated by the fact that their land taxes are lower than for otherwise similar land not subject to the externality. If an activity increases surrounding land rents, not only is the activity rewarded accordingly, but those who benefit from this externality pay for it in higher taxes.

If all spatial externalities were reflected in land rents, this would be the end of the story. But there is reason to believe that there will be spatial externalities that will not be reflected in land rents. The principle by which land is the first factor one examines for spatial effects is that in order to be subject to a spatial effect, a factor must be either immobile or inelastically supplied. If an activity were initiated that increased the usefulness of personal computers, say a computer bulletin board containing locally useful information, sponsored by a city government, this could not be expected to increase the selling price of personal computers. They are too mobile and too elastically supplied. But there are other factors that are sufficiently immobile that they are affected by spatial externalities.

First there are the immobile improvements to land. Building a multi-story parking garage on the fringe of a commercial area might have no effect, or even a positive effect, on the rental value of nearby residential land (it would now have better commercial prospects) at the same time that it depressed the prices of residential houses (potential residents objected to the increased traffic). If the decision as to whether the parking garage is to be built is to be made efficiently, its cost must include this diminution in the value of houses.

It might seem that the cost of the interaction between the parking garage and the residences is being assigned arbitrarily to the parking garage, when it could equally be argued that presence of the houses is imposing a cost on those who would benefit from the existence of the parking garage. In fact, the framework offered here does not impose this asymmetry. The building of houses entails bringing in owners who can later object to the parking garage. If this has a foreseeable impact on the future prospect for a parking garage that would otherwise

be efficient, then the building of the houses could be expected to have a depressing effect on the value of the land that would benefit from the parking garage, which could then be charged to the building of the houses, thereby discouraging their construction if that was efficient.

A second factor, in addition to improvements to land, that is potentially affected by spatial externalities because of its partial immobility, is the "locational component of human capital." People derive value from their accustomed surroundings and cannot costlessly substitute alternative surroundings. Suppose for example that a new runway were built at an airport, which introduced the noise of take-offs and landings to a previously quiet residential neighborhood. It could conceivably be that there was no effect on land rents or on house prices, because there were enough potential residents who did not mind the sound. But if those who were already there did mind the sound and could not move without financial and/or emotional costs, then these moving costs, or the possibly lower costs of putting up with the changed circumstances and not moving, should be considered in deciding whether it is efficient to open the new runway and should be paid to those who experience the effects, to achieve distributional stability.

While the impact of land uses on rents is probably handled best by an annual charge, the impact on the value of improvements and on human capital, where this is adverse, is probably handled best by a one-time charge that would accompany an official land-use designation.

Suppose, for example, that someone wanted to open a gas station at a location where adverse spatial effects could be expected. The operator of the gas station would already have an obligation to pay the decrement in land rents that would be observed in future years to result from its operation. This would mean lower land taxes for those who lived near the gas station, which would have a tendency to reduce opposition, but it might not eliminate opposition entirely. The houses built near the site of the gas station might not be the ones that would have been built if the coming of the

gas station had been known. And the people living there might not be the ones who would have moved in if its coming had been known. It would be efficient and equitable to regard the operator of the gas station as having an obligation to compensate the neighbors for the losses of value to their houses and to their intangible human capital resulting from his decision to open the gas station.

But how should the magnitude of the compensation that is owed, and its distribution, be determined? The gas station operator would make an offer of aggregate compensation for effects on immobile improvements and intangible human capital. An "Office of Land Use Administration" would allocate the offered compensation among persons who lived or owned buildings near the proposed site of the gas station. This would not be an easy task, especially when the system was new. The principal determinant of shares of compensation would be distance of one's residence or structure from the proposed site of the change, but other factors might be relevant also; age, family size, duration of residence, size and age of the structure owned, and who knows what else. Mechanisms for improving the manner in which compensation varied with such factors are described after the system is outlined.

When the compensation had been allocated, an election would be held among the recipients of compensation on the question of whether the compensation was adequate.³ It would be best if this election were not held by the usual one-person-one-vote rule. The reason is that to achieve efficiency, one would want to approve the proposed change if and only if the gains from those who were overcompensated were greater than the losses to those who were undercompensated. There would be a significant probability that the proposed compensation would be biased with respect to distance. In that event one might find the compensation approved by the preponderance of those who were close to the site but disapproved by the preponderance of those who were at a greater distance from the site, or vice versa. In such circumstances it

could easily happen that those at some distance from the site were a majority, while most of the aggregate discrepancy in compensation was felt by those who were close to the site. The majority would favor the inefficient outcome.

There are two possible ways to improve upon ordinary majority rule in these circumstances: weighted voting and the demand-revealing process. The argument for weighted voting is based on the idea that to achieve agreement between the voting outcome and efficiency, one would want to weight each vote according to the expected discrepancy between the assigned share of compensation and the share of externalities actually borne. On the ground that errors in assigned shares of compensation are likely to be proportional to the assigned shares, one would weight each vote according to the magnitude of the assigned compensation (Tideman 1976, 34-36). The proposed change would be deemed efficient if a weighted majority of those who had been offered compensation accepted the compensation as adequate.

It would not necessarily be appropriate to permit every change that was deemed efficient. Any departure from unanimous approval would be a sign that a proposed change included a component of unintended redistribution. The social cost of this unintended redistribution should be subtracted from the efficiency gains to determine whether the proposed change in land use was, on balance, attractive. One might contemplate revising the compensation pattern in light of the election result, so that the unintended redistribution could be avoided, but this is not likely to yield better results. Voters could be expected to respond to the possibility of such revisions by disapproving changes that actually benefited them, in hopes of increasing the share of compensation they received. Thus one is left with the need to decide whether the efficiency gains outweigh the unintended redistribution. With no actual measure of the

³Such a mechanism was proposed in Tideman (1969, 47-51).

magnitude of the redistribution, the only way to trade off distributive stability against efficiency is to require a majority of more than 50 percent for approval. It is hard to find a basis for asserting that any particular level would be appropriate. One can say only that the appropriate requirement would be greater than 50 percent and less than 100 percent.

The continuing use of such a system for evaluating proposed changes in land use would create a body of evidence with regard to patterns of approval, which could be expected to permit improvements in the accuracy of assigned compensation shares over time. If a particular rule tended to yield higher rates of approval, say, near the site of the proposed change than at a distance, then a revision in which smaller shares were assigned to those close to the change and larger shares to those at a distance would be justified. To the extent that the patterns of compensation could be made more accurate, there would be a lower price in unintended redistribution to be paid for the implementation of efficient changes, and therefore a larger number of efficient changes would be worth approving. Such modifications in the compensation rule over time could be made not only with respect to distance, but also with respect to any other factor that was observed to be correlated with the probability of approval (Tideman 1969, 49).

As an alternative to weighted voting, proposed changes in land use could be evaluated by the demand-revealing process. In this case, the allocation of offered compensation by an Office of Land Use Administration would proceed as before. Affected parties would be told the amounts of compensation that had been allocated to them, but now instead of simply voting "yes" or "no," each participant in an election would state the amount of money that he was willing to pay to have the decision made in the way the he favored. Those who found themselves more than adequately compensated would state the maximum amounts of compensation they would be willing to return and still accept the change. Those who felt inadequately compensated would state

the amounts of money they would be willing to come up with from their own resources to block the proposed change. The change would be approved if and only if the sum of the amounts offered by those who approved of the change exceeded the sum of the amounts offered by those who disapproved.

The demand-revealing process motivates honest responses to the proposals placed before voters, by specifying that a person will be obliged to pay a part of what he offers if and only if his statement of value alters the outcome. That is, a person must pay something if he is on the side that wins, and the winning margin is less than the amount that he offered. In that case, the amount that must be paid is what he offered minus the winning margin, which amount can also be expressed as "what the winning margin would have been in the other direction, if this voter had abstained." This rule makes the demand-revealing process an application of marginal cost pricing: A person must pay only if he alters the outcome, and in that case the amount that he must pay is the net cost to all other participants of changing the outcome. The ability of the demand-revealing process to motivate honest statements of willingness to pay can be understood as an example of the general ability of marginal cost pricing to induce efficient allocation (Tideman 1985, 182).

While the demand-revealing process is more complex than weighted voting, it has two advantages. First, it avoids the uncertainty inherent in ordinary voting, or in weighted voting, with respect to where efficiency lies. Efficiency lies with the side with the greater aggregate willingness to pay. Second, the willingness-to-pay information the demand-revealing process generates is more useful than simple yes-no information for the purpose of improving future allocations of compensation. One knows not just that a person was satisfied or dissatisfied, but how satisfied or dissatisfied he was. Whether the extra complexity of the demand-revealing process is worth the added information that it yields is the question that remains.

For an activity with positive exter-

nalities, say a local orchestra, the person contemplating the initiation of the activity could ask for not just the annual increments in land rent that would be observed to flow from the activity, but also some compensation for positive effects on existing structures and human capital. However, because the person initiating the activity would not be in a position to guarantee its perpetuation into the indefinite future, and to prevent that person from imposing liquidity problems on others, it would probably be best in such cases of positive externalities to collect from others each year the value generated in that year, rather than collecting the present value of all future effects upon initiation, as was recommended for adverse effects. Thus the person proposing the activity would name an amount of annual compensation for which he would be willing to undertake the activity, and the Office of Land Use Administration would allocate the subsidy among those predicted to benefit. As with an activity with adverse effects, an election would be held, either by weighted voting or by the demand-revealing process, to determine whether it was in the aggregate interest of those affected to pay the requested subsidy and receive the positive externalities. Thus both for activities with positive externalities and for those with negative externalities, the combination of efficiency and distributive stability is served by combining a charge or subsidy reflecting observed effects on land rents with a charge or subsidy reflecting effects on structures and locationally specific human capital.

IV. A COMPARISON WITH ZONING

The procedures described in the previous section may be contrasted with the institution of zoning as a device for dealing with spatial externalities. Under zoning, a governmental agency is assigned the responsibility of designating areas in which different categories of activities are permitted. Activities with negative spatial externalities (particularly negative spatial externalities for single-family residential housing) are confined to areas that limit

these externalities. A person who wishes to engage in an activity in a place where the zoning regulations do not permit it may petition for an exception, but as a general rule these petitions are not granted if there are objections to the petition. If a prohibited activity has adverse fiscal consequences for a community, these will sometimes be offset by a grant of land and/or capital improvements to the community in exchange for approval of a petition for a variance. Zoning does not provide for the possibility of compensation for individuals who are adversely affected by the activities of others, and therefore it necessarily entails either inefficiency (when worthwhile activities that have some adverse effects are prohibited) or else inequity—or at least haphazard redistributive consequences (when people are permitted to engage in worthwhile activities that generate negative externalities for their neighbors). The consensus of economists appears to be that inefficiency from excessive restrictions on development and redevelopment is the greater problem of zoning (Fischel 1985, 125–47; 231–70). The “NIMBY” (not in my back yard) syndrome, that is, the refusal of everyone to tolerate in their vicinity an activity that everyone acknowledges should occur somewhere, is one manifestation of the excessive restrictiveness of existing institutions.

An additional problem of zoning is that because some activities are severely restricted, the right to engage in those activities can add greatly to the market value of land titles. Therefore, to the extent that it is possible to influence the decisions of zoning bodies by premature development or by spending additional money on lawyers, consultants, etc., there will be rent-seeking reasons for paying these costs, without corresponding increases in the social value of output. Thus much of the possible value of zoning exceptions can be dissipated in rent-seeking (Mills 1989).

While rent-seeking has the capacity to dissipate gains, it also serves to motivate individuals to identify changes that will profit themselves, and in some cases thereby profit the community. If the social rules were to be changed so that no one

could ever receive a disproportionate profit from promoting a change, one might wonder whether people would ever bother to identify socially worthwhile changes. However, if this became a serious concern, the economically natural solution would be to institute explicit prizes for social innovation, financed by the increases in rents that would result from beneficial changes. To the extent that such prizes were expected to be awarded appropriately, people would have incentives to promote precisely those changes that were socially beneficial, rather than, as at present, the ones that benefit them personally, irrespective of the social consequences.

While it would be possible to implement the framework developed in this paper without using zoning at all, it would also be possible to build on existing zoning institutions. However, instead of determining which activities would be permitted on each site, the zoning boards would be charged first with determining, for each site, which activities could be undertaken without generating significant negative externalities. These activities would be permitted without further administrative process. For other activities, the zoning board would be charged not with determining *whether* the activity could be undertaken, but rather *at what price* the activity could be undertaken, and *how that price would be distributed among the adversely affected persons*. This would be determined not by holding hearings, but rather by holding a ballot among the affected persons.

V. RELATIONSHIPS BETWEEN THE TWO PROPOSALS

Besides being connected as two components of a framework in which people pay the marginal costs and receive the marginal products of their activities, collection of the full rental value of land for public purposes and the internalization of spatial externalities are also connected in the following way. If one were to seek to internalize spatial externalities without collecting the full rental value of land for public purposes, one possible measure of the magnitude of

externalities would be changes in the sale value of land titles. But if all of the rental value of land is collected for public purposes, so that the sale value of land titles falls to virtually zero, this source of information will not be available. Therefore some other source of information about spatial externalities must be identified if spatial externalities are to be internalized when the full rental value of land is collected for public purposes. It was shown that the information that is needed to collect the full rental value of land contains the required information in another form, so that the virtual disappearance of the sale price of land titles would not bar the internalization of spatial externalities.

The two proposals are nevertheless separable in the sense that each could be pursued without the other. It would be possible to collect the full rental value of land for public purposes without internalizing spatial externalities, though in that case it would be important to take account of zoning designations in assessing the rental value of land. It would be possible to internalize spatial externalities without collecting all of the rental value of land for public purposes, though in that case, as long as land was taxed to some extent, it would be important to take account of both the private effects and the fiscal effects (through changes in the tax base) in assessing the magnitudes of externalities.

VI. GOVERNMENTAL STRUCTURE REQUIREMENTS

The procedures described in this paper could be administered by governments that differed little from those of today. The principal required change would be in our thinking regarding the appropriate distribution of rent and returns from other forms of privilege. Thinking today is dominated by the idea that market transactions from the status quo would yield appropriate distribution of these returns. The framework elaborated in this paper presumes instead that, to the extent that there are activities that generate these rental values, those who undertake such activities are the appropri-

ate recipients of rent, and any rent not so accounted for is appropriately shared equally.⁴ Furthermore, the local governments that are envisaged as collecting the rent of land do not themselves have a respectable claim to all of it. What they can respectably claim is the increase in the rental value of land that results from the presence of the community. The amount of money that the land the community occupies would rent for if the community were completely leveled and all utilities removed—the rental value of the land as a potential site for a new community—to that the local community has no respectable claim. Some of this can respectably be claimed by State and Federal governments as the product of highways and other elements of regional infrastructure. But part is purely the product of nature. Since no one can claim to have produced this, any person can respectably claim only a proportionate share of it.

Thus the full distribution of rent implied by the ethical framework of this paper is that to the extent that the rental value of land can be attributed to the activities of individuals, local governments, state governments, and the Federal government, the rent is to be directed to those entities; and to the extent that rent cannot be attributed to the activities of any such entity, it is to be shared equally, through a guaranteed income. Because institutions are generally more responsive the more local they are, it would be sensible to have all rent collected and distributed locally, with state governments and the Federal government billing localities for the beneficial impacts of their activities on local rental values, and with payment to and from a clearing house for variations among localities in the completely unimproved land value per capita.

⁴One apparent virtue of the present presumption is that it helps to avoid rent-seeking struggles that can consume vast amounts of resources. But this virtue is also possessed by the alternative of an equal distribution of returns from privilege. It is only the view that the distribution of returns to privilege should be determined by political struggle that entails the possibility and the likelihood of vast rent-seeking losses.

VII. SUMMARY

The collection of the full rental value of land for public purposes requires information that is not available from existing markets, but can be obtained by the creation of competitive assessment process. This process would automatically generate a substantial part of the information that is needed to internalize spatial externalities, namely the effects on land rents. However, since other factors are also immobile, they too can be affected by spatial externalities. These effects can be taken into account by further taxes and subsidies. Because of the difficulty of observing or predicting the magnitudes of effects on factors other than land, this paper suggests that these effects be dealt with by a collective decision process among the owners of these factors. The person generating the externality would name a tax or subsidy payment that he thought appropriate, an Office of Land Use Administration would allocate this amount among those affected by the externality, and then an election would be held among those persons, using either votes weighted by the amount of compensation or the demand-revealing process, to determine whether the offered compensation was acceptable.

References

- Arrow, Kenneth. 1963. *Social Choice and Individual Values*. New Haven: Yale University Press.
- Fischel, William A. 1985. *The Economics of Zoning Laws: A Property Rights Approach to American Land Use Controls*. Baltimore: The Johns Hopkins University Press.
- George, Henry, 1879. *Progress and Poverty*. New York: The Robert Schalkenbach Foundation.
- Gibbard, Allan. 1973. "Manipulation of Voting Schemes, A General Result." *Econometrica* 41:587-601.
- Mills, David E. 1989. "Is Zoning a Negative-Sum Game?" *Land Economics* 65 (Feb.):1-12.
- Satterthwaite, Mark. 1975. "Strategy-proofness and Arrow's Conditions: Existence and Correspondence Theorems for Voting Proce-

- dures and Social Welfare Functions." *Journal of Economic Theory* 10:187-217.
- Tideman, Nicolaus. 1969. "Three Approaches to Improving Urban Land Use." Ph.D. diss., University of Chicago.
- . 1976. "The Capabilities of Voting Rules in the Absence of Coalition." *Policy and Politics* 4:34-36.
- . 1985. "Efficient Local Public Goods without Compulsory Taxes." *Perspectives on Local Public Finance and Public Policy* 2:181-202.

Good Government

A JOURNAL OF POLITICAL, SOCIAL AND ECONOMIC COMMENT



Privatising Infrastructure

DECEMBER, 1992

No. 903

GOOD GOVERNMENT

(Incorporating "The Standard",
published since 1905)

THE PROPER REVENUE OF A NATION IS
THE SITE RENT OF ITS LAND

Published in every alternate month by the Proprietors,
The Association for Good Government

Business and Editorial Offices:

122 Little Eveleigh Street, REDFERN, N.S.W. 2016

Postal Address: P.O. Box 443, Enfield 2136

Editor: R. Giles — Tel: 744 8815

Reproduction of any of the literary contents of
GOOD GOVERNMENT is permitted with due
acknowledgement.

The opinions of contributors of signed articles are not
necessarily those of THE PUBLISHERS

PRINCIPLES OF GOOD GOVERNMENT

GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
 2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.
 3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.
 4. A continuous programme of education in the economic facts of life to enlighten the electorate.
-

Contents...

Viewpoint:	
Privacy and Poverty	1
The Majesty of Democracy	2
"Beggars Can't Be Choosers"	2
Privatising Infrastructure	3-5
Payment For Use Vs Site Revenue	5-8

people dependent upon welfare; and fewer who commit crime; then government would have far less information to sell.

When we come to examine the other side of the equation we have to ask why companies want to buy information. We find that the companies which buy information are insurance companies, banks, finance and oil companies.

The common denominator is credit. People increasingly operate on credit and companies are interested in the creditability of their customers. For example, one would suppose that, if companies cannot pay their phone and postal charges, they can meet none of their other obligations either. In a recession no company can afford to have too many bad debts on its books. And, in general, the business climate is uncertain, distrust and suspicion are common, and companies turn to credit reference companies to secretly check on their clients.

Thus, insecurity appears on both sides of the equation. How are they joined? Without equal rights to land, unemployment and the inability of workers to pay their own way produces "the social wage". The taxation of personal and company income to pay for this impedes business, reduces living standards, and indirectly underlies many bad debts.

Poverty brought on by unequal rights to land causes the need to borrow; poverty causes our need for government hand-outs. Both together make us willing to surrender large amounts of information about ourselves to government and to banks and finance companies.

Without poverty there would be not so much information for government to sell. Without poverty there would be less demand for information by financial institutions. And, without poverty, fewer public servants would sell information.

Finally, it seems strange that an institution like the ICAC, with powers resembling the powers of the medieval inquisition, should be given the task of protecting privacy. But, as someone said, "That's life".

VIEWPOINT

PRIVACY AND POVERTY

The latest find by the anti-corruption industry is the mammoth sale of private information by Australia's largest government departments to Australia's largest public companies. This includes the sale of tax file numbers.

How does this situation come about? It is explained by those who are investigating it as the triumph of greed over duty. In other words, it is human nature at work again. But one could just as easily blame computers, since without them, the information would not be as readily called up and communicated.

Let us take a closer look. For the sale of information to happen, government departments must have the information and our public companies must want it. Why do government departments have this information? Of the eight departments mentioned one is the tax office, two are welfare departments, two are public utilities, one is immigration, and the other is the police. The tax office has the information it has because of the way revenue is collected, from personal and company income tax. Social Security and Medicare have additional information, largely about those on welfare. The police have information about those who commit crime. So if revenue collection did not involve the collection of private financial details about persons and companies; if there were fewer poor

"THE MAJESTY OF DEMOCRACY"

The British Prime Minister, John Major, is the most unpopular leader ever recorded by Gallup polls in England. It would be a fair guess that the new Victorian Premier, Jeff Kennett, has achieved this distinction in Australia – in only one month!

But, typical of the times, the argument goes that Mr Kennett gained office with a "mandate" to abolish holiday loadings, to end penalty rates, and to make laws which turn strikes into criminal acts. This is the opinion of the Liberal Shadow Minister for Industrial Relations, John Howard. If the Prime Minister, Mr Keating, respects "the majesty of democracy", John Howard argues, he will acknowledge that Mr Kennett has a mandate for what he is about, and order the Victorian trade unions to stop their general strike.

A mandate is given when the people endorse a program of legislation placed before it at election time. Where was Mr Kennett's program at election time? Indeed, why should he offer any program at all when he was sure of government without it? Why, for example, should he tell nurses that their penalty rates for night duty were to be slashed? Why should he tell workers that he was about to abolish their holiday loadings? When a colleague asked a National Party organiser whether the people knew that the new government was going to abolish penalty rates he was told they would find out after the coalition got into power! That is the "majesty of democracy" in modern times.



The Association for Good Government

extends to its Members

The Compliments of the Season

"BEGGARS CAN'T BE CHOOSERS"

What is it that Mr Kennett wants? He says he wants a bright future for Australia and that his industrial policies are the way to get it. In his Brave New World there will be little place for trade unions, penalty rates, paid holidays, and leave loadings. By his account these are additions to wages which have overpriced labour. But these are not additions to wages; these *are* wages.

When everyone in Australia was buying property one man was about to buy some land when the vendor suddenly asked for some \$3000 extra which he said would compensate him for a development application to council which the sale would prevent from going ahead. The buyer paid this extra \$3000, but it was not compensation to the vendor. The buyer was not interested at all in the vendor's troubles. The buyer was being asked to pay \$3000 extra for the land and he paid. It is the same with penalty rates, leave loadings and paid holidays. The employer is not paying compensation for weekend work; he is not putting that little bit extra towards workers' holidays; he is paying *more* wages. These conditions are part of the least workers will accept to work.

When they are taken away, workers' wages are being reduced. Enterprise bargaining by staff associations or by individual contracts with employers will reduce wages and retard their future advance.

A business representative recently said about the new terms of employment awaiting Australians that "Beggars cannot be choosers". How right he was. Those who beg for employment cannot be choosers. Wages are being reduced, not because this has anything at all to do with improving competitiveness but because it can be done. The real result is to alter the distribution of wealth. But most of the gains to employers will be lost in time to the owners of industrial and commercial land in higher rents. The real answer is not to cause wages to collapse, but to cause land prices to collapse. *Site revenue* will give everyone a chance to start a business without carrying the burden of taxation or land price. Workers will no longer be beggars who fall under the domination of employers or the "protection" of trade unions or governments.

PRIVATISING INFRASTRUCTURE

Privatisation, which was at first simply the sale of government corporations, now has at least five other meanings. The latest is the concession to private companies to build, own, and operate infrastructure such as freeways. In these concessions the land seems to come free of charge – thrown in, as it were, as an incentive to private enterprise to undertake the risk.

One of the great examples of this in history is of course the building of transcontinental railroads across America in the middle of the last century. In 1871 Henry George analysed this privatisation in *Our Land and Land Policy*. The peculiar feature of their construction was the gift of public lands – the track and the lands on either side of the “road” – as an incentive by government to the companies. This worked out in one case at 25,000 acres for every mile of track. No-one made any serious comment about this, as far as one can see, until George. His comments are interesting since they show, even then, his appreciation of the idea of what he calls diffused profits. These are benefits to those who may not necessarily ever use the railroad.

He first outlines in the strongest terms the reasons for the transcontinental railroads: Certain lands are given away in return for the value added to remaining lands. In other words the public gains at no expense to government. He then makes a crucial point. Public lands have been granted to get the railroads built before they were profitable. Had they been built when they were needed they would have been commercially profitable, and the companies would not have needed an incentive to build them. He makes the point here that, as a result of the value added to lands by the railroads, land prices have risen prematurely in the wilderness, blocking the way for poorer settlers. This price has been enhanced by the land monopoly along the way given to the railroad companies. They will hold the lands out of use like all good land speculators until settlement has increased their value.

Henry George then contrasts the benefits gained by the expenditure of labour and capital (the railroads) through the deserts and plains of the wilderness with the same expenditure of effort and resources to link cities and towns within the borders of settlement. (This infrastructure would have consolidated existing settlement.) He demonstrates that the same application of labour and capital here would have brought immensely larger returns both to railroad companies and to the nation – a clear example of his appreciation of the concept of economic rent.

As part of this discussion he raises the idea of *diffused* benefits which is surely the thorn in the side of the argument for *user pays*. This section follows.

From H.G.
But it will be said: Though this may be true so far as the direct returns of the railroad building besides the receipts from fares and freights. The owners of the land through which the road passes, the producer and the consumer of the freight which it carries, and the passenger who rides upon it, are all benefited to an amount far exceeding the sums paid as fares and freight. When we give a land grant, we merely give the railroad company a share in these *diffused* profits, which will make up to it the loss which would accrue were it confined to its legitimate share. Thus: Here is a railroad, the business of which would not pay for building it for five years yet. The loss to the unsubsidised company which would build it now and run it for five years would be \$10 million. But the gain to landowners and others would be \$100 million. Now, if by a land grant or otherwise, we secure to the railroad company a share of this collateral gain, amounting to \$20 million, the railroad company will make a profit of \$10 million, instead of a loss of \$10 million, by building the road, and others would make a profit of \$80 million.

But it must be remembered that every productive enterprise, besides its return to those who undertake it, yields collateral advantages to others. It is the law of the universe – each for all, and all for each. If a man only plant a fruit tree, his gain is that he gathers its fruit in its time and its season. But in addition to his gain, there

is a gain to the whole community in the increased supply of fruit, and in the beneficial effect of the tree upon the climate. If he build a factory, besides his own profit he furnishes others with employment and with profit; he adds to the value of surrounding property. And if he build a railroad, whether it be here or there, there are diffused benefits, besides the direct benefit to himself from its receipts.

No.

Now, as a general rule, is it not safe to assume that the direct profits of any enterprise are the test of its *diffused* profits? For instance: It will pay to put up an ice-making machine in New Orleans rather than in Bangor. Why? *Because* more people in New Orleans need ice, and they need it more than those in Bangor. The individual profit will be greater, *because* the general profit will be greater. It will pay capitalists better to build a railroad between San Francisco and Santa Cruz than it will to build a like railroad in Washington Territory. Why? Because there are more people who will ride, and more freight to be carried, on the one than on the other. And as the diffused benefit of a railroad can only inure from the carrying of passengers and freight, is it not evident that the diffused benefit is greater in the one case than in the other, just in proportion as the direct benefit is greater?

In the second place, in any particular case in which we have to offer a subsidy to get a railroad built, the question is not, shall we have this railroad or nothing? – but, shall we have this road in preference to something else? – for the investment of capital in one enterprise prevents its investment in another. No legislative act, no issue of bonds, no grant of lands, can create capital. Capital, so to speak, is stored-up labour, and only labour can create it. The available capital of the United States at any given time is but a given quantity. It may be invested here or it may be invested there, but it is only here or there that it can be invested. Nor is there any illimitable supply abroad to borrow from. The amount of foreign capital seeking investment in the United States is about so much each year; and if by increasing our offers we get any more, we must pay more, not merely for the increased amount which we get, but for all which we get.

To recur, now, to our former example: Here is a railroad through an unsettled country, which to build now would, relying upon its direct receipts, entail a loss of \$10 million, the diffused benefits of which may be estimated at \$100 million. Here is another railroad which it would take the same capital to build, which, in the same time, would yield a direct profit of \$5 million, and the diffused benefits of which it is fair to presume might be expressed by \$300 million. Now if we offer to the builders of the first road a land grant which will enable them to obtain one-fifth of the diffused benefits of the road, we could induce them to build that road rather than the other, for they would make twice as much by doing so. But what would be the net result to the community? Clearly, a loss of \$215 million. That is to say: By offering a land grant we could induce capitalists to build a road in Washington Territory, rather than between San Francisco and Santa Cruz. But if we did so, the people between San Francisco and Santa Cruz would lose far more than the capitalists and the Washington Territory settlers would gain; the people of the Pacific Coast, as a whole, and the United States, as a whole, would be poorer than if we had left capital free to seek the investments which would of themselves return to it the largest profits.

The comparison between an individual and the nation is fallacious. The one is a part; the other is the whole. The individual lives but a few years; the lifetime of the nation is counted by centuries. It may profit an individual to induce people to settle or capital to be invested in certain places; the nation can only profit by having its population and its capital so located and invested that the largest returns will be realised. It may profit an individual to sacrifice the near future to the present, but it cannot profit a nation.

As concerns the statistics by which the benefits of land grant railroads are attempted to be shown, it must be remembered, first, that the population of the United States is growing at the rate of one million per year, and next, that increase in the value of land is not increase on wealth. That whatever population railroads have

brought to new States and Territories is dispersion, not increase, is proven by the fact that the population of the United States is not increasing faster than it did before railroad building commenced, while the slightest consideration of economic laws shows that whatever gain has resulted from their building is at the expense of a greater gain which would have resulted from the investment of the same capital where it was more needed – in fact, that there is no gain, but a loss. We have been supposing that land grants secure the consideration for which they are given – the building of roads before they would otherwise be built; but this is far from being always the case. With the exception, perhaps, of the little Stockton and Copperopolis road, the California grants have not hastened the building of railroads, but have actually retarded it, by retarding settlement. The fact is, that in nearly all cases these land grants are made to men who do not propose, and who have not the means, to build the road. They keep them (procuring extensions of time, when necessary¹) until they can sell out to others who wish to build, and who, on their part, generally delay until they can see a profit in the regular business.

To sum up: When we give a land grant for the building of a railroad, we either get a railroad built before it would be built by private enterprise, or we do not.

If we do not, our land is given for nothing; if we do, capital is diverted from more to less productive investments, and we are the poorer for the operation.

In either case the land grant tends to disperse population; in either case it causes the monopolisation of land; in either case it makes the many poorer, and a few the richer.

¹Congress, in 1870, actually passed a Bill extending the time for the completion of the first 20 miles of Western road to which a land grant was made in 1853.

PAYMENT FOR USE Vs SITE REVENUE?

A submission by The Association for Good Government to the Inquiry into the Financing of Infrastructure by the Parliament of New South Wales

SOME GENERAL REMARKS

It is a primary function of Government to bring to land access to basic services which make community life possible. These same basic services give our nation the ability to produce and to trade. Such an important function should not be surrendered to chance or to wrong policies.

How should basic infrastructure and community amenities provided by Government be funded? The fund will be made up of charges for access to services and for their use.

Having access to services means the fact that the service is at hand whether one uses it or not. This is sometimes called the *benefit principle*. For example, having public transport at one's doorstep means that one has the possibility of using it, but one may choose always to use it, to use it infrequently, or never use it. Such services may be private as are shops, churches, schools (both private and public), and sporting and recreational clubs.

A piece of land surrounded by abundant services is more generally desired than one that is remote from them. The availability of services to land will be reflected in its rent. But the use of those services has given rise to the *user-pays* principle. Many consider it can be applied to finance all infrastructure.

Clearly however the *user-pays* principle does not cover access to services. The fact that services are there at all and there more conveniently and more abundantly for some than for others should be the subject of a charge. If this charge is not made then some get an economic or social advantage without paying for it. For example, those who live in cities get large

advantages over those who live rurally. In other words there is privilege. At the moment this important charge is made by local rates and land tax. But these charges need to be extended to collect the *full* value of access to infrastructure. Otherwise the privilege remains.

The real question is how best to charge for the use of infrastructure. Much of the argument here demonstrates that the user-pays principle does not charge for those uses of infrastructure which are widely *dispersed* in the community, but that the benefit principle will. In fact, the user-pays principle is difficult to apply even to *direct* charges, and gives rise to inequities when used with the benefit principle.

Obviously, it can be said, without any user-pays charges at all we have the free use of infrastructure. It is important to see that this is not so. If a service is freely provided then the rent (or land value) of the site with access to free services is enhanced. Conversely, any charge for a basic service will lower rent. If a charge were somehow put upon the use of certain major roads its effect would soon be felt in falling rents for land adjoining those roads.

If public transport were free the advantage of using public transport over other means of transport would be increased. And the increased desirability of living near public transport would be reflected in the higher rents in the vicinity of that transport.

So it is possible for Government to offer public transport free and recover its cost by site revenue. By this system charges for all infrastructure are centrally collected. This means a great saving in administration. Applied to public transport the system would encourage its full use. Moreover, because the "subsidy" would translate into rents and land values those who did not make frequent use of public transport would see less point in living near it. The increase in rents and land values will more than pay for the service. Site revenue is a sort of community profit whose surplus can be "ploughed back" as investment in more infrastructure.

Community amenities such as libraries, child care centres, and community halls are not as widely used as roads, bridges or public transport; neither are they as expensive; but they do add to surrounding rents and land values – in the same way as shops, schools, churches, and clubs. This is because they attract widespread use with some effect upon rents. To see the truth of this one only has to imagine the effect on land values if your suburb had no library. Community amenities could be free. It could be said that some community amenities are so expensive to maintain and so little used that the general community legitimately regards the few who use them as privileged. In this case a charge is justified or, more sensibly, they should be privatised.

Government, however, is charged with the responsibility, as far as its resources allow it, to care for those who cannot provide for themselves. In this case the amenity is *not* part of infrastructure but is a part of the social welfare establishment. To see this more clearly one only has to ask whether charitable organisations should be considered as infrastructure. Nonetheless this kind of amenity can be funded from **site revenue**.

The conclusion must then be that **all** government services could be "free", that is, paid by location revenue. Betterment Taxes (even development levies) are an incomplete and imperfect form of **site revenue**. But incomplete and imperfect administration breeds confusion and complications. They should not be considered when better methods are at hand.

The user-pays principle works well for private enterprise. But it should be almost as foreign for government to demand money for its services as it is for private enterprise to offer its services free. (This does not mean that Government may not introduce competition into the production of its services.) If water really is in short supply its use could be restricted or it could mean that what is in short supply is not water but finance to build dams. A charge for use is of course one way to restrict the use of a scarce resource, but it should not be a disguised tax.

Such statements of course are not fashionable. The user-pays principle is a tenet of current thinking about infrastructure. "Governments and public authorities are currently moving to improve the financing of infrastructure provision, stressing, in particular, the need to ensure that beneficiary services are fuller user-funded".⁽¹⁾ It is doubtless the aim of the present Parliamentary Inquiry to use this principle more widely. It is considered that under this policy taxes will fall and charges multiply.

SYDNEY FREEWAYS

In New South Wales the user-pays principle is being applied, in combination with the principle of privatisation, to Sydney freeways. By studying this example we may compare the merits of the benefit and user-pays principles.

Motorists use freeways; it therefore seems only fair that it is they who should pay for them, rather than the rest of us. Any other policy, it is said, "subsidises" motorists and leads to all the evils of more cars on the road.

What benefits have freeways?

It is relevant to this discussion to divide these benefits into those which are "direct" and those which are "dispersed". The direct benefits to motorists who will pay the toll include faster and safer journeys, less stress upon themselves and less wear and tear on their vehicles. The dispersed benefits are more numerous and even more significant. They are additional to those experienced by motorists using the freeways. These dispersed benefits include less use of local roads, and thus fewer accidents, greater quiet, and cheaper upkeep of local roads. Dispersed benefits include quicker journeys for those who use alternative roads (and roads which intersect these alternative roads), less pollution from noise and emissions, and less call upon police, legal, and health services to deal with accidents. In economic terms freeways provide greater accessibility to work, and to markets both for goods and services going to and from Western Sydney. Freeways improve Sydney's living standards and its competitiveness both nationally and internationally.

These freeways raise the value of locations generally in Sydney in relation to other cities, and the value of locations within Sydney with access to the freeways in relation to those without that access. The locations may be businesses or homes. The dispersed benefits ensure that the increased site values exceed the cost of the freeways. Thus, freeways can be paid for out of higher site rents. Borrowing may be small or unnecessary.

Site rent is a payment for site advantages. Each pays for benefits already received. These include dispersed benefits. It is as silly to say that motorists should pay for a freeway as it is to say that motorists should pay for the Harbour Bridge. *All* who gain from infrastructure should meet its cost. If motorists ever do meet the cost of freeways it will be *they* who are subsidising the rest – and especially landowners whose windfall gains will represent the value of dispersed benefits. If these motorists are paying rent they could then pay twice for the freeway; once in rent and once in the toll. In other words, payment for use will leave most of the revenue generated by the freeway uncollected.

But motorists will probably never bear the whole cost: it would be prohibitive. The toll on the F4 motorway for example at present pays only for that part of the freeway built by private enterprise. So we are not seeing a fair test of the user-pays principle there. If we did we would not see the freeway used at all. As it is, since motorists making short journeys have to pay as much as those using the whole freeway, there is a disincentive to make short journeys, still leaving alternative roads congested. The remedy, a series of tollgates, is out of the question. ✓ — ?

If motorists pay a small toll the debt is spread indefinitely into the future, and increased interest charges will mean that motorists pay many times over for the freeway – rather as they have for the Harbour Bridge.

The cost of any freeway is of course inflated by the cost of land acquisition. Payment for use does nothing for this cost. **Site revenue** eliminates it. This point alone should convince

those looking to reduce the cost of infrastructure. For Government to pay the land component of infrastructure is in any case absurd; Government is then paying to private persons the value of its own infrastructure.

The conclusion must be that site revenue would pay for freeways more simply, more fairly and more efficiently (since there is no disincentive effect or land cost) than the user-pays principle in the guise of tolls. At the same time site revenue collects by one

payment the monetary value of all benefits give to land by the community instead of through a myriad, complicated collection systems.

The discussion of development levies which follows in the next part confirms this analysis.

1 p.xiii, *The National Housing Strategy* (Issues Paper Number 4): **The Efficient Supply of Affordable Land and Housing: the Urban Challenge.**

Telling Others about Site Revenue

So far the principles and benefits of Site Revenue have eluded most Australians. The costs of this frightful ignorance are momentous. Should you want to turn around this state of affairs we have a short course which may help you. This **course** will help you understand site revenue, to apply it with confidence, and to project it for the benefits of others.

This short course of six weeks is called **ECONOMIC RENT AND SOCIETY**. This course will begin in early March, 1993. It is possible to do the course by correspondence.

But our philosophy is wider than a tax reform. It takes us to the very roots of a civilised society, to the nature of freedom, justice, and society itself.

To find out more about this important course please contact The Association on (02) 744 8815, by fax on (02) 744 3804, or write to P.O. Box 443 Enfield, NSW 2136.

READ PROGRESS

official monthly journal of
TAX REFORM AUSTRALIA

31 Hardware Street, Melbourne 3000
Phone: (03) 670 2754
Fax: (03) 670 3063

Annual Subscription Rates
\$10.00 Australia
\$12.00 Overseas

The Proportional Representation Society of Australia N.S.W. Branch

welcomes people interested in ensuring
effective representation in Parliaments and
other elected bodies through the use of the
quota-preferential method of proportional
representation.

For free copy of pamphlet 'Towards Better
Government', write to G.P.O. Box 3058,
Sydney, N.S.W. 2001

Telephone enquiries 960 2193

QUEENSLAND

SITE REVENUE SOCIETY (QUEENSLAND)
P.O. Box 6179
GCMG
Bundall, Qld. 4217
Telephone (07) 870 2325

WESTERN AUSTRALIA

GEORGIST EDUCATION ASSOCIATION
10 Broome Street, South Perth, 6151 WA
Phone (09) 367 5386

TASMANIA

HENRY GEORGE LEAGUE
G.P.O. Box 1370 P, Hobart 7000, Tas.
Phone (002) 34 6553
Fax (002) 34 5807

SOUTH AUSTRALIA

HENRY GEORGE LEAGUE
Monthly meetings are held
and visitors are welcome
9 Rosemont Street
Norwood, S.A. 5067
Postal Address:
26 Landsdowne Ave.
Belair S.A. 5052
Telephone (08) 278 7560

NEW ZEALAND

Enquiries:
Mr. R. D. Keall, 45 Dominion Street,
Takapuna, Auckland, N.Z.
Phone: 461 271
Miss Betty Noble
20 Connaught Terrace
Wellington, N.Z.
Phone: 899 975

SUBSCRIBE TO GOOD GOVERNMENT

SUBSCRIPTION NOTICE

I wish to begin subscribing (renew my subscription) to GOOD GOVERNMENT and enclose
\$10.00(A).

☐ I wish to join the Association (Please tick if required. Membership is free.)

NAME:

ADDRESS:

..... POST CODE:

Please make all cheques and money orders payable to **The Association for Good
Government** and mail them to the Association at **P.O. Box 443, Enfield, N.S.W. 2136.
Australia.**

Remittance enclosed \$..... cash
by cheque
money order

Good Government

A JOURNAL OF POLITICAL, SOCIAL AND ECONOMIC COMMENT



Computers on the Road

APRIL, 1993

No. 905

GOOD GOVERNMENT

(Incorporating "The Standard",
published since 1905)

THE PROPER REVENUE OF A NATION IS
THE SITE RENT OF ITS LAND

Published in every alternate month by the Proprietors,

The Association for Good Government

Business and Editorial Offices:

122 Little Eveleigh Street, REDFERN, N.S.W. 2016

Postal Address: P.O. Box 443, Enfield 2136

Editor: R. Giles — Tel: 744 8815

Reproduction of any of the literary contents of
GOOD GOVERNMENT is permitted with due
acknowledgement.

The opinions of contributors of signed articles are not
necessarily those of THE PUBLISHERS

PRINCIPLES OF GOOD GOVERNMENT

GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
 2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.
 3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.
 4. A continuous programme of education in the economic facts of life to enlighten the electorate.
-

Contents...

Viewpoint:

Educating By Law1-2

Residential Development
In Outer Sydney.....2-6

Computers on the Road.....6-8

VIEWPOINT

EDUCATING BY LAW

First the Racial Vilification Act, now a Homosexual Vilification Act. The possibilities are endless. But let us take a closer look at this particular legislation from the vague outlines so far given.

Homosexual vilification will make "vilification" or "serious contempt" of homosexuals and of HIV/AIDS sufferers an offence. Bi-partisan support for the Private Member's Bill stems from a recommendation from the Anti-Discrimination Board's *Report on HIV/AIDS-Related Discrimination*. Under the Bill complaints will come before the Anti-Discrimination Board which will attempt to reconcile the complainant and defendant. This could lead to a public apology or, if carried onto the Equal Opportunities Tribunal, it could lead to a fine.

Once again we have the question of the protection of civil liberties. In answer to this concern the New South Wales Attorney General has said that the provisions of this legislation, carefully framed, will ensure "protection from

scurrilous abuse or statements which may incite hatred against a particular group, but are not cast so broadly that constructive viewpoints or measured discussion of the issue is prohibited".

What is disturbing about whether this can be done is his use of the words "may incite hatred". If any statement which "may" incite hatred against a particular group is the measure of vilification little can be said about homosexuals without fear of prosecution. Put in another way, the exercise of care required to satisfy the criteria of "constructive viewpoints" and "measured discussion" will disqualify ordinary people from any expression of opinion. For any viewpoint which is "constructive" or "measured" up to a point will not pass the test.

Another disturbing feature of this Bill is that its administration is given to the Anti-Discrimination Board. Racial vilification fell to the courts to administer. One would think that due care in framing the Act would mean that the courts will continue to judge what vilification means. Magistrates have had the experience of "racial vilification" and, in any case, are more experienced in making judgements than ideologues on a Board whose primary duty is to change community attitudes towards homosexuals by law. You might say that the Anti-Discrimination Board's administration of this Act will have the same care for civil liberties as the administration of the tax file number system has for privacy.

The offence of vilification is for "inciting to hatred or serious contempt", but hatred and serious contempt are not offences. So: how can it be an offence to cause a situation which is not, in itself, an offence?

The usual offence is inciting to violence. Violence is of course an offence. We therefore presume that what the inciting prevents is an offence. Thus, the legislation suggests that hatred or contempt *are* offences. Its effect is to outlaw an attitude.

So, let us examine the attitude of hatred or contempt for homosexuals. This attitude proceeds from the widespread hatred of sodomy (making it far different from racial vilification.) Sodomy is offensive to many people; it is considered at law to be offensive behaviour. So, should a person be offended at homosexuality because it *is* sodomy that person cannot take offence because to do so is identical with vilification and, therefore, criminal.

To better appreciate the difficulty of making such discriminations between what is or is not vilification let us imagine a law which forbade the vilification of politicians. It takes no imagination at all to see how little of political comment would survive the determined application of such a law, especially if it had the penalties which "vilification" now attracts. How many people holding political placards for example would survive the application of such a law?

Long ago, when Australians had a keener sense of the worth of civil liberties, they rejected the Communist Party Dissolution Act. They disliked communism but they would not make *being* a communist into an offence. That is, they would not make an offence out of inciting people to be communists. They saw that the Act would unnaturally "freeze" public discussion of important issues, and give a distinct advantage to conservative opinion on every issue that involved the social problems of the time. Similarly, the offence of vilification of homosexuals gives a gratuitous advantage to one side in the public discussion of every social, moral or religious issue of which homosexuality is a part. Such an inhibition of public discussion is surely a great loss to Australia.

But, it seems, no logic and no common sense can sever the ties which bind politicians of both major parties to the various "expert" lobbies in this country that stand in for public opinion.

RESIDENTIAL DEVELOPMENT IN OUTER SYDNEY

It is costing more now to develop housing land. The trend is most pronounced in New South Wales. Here, to develop a block costs on average \$60,200 – in the new Rouse Hill development north-west of Sydney \$71,525.

How do these increased development costs come about?

Since the 1970s the extension of basic infrastructure to new sub-divisions has been paid for by the developer. This includes the cost of additions to sewers, drains, water supply, power and telephone lines. Since the 1980s the developer has had as well to pay for local community amenities which vary from council to council but usually include amenities blocks and community halls, child care facilities, traffic control measures and car parking.

Ever since 1919 developers have had to "dedicate" land in their sub-division for parks and, indeed, the change in this arrangement in 1960 to one where developers made a monetary payment instead towards public open space in the local area was the precedent for what is now called a development contribution.

A development contribution is a levy usually in money imposed by Council upon a private developer for community amenities or basic services. Its payment is a condition for the approval of the development application. The power to do this is given by Section 94 of the Environmental Planning and Assessment Act 1979 headed "Payment towards provision or improvement of amenities or services".

It is not hard to see why Government uses development levies: it is short of money and has been for a long time. In fact the only time in New South Wales that the development of infrastructure kept pace with new housing was in the Depression! Councils in outlying areas of Sydney have used development levies extensively to fill the gap between their revenues, depleted by rate-pegging and

constraints on borrowing, and the cost of urban expansion. The result is that all levels of government now spend 40 per cent less on infrastructure than they did 15 years ago.

Now the *user-pays* argument is advanced to explain this change. A development contribution says William Simpson in his well-known Report⁽¹⁾ is a special kind of user-pays tax". In outlying areas of Sydney ratepayers ask why they should pay development costs for new arrivals. Experts in public policy ask why Government should "subsidise" the price of new residential land by providing infrastructure, or "subsidise" expensive extensions of services to new developments to worsen urban sprawl.

This argument that it is the user who should pay has placed development levies onto a new footing. It is now widely accepted that a "fair and reasonable" contribution is the *whole* cost of infrastructure (except where there is an obvious inability to pay). It is also widely accepted that there is no limit to the kind of public amenities and services for which development contributions may be asked, provided that those who live in the new development need them. So one Council in outer Sydney charges for bushfire protection and levies businesses for town centre improvements.

Who pays development levies?

The confusion over the effect of development contributions on the price of land implies that we are not very sure who is paying. It may be the original landowner (in reduced land price); it may be the developer (who must pay a market price for land and absorb the development "tax" himself); it may be the homebuyer (passed on by the developer as higher land price). It could be a combination of these possibilities. Depending upon supply and demand, it could be the landowner, developer or homebuyer.

The basic point here is that it is not development levies which add to the price of land but the improvements. Land price depends on what is around the land (plus the speculative element of what will be around it in the near future). So if all of what are called basic services, and community amenities are supplied, at once

the price of land will be greatly increased and, except on rare occasions, it will be the homebuyer who pays. In the first instance he pays the developer. If all improvements are funded by Council and State government the developer takes the higher land price without expending anything. If those improvements are paid for by the developer (before being repaid by the homebuyer) the developer fails to make this gain – which might partly explain why developers oppose development levies.

Do new housing developments benefit older residents?

The user-pays argument supports the view sometimes taken that new arrivals are a liability to older residents; increasing "their" rates, invading their privacy, destroying "their" bushland, and adding to pollution.

But let us see how residents might also benefit from new arrivals. New arrivals will increase the population of the local area. In economic terms they will create a larger market for goods. In consequence goods will be cheaper and more various. Specialist shops and specialist services too will be attracted to a larger and more attractive town centre. The State Government might extend or modernise the local hospital – and save lives; it might add to schools – and improve education; and subsidise the building of a sports stadium. The area may grow into a regional centre and the State Government might increase and improve train services and widen major roads, giving residents greater access to other parts of the city, and more choice of employment and recreation.

By and large that extension of public goods and services is funded by larger population centres elsewhere in the State. Should their residents also begrudge the use of "their" funds for this purpose? Should they too say they are "subsidising" outlying areas?

Amenities and services to a new housing development give a *direct* benefit to new arrivals but multifarious dispersed benefits to older residents (as well as to others) – in the same way as railways give a direct benefit to passengers but even more important benefits

dispersed among the wider community. Older residents may complain about "their" rates being spent upon new arrivals but they do not complain about the advantages of a larger community, nor about their own higher real estate values which reflect those advantages. Occasionally in the Simpson Report the fact is pointed out that a development by the government, a new coal mine, or a development at the town centre, is required to pay some user-pays fee, but is offering many (dispersed) advantages to the wider community in which it is set. The question they ask is Why should we who add so much to the community be penalised as if our development was a liability? But *all* new arrivals in the community are making a similar contribution – as we have seen. Why should new arrivals who add so much to the community bear the whole cost of infrastructure for new housing developments?

There are still other equity questions which surround development levies. It was said that the homebuyer pays the development levy. But the homebuyer also pays rates, which are increased by the presence of more services and public amenities. These rates also finance these same facilities. Simpson⁽²⁾ and Kirwan⁽³⁾ see it, call it "double dipping", but give us no simple answer. Another problem is that the user-pays principle presumes use which has happened (or at least use in the immediate future) and use which can be measured. But development levies charge homebuyers, and charge them equally, for public goods and services which they have not used and which, indeed, they may use only infrequently or not at all. Surely this cannot be done under the user-pays principle. Kirwan discriminates, quite rightly, between "essential physical infrastructure", and public amenities, which he says should not be fully user-funded (p.60). It is interesting that he is reported as arguing that public transport when *not* used has an "external" benefit (dispersed benefits (?)) which justifies some partial user-pays charge (surely a confusion between the user-pays and the benefit principle). Whether the payment for use applies to community amenities is not examined by the Simpson Report. Finally, it seems unfair that residents of a development should pay substantially or in full for some

public amenity without owning it, or that (under this principle) they should pay for something which will go on being used by others for many years. It is like being asked to pay for a cinema because you like to watch films.

Payment for use sits uncomfortably with development levies. But development levies can be exacted from developers who, if they refuse will not be given development approval; who if they protest, will prolong their own costly developments (and antagonise local government inspectors) and who, in any case, can pass on to homebuyers the full cost without their being any the wiser.

Indeed, the secret of the success of development levies is in the mechanics of their collection. Yet a large increase in land price is the result of the mechanics of this levy (the requirement for an "up-front" payment). Currently, the development levy is about half the development cost to Council. So the obligation is now upon Council to complete a large number of community amenities and services in a "reasonable" (that is a short) time to justify the development contribution. This means that Council has to outlay just as much from its general revenue on infrastructure as it did when community amenities and services were supplied over time or not at all. Thus development levies, which reduce State government infrastructure costs, leaves local government as indebted as it was. The latest information on indebtedness⁽⁴⁾ shows that outlying Sydney councils on average have a long term debt of \$210 per head – about 50 per cent higher than for inner suburban councils.

The same source suggests in the Population to Staff ratios that outlying councils employ significantly fewer staff than inner ones. Yet these same councils are the ones which have to cope more often with the complexities of the administration of the new recommendations of the Simpson Report, now in the form of a draft manual *Preparation of Section 94 Contribution Plans* prepared by the New South Wales Department of Planning. From the beginning of

1993 each Council must have a Contribution Plan before levying development contributions. The plan will validate any development levy by showing how the public amenities and services which it will pay for are connected to the needs of the development (the *nexus*), how the contributions are calculated (a separate formula for each type of service or amenity), a schedule of how and when the levy will be spent (necessitating separate trust accounts and time scales), and how Council will deal with exceptional cases. How its complexities (though "open") can be readily understood by an owner builder or the public are difficult to fathom. It is certainly a move, seen elsewhere as well, towards turning even simple matters into complex legal processes – for example, school assessment policies. How the system will evolve is anyone's guess. One can see already that the most basic term "development" could be a source of ambiguity and conflict.

Compared to the administration of site revenue development contribution plans have the potential to add considerably to the workload, worry and costs of councils.

In the process nothing is done to eliminate the single largest cost to Council, "the land component", which is eliminated by **site revenue**. Development levies if anything only increase this cost – by adding more quickly to local infrastructure. This is the same absurd situation of the public making land valuable and then paying for it which we saw earlier. This user-pays system, claimed to end the "subsidies" given to landowners by developments paid for by general (rate) revenue, does not eliminate the "subsidy" or "windfall gain" to landowners; it just distributes it a little differently. The only way to eliminate every case of "subsidisation" of private landowners by public investment in land is by **site revenue**, revenue from site rents.

The fact that development levies make land more expensive means that, sometimes, development levies are put forward as the solution to urban sprawl. To some limited degree

this is true but, it is not at the cost of more affordable housing so desperately needed in Australia, and it only "works" in a mild form and in small areas. **Site revenue** on the other hand makes homes more affordable, and it does it while consolidating settlement wherever land is used. This is because a market payment for location encourages the full use of land.

CONCLUDING REMARKS

Site revenue is an application of the *benefit principle*. This principle sees citizens as beneficiaries of infrastructure rather than simply users. The benefits include both access, and use which may be direct or dispersed. the benefit principle recognises that individuals get services, but sees too that they are citizens giving services in a gigantic network of cooperation. The areas where this cooperation is most intense carry locational benefits for individuals for which they will pay to enjoy. These payments constitute **site revenue**. This revenue is a charge on ratepayers; it is not some enforced payment or tax on some part of the community (older residents) which somehow remains "their" money. The charges are for a pool of benefits which residents draw upon. Residents locate themselves so as to enjoy those benefits which fulfill their needs and which they value most.

In this era where Government educates its citizens so often about the most minute things (such as wearing safety helmets, life jackets, and turning off taps) one can only hope that it will not go on ignoring its own source of revenue.

RECOMMENDATIONS

A recent correspondent says about **site revenue** "I was at first a little stunned to comprehend the immensity, simplicity and sanity of the concept . . ." Few however comprehend so quickly. The main recommendation here presumes that Government must examine carefully but fairly a concept about which so much is claimed.

1. In Relation to Site Revenue

*That the claims of efficiency, fairness and simplicity made in relation to the funding of infrastructure by **site revenue** be made subject to further scrutiny by the relevant section of the New South Wales Department of Planning.*

2. In Relation to Development Levies

That development levies cease to fund community amenities and transport services (but not basic services), because of the patent inability to establish a "nexus" between such amenities and transport services and the needs of the actual users of the development.

1 Simpson, W. *Operation and Practices Associated with Contributions under Section 94 of the Environmental Planning and Assessment Act 1979*; p.3.

2 Simpson op. cit. p.149 (21).

3 Kirwan, R. in N.H.S. Issues Paper 4 op. cit. p.68.

4 *Comparative Information on NSW Local Government Councils 1990* Dept. of Local Government and Cooperatives; C1-2.

ECONOMIC RENT AND SOCIETY

A COURSE IN ECONOMICS AND POLITICS

April 14 – May 19

We think it the most valuable course about society that you can do – and you can do it in six weeks. It is the only economics course that takes you to the basis of society.

We offer the course by correspondence but there is that little bit extra which makes it worthwhile to do by classwork.

If you have doubted the claims and the arguments in *Good Government* but think there just could be something there come along and air your doubts.

Should you want to join us the cost is \$30 which includes course notes and refreshments.

**To ask for more details or a prospectus
call (02) 319 3313 between 11 am and
4 pm Monday to Friday**

COMPUTERS ON THE ROADS: THE SOCIAL IMPLICATIONS OF AUTOMATIC VEHICLE IDENTIFICATION

*Brian Martin, Senior Lecturer, Department of
Science and Technology Studies, University of
Wollongong*

Several years from now, there may be a computer in your car to help you find the best route to your destination. When you get in, there will be a small console for you to key in where you're going. The computer system will figure out the best way to go, considering possible routes and taking into account current traffic conditions. A little screen on the dashboard – and, if desired, a synthesised voice – will tell you where to go next. This is called a route guidance system.

With a somewhat different technology, it is possible that as you drive along, your car's position will be monitored by beacons beside the road, hooked into a central computer system. Because the central computer knows where cars are, it can optimise traffic-light timing. It can also despatch police and emergency vehicles to bottlenecks and accidents. The electronic identification of your car could also prove valuable in case of theft. This is called automatic vehicle identification.

The future may also bring computer systems that are used to charge for use of the roads. You might have a pre-paid "smart-card" in your car. Whenever you pass by a beacon, a small toll will be subtracted from your account on the card. The toll would be larger at peak periods and on crowded arteries. This, it is hoped, will encourage drivers to travel at other times or by other routes, thereby reducing congestion. Such a system is called electronic road pricing.

But what if your smart card had run out of money, or wasn't working properly – or you were

trying to cheat the system? If a vehicle went by a beacon and didn't have a working smart card with sufficient credit for the toll, a camera would automatically photograph its licence number, and payment would be sought later.

It is at this point that some people start to worry. Any system that can monitor a vehicle can be used for surveillance. A system of automatic vehicle identification can be used to try to improve traffic flow, to be sure. But could it also be used to monitor your movements if you were considered, correctly or otherwise, to be a threat to society, or just to someone powerful? Furthermore, who will control the scale of charges for electronic road pricing? Couldn't this become another way to charge those who can least afford it?

These are not hypothetical questions. Technologies for automatic route guidance and electronic road pricing are being tested in several parts of the world today. Yet there has been minimal public discussion of the social implications.

Various projects totalling on the order of \$1000 million are being carried out by Western European governments and industries to apply computer technology to road transport. A similarly massive programme is under way in Japan.

✓ In Oslo, Norway, all drivers have to pay a toll to enter the city. A typical system includes three separate lanes for payment: by cash, by token, and by an electronic tag and microwave communication. The latter lane requires no stopping. Payment of tolls electronically is also possible in the Norwegian cities of Alesund and Trondheim.

In the United States, developments are not so advanced. But there is a large programme to test the automatic identification of trucks, called the Heavy Vehicle Electronic License Plate or HELP programme. It involves an AVI system to

monitor the movement of trucks over a large number of states.

Developments in Australia do not match those in Europe, Japan or even the US, but there is certainly interest in AVI in a number of quarters. For example, the New South Wales Roads and Traffic Authority has funded a tracking system used by some Sydney taxi companies; this provides the RTA with useful information about traffic flow.

There has been continuing interest in automatic electronic payment of the toll for the Sydney Harbour Bridge. A survey was held to determine the attitudes of motorists. It would be interesting to know, for example whether they would expect a discount rate and whether they would be willing to pay in advance. Since there have been no moves to set up an electronic tolling system, it may be inferred that the assessment so far is that the capital cost of setting up the system cannot be justified by the Harbour Bridge toll alone. But the continuing interest in this possibility suggests that additional applications will be sought in the future.

There is no doubt that one possible consequence of AVI systems is an increased potential for surveillance of the population. Whether this is justified by the benefits of the technology is something that the public has not yet had a chance to consider.

The first likely use of AVI systems is to monitor truck and bus fleets, providing a much closer surveillance over workers. The focus in this article, though, will be on the implications for private motorists.

Consider a standard system for AVI, in which a vehicle's unique identification number is registered whenever it passes by a particular location. The information gathered could provide a detailed record of driving patterns. Speed (and speeding) could be determined. Daily routines

could be identified, and also deviations from them. It would be relatively easy to determine the location of the driver's home, employment, shopping and so forth.

Many would not object to this – depending on benefits to be gained – if there were sufficient safeguards against disclosure or abuse of the information. Unfortunately, weak controls and unauthorised use of databases are commonplace. Some companies routinely determine credit risks by accessing supposedly confidential databases.

The incentives for accessing AVI information could be considerable. Businesses might want to check up on the behaviour of executives under suspicion. Private individuals might want to check up on the movements of their spouses or children. Police would want to use the system to monitor or apprehend known or suspected criminals. Secret police would want to monitor those they consider to be threats to the security of society.

The Privacy Commission of New South Wales believes that it is likely that Australian police already use electronic tracking of selected road vehicles. If many vehicles were equipped with electronic licence plates, covert surveillance would become much easier for police, private investigators, employers and others.

Having tight controls over collected information is one way to prevent misuses, but controls and ethics committees often can be circumvented. A much more secure way of avoiding problems is to make collection of compromising data impossible in the first place. It is here that examination of different technologies becomes relevant.

Any system that identifies or monitors individual vehicles is open to the potential problems that have been mentioned. But some

systems do not require regular identification. An example is electronic road pricing using pre-paid smart cards. But for those without valid paid-up cards, the back-up system of photographing licence numbers is required. This opens the possibility for monitoring. In the case of an alleged terrorist threat, for example, photographing of all licence numbers might be employed.

With route guidance systems, it is not necessary to identify individual vehicles at all, since guidance can work by giving drivers information based on knowledge of overall traffic flow. The surveillance threat from such systems derives from the technological infrastructure, which would make it much easier to introduce vehicle identification at some later stage. In other words, capital investments in route guidance mean that AVI becomes a cheaper and, hence, more attractive option to obtain added benefits.

From this perspective, the surest way to eliminate possible misuse of AVI is not to introduce any of the related technologies at all. Safeguards on information collected are all very well, but simply do not provide protection in the face of real or manufactured emergencies or in the face of a different, more repressive, government. Even without special pretexts, new surveillance technologies may be helping to bring about a much tighter social control in what are called "liberal democracies".

There are some who think this sort of concern about civil liberties is exaggerated. Certainly, the uncertainty about the way the technology will actually be implemented and used makes a range of assessments possible. There is also another perspective that makes for an intriguing comparison. It is that civil liberties on the road is virtually a contradiction in terms.

READ PROGRESS

official monthly journal of
TAX REFORM AUSTRALIA

31 Hardware Street, Melbourne 3000
Phone: (03) 670 2754
Fax: (03) 670 3063

Annual Subscription Rates
\$10.00 Australia
\$12.00 Overseas

The Proportional Representation Society of Australia N.S.W. Branch

welcomes people interested in ensuring
effective representation in Parliaments and
other elected bodies through the use of the
quota-preferential method of proportional
representation.

For free copy of pamphlet 'Towards Better
Government', write to G.P.O. Box 3058,
Sydney, N.S.W. 2001

Telephone enquiries 960 2193

QUEENSLAND
SITE REVENUE SOCIETY (QUEENSLAND)
P.O. Box 6179
GCMG
Bundall, Qld. 4217
Telephone (07) 870 2325

WESTERN AUSTRALIA
GEORGIST EDUCATION ASSOCIATION
10 Broome Street, South Perth, 6151 WA
Phone (09) 367 5386

TASMANIA
HENRY GEORGE LEAGUE
G.P.O. Box 1370 P, Hobart 7000, Tas.
Phone (002) 34 6553
Fax (002) 34 5807

SOUTH AUSTRALIA
HENRY GEORGE LEAGUE
Monthly meetings are held
and visitors are welcome
9 Rosemont Street
Norwood, S.A. 5067
Postal Address:
26 Landsdowne Ave.
Belair S.A. 5052
Telephone (08) 278 7560

NEW ZEALAND
Enquiries:
Mr. R. D. Keall, 45 Dominion Street,
Takapuna, Auckland, N.Z.
Phone: 461 271
Miss Betty Noble
20 Connaught Terrace
Wellington, N.Z.
Phone: 899 975

SUBSCRIBE TO GOOD GOVERNMENT SUBSCRIPTION NOTICE

I wish to begin subscribing (renew my subscription) to GOOD GOVERNMENT and enclose
\$10.00(A).

☐ I wish to join the Association (Please tick if required. Membership is free.)

NAME:

ADDRESS:

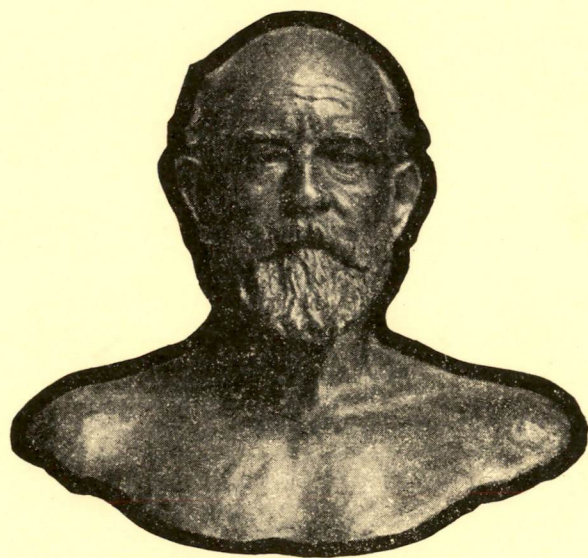
.....POST CODE.....

Please make all cheques and money orders payable to **The Association for Good
Government** and mail them to the Association at **P.O. Box 443, Enfield, N.S.W. 2136.
Australia.**

Remittance enclosed \$..... cash
by cheque
money order

Australasian

GEORGIST QUARTERLY



march
1992

*A Publication of The Association
for Good Government*

THE GEORGIST QUARTERLY

MARCH 1992

NO.29

A forum for discussion of Georgist policy and theory.

Editor: Bernard Rooney

OUR OBJECT

"We would simply take for the community what belongs to the community - the value that attaches to land by the growth of the community; leave sacredly to the individual all that belongs to the individual."

Henry George (1839-1897)

CONTENTS

- | | |
|-------------------------|---------------|
| 1. RESOURCE RENT TAX | W A DOWE |
| 2. RRT | M D HERPS |
| 3. TAX REFORM? | J M SMITH |
| 4. LVT? | J J POT |
| 5. MR GILCHRIST REPLIES | SYD GILCHRIST |
| 6. MR POT REJOINS | J J POT |
| 7. FACING OUR PROBLEMS | BILL PITT |

Comments and contributions welcome:

Association for Good Government
122 Little Eveleigh Street, Redfern 2016.
Sydney, AUSTRALIA.

RESOURCE RENT TAX
A Report and Discussion
RICHARD GILES

On Sunday, 15 September 1991, one of our members, David Bentham, a mining engineer with considerable experience in managing and valuing mines, explained to the Association for Good Government the Rent Resource Tax. This report and discussion of that talk elaborates upon the facts and opinions which were given. David Bentham may respond later to this paper and to one prepared by Douglas Herps.

The Federal government uses R.R.T. only in the oil industry and here only applies it to "new oil" discovered after about 1975 and not subject to State control. In 1990/1 the tax collected nearly \$300m. and it will grow as oil on the north west continental shelf comes into production.

The tax is not levied on a project until all capital outlays have been recouped from production. After this, the tax takes from 30 to 50 per cent of all profit in excess of 17 per cent. There are two things to note here. First, the "profit" is calculated rather unconventionally from cash flows. Second, the minimum profit allowed before tax is set at 10 per cent plus the U.S. bond rate - in other words, the miners are guaranteed the minimum profit to be made elsewhere.

The pros and cons of this tax are unfortunately only debated between Government and the highest levels of oil industry. The issue deserves wider public attention. One advantage given for R.R.T. is that the tax is certain and rationally arrived at, and this allows business to proceed without the anxiety that the ground rules will suddenly and arbitrarily be altered. Because it does not apply to marginal enterprises, another advantage is that it helps to conserve resources by keeping these mines operational for a longer time, thus ensuring that resources are not abandoned after the "bonanza stage" is passed. At the same time of course this makes the tax fairer to marginal businesses. One criticism made is that the tax penalises enterprise in that a business which performs badly, and whose profit does not exceed the threshold of 17 per cent, escapes the tax while one that is identical geologically and in terms of support from infrastructure which performs better will pay the tax.

Its advantages suggest that R.R.T. could be used as a single tax on all mining. In other words, no new taxes need be levied on mining; no old taxes need to be increased; in fact, all existing taxes in the mining industry say in N.S.W. could be eliminated in favour of R.R.T. For example, coal mines in N.S.W. and Queensland now are compelled to do business under a regime of up to 21 actual or defacto taxes. Some of them are hidden, others like royalties are almost arbitrary - overall, a poor business environment, especially for marginal mines, and one whose uncertainty rewards lobbying by the powerful and corruption by politicians.

Of course, as Mr. W.A. Dowe pointed out in discussion of Mr. Bentham's talk "resource" means land. The Resource Rent Tax is R.R.T. a land tax; that is, a form of site revenue. The criticism made that it can penalise enterprise only means that it is not a good form of site revenue collection in that it taxes wages as well as rent. The reason is that the revenue base of R.R.T. is not economic rent but profit calculated by the Company itself. Moreover, there is one element of uncertainty for companies, and that is the tax rate setting on the super or excess profit. In the North Sea most companies pay 75 per cent; at Bougainville it was 70 per cent.

✓ This varying rate appears to be caused by two things: the number of taxes already imposed upon production and the costs of exploration borne by the company now doing the mining. Having said this a uniform rate is still preferable. The risk factor in the mineral industry occurs most spectacularly with exploration. Having spent perhaps as much as \$90m. to find oil the company seems to have established a right to develop the site, and a smaller rate compensates the company for its additional costs of exploration. While explorations costs could be repaid by Government or be treated like capital costs in establishing the enterprise, another answer is that it is Government which should undertake exploration. There is no reason to think that a thoroughly professional organisation, properly set up and supervised, could not do this special job of land survey. Full public disclosure of the lode would then be assured, and the government would not be beholden to any company for the find. Risk or luck now having been reduced to ordinary proportions governing all business enterprises, companies could then bid against each other for access, rather in the same way that farmers bid for land of differing fertility. Payment could be deferred until after production begins. By careful and regular estimation of what are going rents for similar sites elsewhere in Australia and in the world generally, the government could establish some reserve rent which protects the public interest. A formula which is clear, certain, and rational could also be established for alterations in this rent from year to year.

This new form of R.R.T., and other legitimate measures to ensure that mining companies restored land and did not disturb other land uses unduly, would do all that Government should legitimately do to conserve minerals and return to the public its entitlements when mining occurs.

RESOURCE RENT TAX (R.R.T.)

Your Association is to be congratulated for securing a guest speaker of the calibre of Mining Engineer David Bentham to address your September meeting on this subject.

R.R.T. is a closed book to most of us and Mr Bentham succeeded admirably in giving his audience an intelligible summary of a subject which is important and esoteric.

It is important, because, rightly or wrongly the general public has an uneasy feeling that the Mining Industry is a ruthless exploiter of the country's valuable but finite mineral and oil resources but contributes less than a fair share of revenue to the various levels of government.

To be fair, this industry in particular has always been bedevilled by a multitude of arbitrary taxes which we agree with Mr. Bentham are "neither logical nor consistent". He identified no less than 21 separate exactions, ranging from royalties to road taxes!

✓ Moreover, he said that present tax policies raise too little from rich, "bonanza" mines and too much from marginal ones. In the result everyone suffers under the present tax regime.

Mr Bentham claimed that the new concept of R.R.T. was based on Ricardo's law of economic rent as measured by the "super profits" generated by mining operations. It is therefore one which your association would generally approve. But he admitted that its successful implementation depended largely on full disclosure by the Mining Industry to government of its "super profits", if any, for each mining venture. This would be necessary because resource rent would be determined as a proportion of those profits in each case.

✓ I must therefore sound this warning with R.R.T. Disclosure of profits, "super" or otherwise, is a notoriously unsatisfactory basis for collecting revenue. It depends on information jealously guarded from government and the Industry's commercial competitors. A far better basis for resource rent assessment is one based on the objective market for land containing natural resources as it is for the rent of all other land.

✓ During discussion, Mr Bentham confirmed what some people have known or suspected, namely, that within the closed world of the Mining Industry there is indeed a ready market for interests in land containing mineral and oil resources. But such transactions are not required to be disclosed. The Industry, aided by lawyers and ev

en by governments has so far concealed these facts under the fiction that mining title transactions are dealings in chattel interests and are not notifiable to valuation authorities as are those of ordinary interests in land.

Since mining titles undoubtedly represent "land" in the economic sense, either unimproved or improved, their valuation is a proper subject for land valuers, although few of my colleagues acknowledge this, preferring to leave this field of activity to experts in the mining industry. Because these are usually employees of or consultants to the Mining Industry, this is most unsatisfactory for obvious reasons. If objective sales and rental information concerning dealings in mining titles were available to them, valuers and land economists would soon realise that mining titles of all kinds are indeed a challenging and rewarding field for the exercise of their skills and objective revenue valuations would soon be available just as they now are for ordinary land titles.

I therefore urge the Association to work for full legal disclosure to the valuing authorities of the details of all dealings in mining titles as is now required with all other landed interests. All that is necessary is an amendment to Section 71, Valuation of Land Act (N.S.W.) to bring mining titles within the scope of that Section. When this is achieved fair valuations of mineral and oil bearing lands for revenue purposes would soon be available for land tax and rating. In the process "resource rent" assessment as advocated by Mr Bentham would be important as a check on valuations based in the market as disclosed by sales, rents, share transactions etc, etc. Only by this means, I believe, will it be possible to obtain revenue assessments of mineral and oil bearing lands which will be fair alike to the Mining Industry and the community. Moreover such valuations will not depend on that industry disclosing such sensitive commercial information as super profits any more than commercial valuations depend on disclosure of the profit figures of retailers and manufacturers.

M D HERPS
VALUER AND LAND ECONOMIST

TAX REFORM

Having mentioned to Richard Giles that we perhaps need to look again at the words "Tax Reform", with the view to eliminating "Tax" from our publicity, he suggested I write to you with the suggestion.

Today we have heard J.Hewson's Tax reform agenda. (As a pensioner paying for Government housing, I will find it even harder, as my rent will go up with each rise in pension. S.A. Trust is "forced" to do this by an agreement with Canberra, concerning funds to the State!)

Bob Hawke has also in the last year or so, asked his party to consider tax reform. So we regard tax as a great "putter-off", or aversive stimulus. We need a party now, with Green or not, and as a title, perhaps, "Justice" or "Just-n-Right" or "Challenge" or "Fair Go", whatever can appeal to the average man in the street and youth and students. Obviously we need to come out and be seen and heard, and to provide some of our bright young adherents as candidates for election. Parties are concerned about the swing to Independants, and no wonder.

J.M. SMITH

LVT?

I regret to be absent at the Executive Meeting on March 21. Nevertheless I will make a point that the Executive Committee shall consider to start in one way or another to call into being a studygroup (-club, -circle,-centre) on:

1. Reasons for slow progress and even the reverse of LVT throughout the world;
2. Proposals for other methods to get at our goal: pay for landvalue to the common treasury instead of to private owners.

ad 1.

In 1968, at the International Conference at Caswell Bay, Ronald O'Regan explained in his paper our lack of progress on p.8 as follows:

"Noone likes paying taxes, and every land tax payer becomes an opponent of the land tax. In addition he has an added motive to oppose a landtax in particular, and I think this is important. A tax on land values reduces the value of a property by the amount of tax capitalised. Conversely any remission of the tax means an increase in selling value of the property, i.e. a capital gain, and every land owner reaches out at some time for this glittering prize. This is the motive keeping alive the constant pressure to abandon land-value taxation in the municipal field. Land-value taxers, in their efforts to destroy the evils of private property in land, are fighting a continual battle which is never won, and for this reason a further step is required to secure the gains made."

Since, Canberra starting with LVT (SVR), is lost. New-Zealand will be lost in due time by prohibiting polls on the subject. In Australia no progress. In RSF we are hopeful to add Cape-Town to the list, but in the other provinces there is a standstill for decades already. In Pennsylvania there are a lot of "World Victories", but after a mere beginning the opposition due to that "glittering prize" is growing already. In the rest of the world no progress whatsoever. Please make a reprint of Roland O'Regan's paper of 1968! He warned us already a quarter of a century ago - install a studygroup to listen to his warnings!

ad 2.

On p.12 of his paper, Roland O'Regan says: "We should know why and how the problems of monopoly ownership, valuation, rent determination and legal problems of definition and administration can be overcome. We should be deeply involved in this and similar efforts".

The studygroup shall make a compilation of other ideas how to do it - the proposal of Roland O'Regan and others (I myself can make a contribution to it) and consider ways to implement these proposals if judged valid. So propose this idea to the members of the conference and let our Union try to organize such a research in one way or another - may be by way of a studygroup - by - correspondence.

J.J.POT

MR GILCHRIST REPLIES

Mr. Pot is virtually recommending that our organization, which has the specific aim of recommending land-value taxation, should abandon recommending land-value taxation! He asserts that "we are making little progress" with our aims. But the main reason we are failing(?) to progress is that there is a large(?) number of "Georgeists" such as Mr. Pot who are continually opposing any moves to achieve the aim practically. They refuse to support and write literature or propaganda advocating site value taxes and rates.

Mr. Pot quotes R. O'Regan as correctly saying that there are people who oppose land-value tax and seek to reduce it where it is being applied because of the glittering prize of land value (price) gains. Apparently R O'R said "a further step is required to secure the gains made". Mr. Pot should have told us what it is. Did O'Regan have any concrete suggestion? I doubt it. Mr. Pot is entirely wrong about what happened in Canberra.

✓ Land-value taxation was NEVER * see below---applied in Australian Capital Territory. Land was issued as LEASEHOLDERS at set rents (for both residential and commercial land) with rents to be adjusted every 20 years! This was of course a less business-like arrangement. The site rents should have been adjusted every year. Because leases were commenced at different times, rents for similar quality sites had different rents - which led to anomalies and complaints that it was an "unfair" system. Also the department in charge commenced issuing leases with an initial premium payment, in addition to the rent. Later still in 1971, regulations were tabled in the House of Representatives fixing the rents for all residential sites at "5 cents per year if demanded", so the lease became virtually "free" hold (but has a hundred years tenure).

What will happen when the leases run out is not stated. A good guess is that the leases will be "declared" permanent hereditary freehold.

* Although there has not been "land value taxation" municipal rates have been introduced to Canberra, and these are based on the market price of exchanging the lease, so that it does amount to charge based on site value, but of course not the "full" rent. Holders of leases complain about the high prices. Those who started off renting in Canberra more than 20-30 years ago of course got the "glittering prize" of land value (price) gain as the rent was reduced. Of course the legislation and rent setting was in the hands of the bureaucrats who lived in Canberra, even though the land belonged to "us all."

✓ Mr. Pot wants a way to achieve our aim. May I suggest to him that he strongly advocates BOTH the collection of land taxation and if he wishes the collection of rent (which to my mind is less practical). If he has a better idea, put it forward. But stop dripping tears and wringing hands about "getting nowhere." Talking to each other and saying that what others are doing is no good, does not help. The only people who benefit from our ceasing to press for land value taxation are people who want to get

✓ or to retain the "glittering prize". It's no good sitting around in a study group telling each other to think of a good idea. The only good idea is to work to get and retain site taxation, actively, in the community.

SYD GILCHRIST

MR POT REJOINS

Mr. Gilchrist is right saying: "our organisation has the specific aim of recommending land-value taxation". Indeed, that is exactly my point. For LVT is the method, that is "the way along which" our Union urges to get our goal.

That goal however I have formulatd in my letter as follows: "pay for landvalue to the common treasury instead of to private owners".

Be aware of confusion about the term 'value'! LVT means land price taxation. If I say land-value, I mean the annual use value as materialized by way of the market-price of the rent).

In fact I do not so much "oppose" to LVT, but point to the reality that we "are fighting a continual battle which is never won". Instead I asked to consider other means to strive at our goal.

✓ Mr. Gilchrist asks whether Roland O'Regan had any suggestion. Indeed, R.O'R suggests "the adoption of a system of leasehold tenure". But alas, all over the world we see that also this method doesn't work. Mr. Gilchrist is right, that in A.C.T. it was the leasehold system that failed. He proposes that "the site rent should have been adjusted every year." That may be a step in the right direction indeed, but that's not all. Of course there is much more to do for to get at our goal. For that reason I ask for a club of wise men to study it.

I agree with the suggestion of Mr. Gilchrist to advocate BOTH methods (and I add moreover every proposed other method if judged valid as well), for to make at least a start. But I hope that a joint effort may result in improvements. And possibly of still other methods with which to aim at our common goal. For along Mr. Gilchrist's "only good idea" we are fighting a continual battle which is never won.

JAN J.POT

FACING OUR PROBLEMS - P.H.

Seeking causes for the continued failure of the Geocratic/Georgist reforms, Arthur Dowe names the erroneous confusion of 'land value' with 'rent' and an inadequate proselytising. Realising that "Tax Reform" is particularly fatal he asked did Wilberforce or Lincoln ever advocate the slavery be reformed? We should shout "Nor did Henry George!"

In 1891 a London Geocrat wrote an excellent book to show that "interest" is really a form of rent. In 1912 another Geocrat established that a tenant's outlay for municipal rates is just as much "rent" as is his payment to the owner. Over the next few decades, yet another showed convincingly that both "rating reform" and the other little-by little or slowly-does-it strategies were totally unsound. But hidebound thinking, heroworshipping and a sort of intellectual arrogance by the Georgist hierarchies met those careful arguments not with investigation but with denigration, disparagement and, even, vituperation.

Hopefully, this is altering, for Tax Reform Australia has now set up a Standing Committee to recommend improved wordings and to report in writing to its annual meetings. Since other Geocrat/Georgists will have suggestions, I spell out some of the points where my own thinking differs from what is perhaps "traditional".

First is Value, the general writings on which are exasperatingly difficult to follow. Working from the axiom that everyone seeks to maximise satisfaction and to minimise exertion, I wrote a two page piece that since 1966 has raised no challenge. By luck I found that John Ruskin, reaching the same conclusions, had made this summary:-

Value: the amount of labour a person surmises that possession of something will enable him to avoid.

Cost: the amount of labour the possessor outlays in obtaining it.

Price: the amount of labour the possessor accepts in exchange for it.

Although these point up the essential distinctions and align neatly with everyday commercial usage, our "schools", still desperately cling to the archaic wordings of Adam Smith about value from production and value from obligation. Yes, to rewrite the textbooks would be a problem - but should not reformers face their problems?

"Site Rental" gets a little luckier, for Russia lacks "land price" and this seems to have forced our journals into using "site rental". But our teaching manuals don't use it and the missions we send to Russia either won't or can't.

In addition to the book mentioned above, reams have been written about Interest being spawned by privately retained site rent and obviously bound to vanish when that does. Loads of Geocrats have agreed, but our journals and schools sit on their hands about it.

I cap all this by stating that George's major analysis about land, labour and capital being the factors of production is similarly unsound. George had himself seen that neither land nor capital is a "maker". But in developing that formula he forgot the fact. That does not make him a lesser or a greater person - he simply was human!

My analysis is that everything is service, the immaterial product of our wills. Whether a blackberry is for immediate consumption or for the cannery, every single atom of it eventually returns to nature's timeless reservoir, there to repeat the timeless cycle.

✓ Thus what gets consumed can be only the 'service' that picked the berry! So it is really the exertion of our will that fuels the body, that powers the mind and in a timeless cycle enables the metaphysical "will" to operate. If that be so - and I cannot see it otherwise - then everything that is produced must analyse out as wages:-

Wages for the barber who cuts my hair.

Wages for those who make and maintain his shop and equipment.

Wages for those who make and maintain the public facilities - thus including the owners who attend to proper occupancy, collect the site rental and pay the net to the treasury.

Much of this may conflict with the forms of expression that the movement has used for a century or more. But it aligns with everything the movement stands for. The logic of it seems sound and the re-think was necessary. It goes to the root of our past inability to get the basic philosophy comprehended and utilised. It would strengthen our enthusiasts in their making of contacts.

I thank Arthur for that word "fatal". I look forward to comment. There should be plenty of it. The suggestion for Geocrat and Geocracy come from Richard Noyes, currently president of the International Union.

BILL PITT

Good Government

A JOURNAL OF POLITICAL, SOCIAL AND ECONOMIC COMMENT



Bad News

Underrated Revenue

FEBRUARY, 1993

No. 904

GOOD GOVERNMENT

(Incorporating "The Standard",
published since 1905)

THE PROPER REVENUE OF A NATION IS
THE SITE RENT OF ITS LAND

Published in every alternate month by the Proprietors,

The Association for Good Government

Business and Editorial Offices:

122 Little Eveleigh Street, REDFERN, N.S.W. 2016

Postal Address: P.O. Box 443, Enfield 2136

Editor: R. Giles — Tel: 744 8815

Reproduction of any of the literary contents of
GOOD GOVERNMENT is permitted with due
acknowledgement.

The opinions of contributors of signed articles are not
necessarily those of THE PUBLISHERS

PRINCIPLES OF GOOD GOVERNMENT

GOOD GOVERNMENT RESTS ON THESE FOUNDATIONS

1. The true function of government is to maintain peace and justice. This does not include interfering in national or international trade or commerce, or in the private transactions of its electors save only as these threaten peace and justice.
 2. A democratically controlled and just revenue is available to governments by the collection of all site rents as their sole and proper revenue, at the same time abolishing all taxes, tariffs and unjust privileges of every description.
 3. A democratic system of representation by the adoption of proportional representation in multi-seat electorates and simplified provision for the referendum, initiative and recall.
 4. A continuous programme of education in the economic facts of life to enlighten the electorate.
-

Contents...

Viewpoint:

Do We Over-Consume?...1

Implied Freedom2

Obituary:

Bill Mason2

Underrated Revenue3

VIEWPOINT

DO WE OVER-CONSUME?

Why do we need GST? The ANZ savings report finds Australia spent \$5.6 billion more than it earned in 1992 up to the September quarter. So we need GST to stop ourselves spending. That is the view of one economist. Terry McCrann, sees GST as an important way to address "a serious problem of over-consumption and under-investment" (*The Daily Telegraph Mirror*, December 18).

Paupers are always over-consuming. The near riot at Grace Bros end of year sale in Sydney showed us this kind of consumerism at its worst. Hundreds of people struggled. Some people were pushed through display windows, but they had disappeared by the time ambulance staff had come to treat them; they had gone on hunting for bargains! Who were these over-consumers? They were needy people drawn by prices they could afford?

"Over-consumption" is spending where you

have not earned. So the unemployed and the homeless are over-consumers. So is anyone forced to spend their savings to maintain their standard of living. And, of course, there are those paid off by Government job-shedding policies, and those paid off to evade larger superannuation payments later on.

But McCrann denies the recession is really to blame. The recession has only blurred the picture; made it more difficult to get down to the "core" problems. And you have guessed it; what is at fault is the Australian worker. "But consumption (after GST) will have been earned by being more productive".

This common theme is reinforced by some migrants who have recently come to Australia. They claim to work harder than the average Australian. But why then do such people emigrate? Is it reasonable to leave a country where almost everyone is hardworking and go to a country where almost everyone is lazy?

The truth is that Australia actually sells more to its near northern neighbours than it buys. And the things it sells by and large show that Australian workers are more skilled than their Asian neighbours. And is not making more sophisticated products being more productive?

But to move on. Labor "centralised enterprise bargaining" comes in for a helping from Mr McCrann. To him this entrenches Australians' lack of productivity while discouraging investment. Australians apparently should be given the kind of scare that only a workplace without unions can give?

Do we need a lower paid, more servile "workforce"? If this produces people without hope or spirit enmeshed in a brutish struggle for existence, are these the best workers? Or does such a society ossify into a caste system?

Unfortunately, Labor has no better plan, no other vision to offer Australians, than this "economic rationalism" – what ultimately could be only the selfish promise to the elite that they are going to be even more secure and better off than they are already.

IMPLIED FREEDOM

by Lionel Boorman

Sydney Morning Herald (October 1, 1992) said "The High Court signalled a major shift in its interpretation of the Constitution by acknowledging the existence of an implied freedom of speech guarantee in the document."

Justice Gaudron said, "The notion of a free society governed in accordance with the principles of representative parliamentary democracy may entail freedom of movement, freedom of association and perhaps freedom of speech generally. But so far as free elections are an indispensable feature of a society of that kind, it necessarily entails, at the very least, freedom of political discourse."

The above relates to a judgement upholding "the arguments of television broadcasters and the New South Wales Government that the legislation, by denying people access to the airwaves during election periods, breached an implied freedom of speech guaranteed in the Constitution." (*Sydney Morning Herald*).

Even though it is merely implied it seems that freedom of speech is now enshrined in Australia's Constitution.

HELP GIVE A VISION BACK TO SOCIETY

"ECONOMIC RENT AND SOCIETY"

A SIX WEEKS COURSE
BY CLASS OR CORRESPONDENCE
WILL SHOW YOU HOW TO DO IT

Contact Us About a Prospectus

Obituary: BILL MASON Staunch Georgist a man of letters

Bill Mason, a former Treasury officer and inveterate writer of letters to the Editor of *The Canberra Times*, died in Canberra on Sunday, aged 69.

Bill was a committed Henry Georgist, or single-taxer, a supporter of ideas of the 19th-century American reformer and economist Henry George, who believed that an effective system of taxation of the unimproved value of land, the ultimate basis of all wealth, could replace all other taxes.

Georgism was a relatively popular fringe political idea of the early 1900s, and was very influential among some of those who founded the ACT: its leasehold system in part devised as a test of the idea.

In scores of published, and hundreds of unpublished, letters to the Editor over the years, Bill argued for single-tax solutions. He was a modest, affable and easy-going correspondent, whose contributions, if predictable, had the double merit of fixing themselves to some topical event, and of being short and to the point.

Born in Victoria, Bill Mason served as a Lancaster bomber pilot over Europe in World War II. He was an accountant in the Northern Territory Administration in Darwin for eight years, and came to Canberra, where he worked at the Treasury, and ultimately, the Royal Australian Mint. He retired 12 years ago.

He was actively involved in a range of community affairs, including the RSL, but most particularly in recent years in the Australian Democrats. Apart from his taking every opportunity to push Georgist ideas he had a strong interest in administrative reform and open government.

Bill is survived by his wife Roma, and three of his four children, Christopher, Robert and Jennifer. He will be buried today.

Jack Waterford

Canberra Times, Tuesday, November 24, 1992

Does not. Put. legislate for NSW?

UNDERRATED REVENUE

THE ATTEMPT BEING MADE TO REPLACE LOCAL GOVERNMENT RATING BY UNIFORM CHARGES

1. Introduction

In 1905, Joseph Carruthers introduced local rating based on site values into New South Wales. Carruthers was a follower of Henry George, who saw the collection of land values instead of taxes as the solution to poverty. Carruthers had the support of the young Labor Party which itself introduced a Commonwealth Land Tax in 1910.

At the moment councils in New South Wales gain about half their revenue from local rates, which are small percentages of land or site values. Proposals now before Parliament will change this.

poll tax
First, a council may collect half its rate revenue in the form of a "base amount", a charge levied equally on all ratepayers.⁽¹⁾ Second, councils will be obliged to charge for domestic garbage services, and will be free to set other charges.

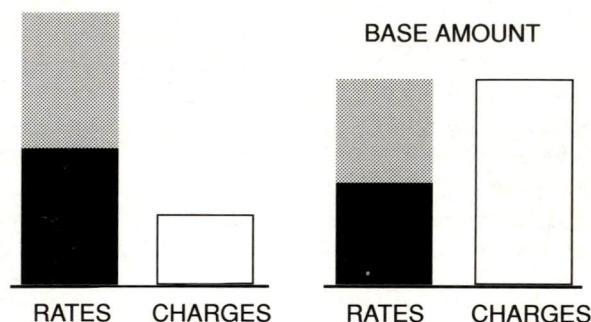
In effect, the base amount and charges will replace more than 50 per cent of rates. The reason is that overall rate revenue will be reduced to accommodate these subsidiary charges. In other words, increasingly it seems, charges will be made which fall outside income from ordinary rates, beginning with charges for domestic garbage removal.

Rates are in a position where they will wither away to become not the mainstay but the rump of local government finance. This evolving situation is described in Figure 1.

Should this happen more than 60 per cent of what had been collected by rates will be collected

PROPOSED CHANGES WHAT THESE CHANGES
WILL AMOUNT TO

Figure 1
BASE AMOUNT



by a base amount and charges, more than the Oakes Committee of Inquiry asked for in April, 1990.

Every effort has been made to deny proper debate to this controversial reform. The draft bill issued in December, 1991 omitted it and, instead, hinted at "extension and refinement of the current system".

To levy half of rates on a base amount (even if optional), that is on people rather than on land, and to be able to bring it in by council resolution is not "extension and refinement". It is the "poll tax" back again.

2. Are the changes regressive?

The Oakes Committee's own research Tables demonstrated that a basic charge covering 60 per cent of rate revenue was regressive. A base amount of 50 per cent plus charges is just as regressive.

These changes have now (5/93) come about.

ASHFIELD MUNICIPALITY

IMPACT OF FIXED CHARGE PER RESIDENCE (60%) PLUS LAND VALUE COMPONENT (40%)
(SCENARIO 5) RESIDENTIAL ASSESSMENTS

*** "PROPOSED" FIGURES BASED ON ASSUMPTION OF ONE RESIDENCE PER PROPERTY

CURRENT MINIMUM: \$236.00			PROPOSED FIXED CHARGE PER RESIDENCE: \$218.16				
CURRENT RATE IN \$: 0.0095			PROPOSED RATE IN \$: 0.0042				
				MIDDLE RATE BILL			
VALUE RANGE	NUMBER OF ASSESS	% OF ASSESS	MIDDLE VALUE \$	CURRENT \$	PROPOSED \$	DIFFERENCE \$	DIFFERENCE %
0-15000	3,693	28.56	10,000	236.00	260.16	24.16	10.2
15001-25000	1,425	11.02	20,000	236.00	302.16	66.16	28.0
25001-35000	678	5.24	30,000	285.00	344.16	59.16	20.7
35001-45000	1,107	8.56	40,000	380.00	386.16	6.16	1.6
45001-55000	1,847	14.28	50,000	475.00	428.16	-46.84	-9.8
55001-65000	1,593	12.32	60,000	570.00	470.16	-99.84	-17.5
65001-75000	742	5.74	70,000	665.00	512.16	-152.84	-22.9
75001-85000	670	5.18	80,000	760.00	554.16	-205.84	-27.0
85001-95000	708	5.48	90,000	855.00	596.16	-258.84	-30.2
95000+							
	12,931						

BANKSTOWN CITY

IMPACT OF FIXED CHARGE PER RESIDENCE (60%) PLUS LAND VALUE COMPONENT (40%)
(SCENARIO 5) RESIDENTIAL ASSESSMENTS

*** "PROPOSED" FIGURES BASED ON ASSUMPTION OF ONE RESIDENCE PER PROPERTY

CURRENT MINIMUM:		\$334.75	PROPOSED FIXED CHARGE PER RESIDENCE:			\$361.73	
CURRENT RATE IN \$:		0.015	PROPOSED RATE IN \$:			0.00618	
VALUE RANGE	NUMBER OF ASSESS	% OF ASSESS	MIDDLE VALUE \$	CURRENT \$	MIDDLE RATE BILL PROPOSED \$	DIFFERENCE \$	DIFFERENCE %
0-11999	1,629	3.4	9,500	334.75	420.44	85.69	25.6
12000-21999	1,647	3.4	17,000	334.75	466.79	132.04	39.4
22000-31999	2,140	4.4	27,000	411.64	528.59	116.95	28.4
32000-41999	14,170	29.4	37,000	564.10	590.39	26.29	4.6
42000-51999	26,046	54.0	47,000	716.56	652.19	-64.37	-8.9
52000-61999	2,250	4.7	57,000	869.02	713.99	-155.03	-17.8
62000-71999	140	0.3	67,000	1,021.48	775.79	-245.69	-24.0
72000-81999	98	0.2	77,000	1,173.94	837.59	-336.35	-28.6
82000-91999	52	0.1	87,000	1,326.40	899.39	-427.01	-32.1
92000+	101	0.2	187,000	2,851.00	1,517.39	-1,333.61	-46.7
	48,273						

Table 34, Report of Committee of Inquiry into Local Rating and Other Revenue Powers and Resources, April, 1990.

The Tables above show that even those paying a minimum rate (higher already than a "true" rate) will pay more under a base amount and other charges which amount to 60 per cent of rate revenue.

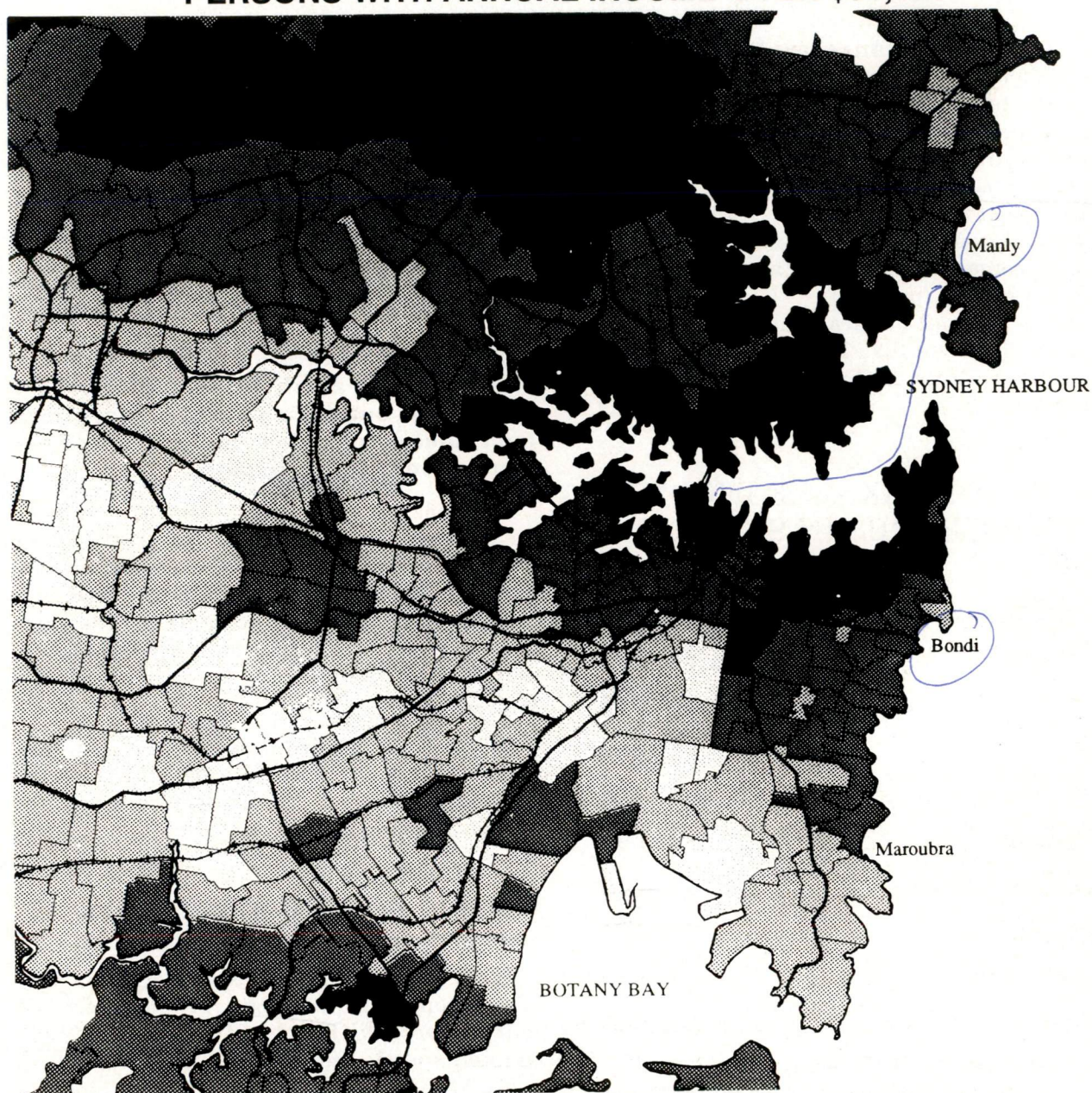
3. Is it fair to make the poorer part of the community pay a greater share of the cost of local government?

The belief is widespread that it is. Rates often result in an "unfair distribution of the rate burden" between many who pay lower rates and the few who pay high rates. In other words, those with high rates are "paying too much".

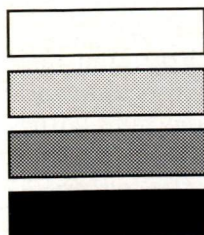
That view is often accompanied by the belief – even among senior council officers – that high land values and wealth most often do not occur together. This must mean that we can expect to find the wealthy and the poor scattered randomly over land of more and less value. Is this true?

A glance at the latest Sydney Social Atlas (ABS, 1986) clearly shows the answer is "no". There is certainly no perfect correlation between income and wealth, and the value of land used; but there is a significant correlation – especially if we except "gentrified" suburbs. ⁽²⁾

PERSONS WITH ANNUAL INCOME OVER \$50,000



Percent of persons
aged 15 years & over



Less than 0.15

0.15 to 0.59

0.60 to 2.99

3.00 or more

Census subdivision
Number Percent

67

14.32

178

38.03

157

33.55

66

14.10

Total

468

100.00

Persons

Number

Percent

313

0.99

2,957

9.35

11,141

35.23

17,214

54.43

31,625

100.00

Main transport routes

+++ Rail

— Road

0 5 10 Kilometres

In fact, the Social Atlas says "The areas with the highest proportions of high income earners were located around the waterways of Sydney, especially the Sydney Harbour foreshores, Middle Harbour, and the lower reaches of the Parramatta and Lane Cove Rivers, and in a large area of northern Sydney . . . Church Point on Pittwater and Blakehurst and Connells Point on the Georges River, also had a high percentage of these persons" (page 57).

Now, surely all of these suburbs have high median land values. This finding is quite consistent with the finding of the Tax Office for 1990-91.

AVERAGE TAXABLE INCOME BY SUBURBS IN SYDNEY

Suburb	Average income
Edgecliff	\$56,461
Bellevue Hill	\$46,597
Killara	\$45,945
Castle Hill	\$30,480
Sylvania	\$30,448
Liverpool	\$24,692
Lidcombe	\$23,815
Fairfield.....	\$23,134
Mount Druitt	\$23,690
Auburn	\$22,905

Australian Tax Office statistics tabled in Parliament on December 16, 1992 (From Daily Telegraph Mirror, December 17)

Surely those who have decided to retire in richer areas (and who complain that their own home does not amount to wealth since by living there they cannot realise its value) have the wherewithal to do it. Such persons do not have the expenses associated with work or young families. Where there is hardship rate exemptions and deferrals developed over many years by councils ameliorate it.

Land prices from which rates are taken are the result of competition. That in itself should mean that, generally speaking, those who buy into suburbs of high land value can afford it. This same competition excludes lower income earners from the more expensive land.

With the home being such an important investment it is little wonder that those on higher incomes compete for expensive sites which promise the highest tax-free capital gains.

There are certainly exceptions and in some few areas these exceptions are numerous, but even with the exceptions land values are the best indication we have of a person's "ability to pay".

But some ask why should a person be charged for local services according to his ability to pay for them? If two people go to a shop and buy the same article does the more wealthy customer pay more? If both pay the same for the same goods and services in the ordinary commercial world why should it be different for Government?

All residents receive the same services; they should all pay the same rate. This is called the user-pays argument. The most expensive rates are far too high.

4. Do ratepayers, rich and poor, get the same services from local government?

Those who live on more expensive blocks very often occupy larger frontages, in wide, quiet and leafy streets with extensive nature strips. Council spends more to maintain a block in these streets than it does a narrow block in crowded, car-lined, and treeless streets with lower land values.

Areas with high land values are often near parks, reserves or waterways whose upkeep is quite expensive. Suburbs with low land values usually lack parks and reserves. This is a matter of common observation. "Traffic calming" devices, built and maintained by councils, make some streets quieter than others. They add up to 10 per cent to land values and therefore increase rates.

Two streets in the same local area



Burwood, New South Wales – *photos John Burnage*

Services provided by council to ratepayers are not equal at all.

Those who make out a case for uniform charges focus attention on *basic* services. But, even here, the per capita cost of garbage removal and street cleaning in more densely populated areas is less than it is in more spacious areas with fewer people.

Why should not wealthier ratepayers pay

more even for basic services if they actually cost more to supply to them?

Studies in Britain and more recently in Australia also find that those who live in areas of high land value make more use of community amenities and facilities than those in poorer areas. That is partly because these public amenities are more numerous and closer to hand in richer areas, making it more convenient to

use them. Part of what is paid for land is paid to secure this nearness and convenience.

Why should not persons pay for the fact that community facilities are built closer and more conveniently to them than to others?

The truth is that those who pay more rates get more benefits. If higher site values represent more benefits from surrounding land what else do higher rates represent?

Land value is site value. Even if the advantage of a site is physical, the harbour foreshore for example, the community maintains it. And if a site has social advantages, as the eastern suburbs of Sydney do because of their proximity to the city, the community maintains those advantages. Whether physical or social surroundings, what could be more reasonable than that the local government as the agent of the community should collect site values to maintain and improve those surroundings?

5. Is "payment for use" practicable?

But, even if being fair and reasonable does not matter, are uniform charges administratively practicable? Site values may be used to maintain *all* advantages to a site from a single payment. The argument is made that councils should charge equally for their services like private enterprise. But, besides it being true that local services are not equal, the fact is that if the poor cannot afford a commercially available product they do not buy it. But government charges are compulsory. If the poor cannot pay the cost of services, they will fail to pay them, evade them, worry about them, and fight council over them. This resistance will cost money to overcome. GST on council rates and charges will exacerbate the situation. What happens if people cannot pay for essential services like garbage removal? Do they stop as they would if supplied by private enterprise? Are exemptions given? Does private enterprise give exemptions and deferments? Do all "subsidies" cease?

Even now local finance is extremely complicated: development levies, Commonwealth grants, differential rates, minimum rates, rate-pegging . . . Now there will be more special rates or user-pays charges, and a "base amount" which could itself be different for different classes of land. Surely these changes further complicate

and raise the costs of local government; and, until they are understood, produce costly disagreements and litigation.

How do these arrangements equate with the claims that coming change will make local government more understandable?

And, by charging people and not land, we are losing a means of encouraging the full use of land and resisting urban sprawl.

6. Pro Bono?

Who gains from these changes? If we assume that these changes more or less give us what was recommended by the Oakes Inquiry, those who live in, say, Bankstown and already lose by minimum rates will lose \$85.69 more. Those who use land of high value will gain \$1333.61.

Some would say that the rich are ceasing to pay for the poor. If this were income tax and not rates they could have a case. But rates measure community-given and maintained benefits to land. Whether the argument is that siteholders ought to pay the community for those benefits, or whether they ought to pay the community for their upkeep, the case for paying rates remains.

If the well-off (for it is they who tend to live on better land) do not pay their full share, but a lesser amount derived from uniform charges, they are getting something for nothing. And the less which they pay will be capitalised into a higher land value. Because the saving in rates is turned into higher land values, the well-off will gain twice. And of course the poor lose twice; with GST they lose three times!

But the truth is that people pay high rates, not because they are wealthy, but because they receive more community-given benefits.

A rate based on site value is a fair and simple one-off charge for all the advantages given to land by the local community. Why replace it by a cumbersome set of user-pays charges which may add up to the same thing?

⁽¹⁾ **In reality the situation can be more complicated since Council may set different rates and base amounts for residential, business, and farmland; that is, differential rating will still apply.**

⁽²⁾ **Working class suburbs being settled by more wealthy residents. Examples are Balmain, Rozelle and, to some extent, Redfern and Surry Hills.**

gentrified

READ PROGRESS

official monthly journal of
TAX REFORM AUSTRALIA

31 Hardware Street, Melbourne 3000
Phone: (03) 670 2754
Fax: (03) 670 3063

Annual Subscription Rates
\$10.00 Australia
\$12.00 Overseas

The Proportional Representation Society of Australia N.S.W. Branch

welcomes people interested in ensuring
effective representation in Parliaments and
other elected bodies through the use of the
quota-preferential method of proportional
representation.

For free copy of pamphlet 'Towards Better
Government', write to G.P.O. Box 3058,
Sydney, N.S.W. 2001

Telephone enquiries 960 2193

QUEENSLAND

SITE REVENUE SOCIETY (QUEENSLAND)
P.O. Box 6179
GCMG
Bundall, Qld. 4217
Telephone (07) 870 2325

WESTERN AUSTRALIA

GEORGIST EDUCATION ASSOCIATION
10 Broome Street, South Perth, 6151 WA
Phone (09) 367 5386

TASMANIA

HENRY GEORGE LEAGUE
G.P.O. Box 1370 P, Hobart 7000, Tas.
Phone (002) 34 6553
Fax (002) 34 5807

SOUTH AUSTRALIA

HENRY GEORGE LEAGUE
Monthly meetings are held
and visitors are welcome
9 Rosemont Street
Norwood, S.A. 5067
Postal Address:
26 Landsdowne Ave.
Belair S.A. 5052
Telephone (08) 278 7560

NEW ZEALAND

Enquiries:
Mr. R. D. Keall, 45 Dominion Street,
Takapuna, Auckland, N.Z.
Phone: 461 271
Miss Betty Noble
20 Connaught Terrace
Wellington, N.Z.
Phone: 899 975

SUBSCRIBE TO GOOD GOVERNMENT

SUBSCRIPTION NOTICE

I wish to begin subscribing (renew my subscription) to GOOD GOVERNMENT and enclose
\$10.00(A).

☐ I wish to join the Association (Please tick if required. Membership is free.)

NAME:

ADDRESS:

.....POST CODE.....

Please make all cheques and money orders payable to **The Association for Good
Government** and mail them to the Association at **P.O. Box 443, Enfield, N.S.W. 2136.
Australia.**

Remittance enclosed \$..... by cash
money order

Cascading of Indirect Taxes: Problems and Policy Issues

Enhancing Export Competitiveness



"The second case, in which it will generally be advantageous to lay some burden upon foreign for the encouragement of domestick industry, is when some tax is imposed at home upon the produce of the latter. In this case, it seems reasonable that an equal tax should be imposed upon the produce of the former."

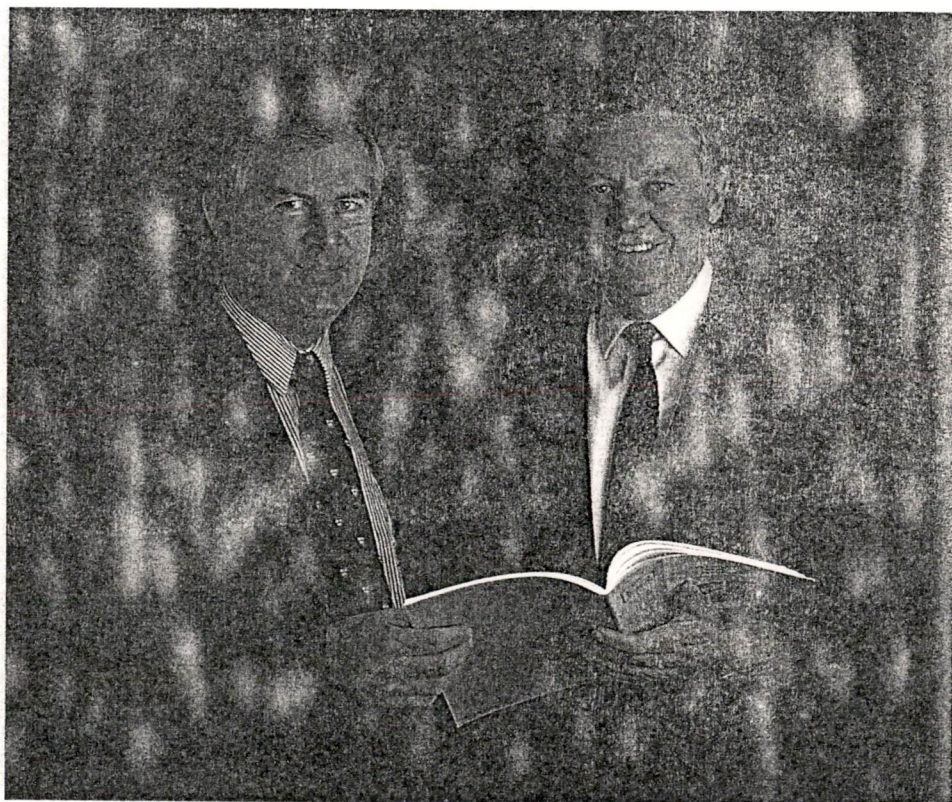
Adam Smith¹

TODAY'S workshop is about reform of indirect taxes in the absence of a goods and services tax. Given the Budgetary significance of indirect taxes and the fiscal position of the Commonwealth and States, what Treasuries mean by reform may not be what most of you have in mind. For example, you have probably seen press reports of Canberra wanting to put an energy tax on electricity and gas and add to the indirect tax burden on Telecom and Australia Post.²

So today we wish to talk about two broad themes:

- how the adverse effects on export costs of *existing* Federal and State indirect taxes may be reduced without running foul of the prohibitions in the General Agreement on Tariffs and Trade against export subsidies;
- how, in the name of micro-economic reform (to say nothing of Budgetary pressures *per se*), Australian exporters may find themselves burdened (e.g. via higher utility charges) with *new* indirect quasi-taxes which cannot be rebated without violating the GATT prohibition on export subsidies.

A major criticism of our present indirect tax system is that it results in tax cascading. As Warren puts it "Currently, many taxes are levied on outlays by firms



Dr Terence Michael Dwyer and Mr J. Terence Larkin

This article by Dr T.M. Dwyer and Mr J.T. Larkin, Consultants, Canberra, was presented at a forum organised by the Australian Tax Research Foundation and is to be published in Vol 10 (1993) No 2 of *Australian Tax Forum*. Reproduced with the consent of the Foundation.

for inputs into the production of goods and services. The taxes on these inputs have a cascading or pyramiding effect because of the markup by sellers of the tax implicit in the price of inputs. This means that the cumulative effect of the taxes levied on goods and services is greater than the tax revenue raised. By replacing these

taxes with an identifiable tax such as a VAT, tax pyramiding can be eliminated. Taxes implicit on exports can also be identified and removed, thus stimulating exports."³ Because business inputs are taxed, the final pattern of effective tax rates on goods or services consumed may vary in an inefficient way.⁴

EXECUTIVE SUMMARY

Unrelieved indirect taxes on exporters, which are embedded in the cost of inputs, are a source of competitive disadvantage for Australian exporters.

Although the rules of the General Agreement on Tariffs and Trade (GATT) prohibit export subsidies, there is no prohibition on border tax adjustments which do no more than relieve embedded indirect taxes on exports. A modest rebate of 4-5% across the board on the fob price of exported goods may be defended on the grounds of economic neutrality.

However, not all taxes are visible as such. Prices for services of public utilities which are in excess of marginal cost may be viewed in economic terms as quasi-taxes. This was demonstrated by Hotelling in 1938, when he argued that the provision of loss making infrastructure through lump sum taxation such as rates was more efficient than crude cost recovery on the basis of "user pays". It is an abuse of economic theory to claim that average cost pricing for public utilities which are natural monopolies represents "micro-economic reform".

However, the parlous fiscal position of the public sector is leading it to exploit natural monopolies for public services as revenue sources. Moves towards full cost recovery for network infrastructure (e.g. roads, electricity, rail, water) have been endorsed by the Industry and Trade Practices Commissions as well as the Prices Surveillance Authority. User charges so imposed on the basis of average, not marginal, cost are disguised taxes and are another form of hidden tax burden on exports. But, unlike other indirect taxes, they cannot be reduced for exporters without breaching GATT rules against export subsidies.

To the extent that the public sector is shifting to reliance on higher user charges and forced dividends from public utilities in lieu of explicit taxes, Australia is hobbling its export performance with new burdens less easily removed than the present embedded indirect taxes.

INDIRECT TAX CASCADING: GST VERSUS THE SALES TAX

The problem of the cascading of indirect taxes is not a new phenomenon. Adam Smith, in his condemnation of the Spanish alcavala, declared that turnover tax destroyed the commerce of Spain.⁵ The reason for Adam Smith's condemnation is the same reason why European countries abandoned their multiple stage turnover taxes and replaced them with a valued added tax, which refunds tax levied earlier in the chain of production and distribution. Tax cascading occurs where tax is levied at multiple stages in the process of production and distribution so that there is, at the end, an uneven incidence of final effective tax rates. In Australia, Chisholm and others, including the Treasury, have calculated out on various assumptions (to

which we will return later) the pattern of implicit effective tax rates imposed on various products and services in the Australian economy.

Although our current sales tax is not as bad in terms of cascading as the old European turnover taxes which were replaced by VAT it does, together with other indirect taxes, produce significant cascading effects.

Domestically this produces distortions in the relative prices of products and services and reduces consumer welfare by distorting patterns of consumer choice.

The rejection by the Australian people of a GST at the recent General Election was most probably the result of perceived disadvantages such as its potential impact on families, low income earners and inflation rather than any support for taxing business inputs. An attraction of GST was

that all GST on business inputs was supposed to be rebated and distortions in relative prices were not supposed to occur. Indeed, the force of the arguments against taxing business inputs has been recognised by the present Government's decision to provide more relief from the current sales tax for business inputs.

There seems to be general consensus on the desirability of removing the burden of tax cascading from Australian exporters and placing them on an equal footing with most other trading nations.

This is particularly relevant to exports. Cascading of indirect taxes on exports sold in competitive world markets should in theory mean Australia may be pricing itself out of world markets at the margin and favouring the growth of imports which bear less indirect tax.⁶ By refunding taxes levied at earlier stages in the production process and zero rating exports, a GST creates a more neutral regime for exports and enhances the country's balance of payments. This desirable neutrality aspect of VAT systems is well recognised in overseas studies.⁷ Whatever the other arguments about GST, there seems to be general consensus on the desirability of removing the burden of tax cascading from Australian exporters and placing them on an equal footing with most other trading nations.

We should at the outset point out that the beneficial effect of VAT on exports has been questioned, for example, by Feldstein and Krugman. Apart from compensating exchange rate appreciation which may curtail a surge in exports,⁸ they point out that in practice VAT exempts housing and other non-tradable services. Because traded goods are thus taxed more heavily than non-traded goods, a VAT in practice may tend to reduce rather than increase the size of a country's traded goods sector. Benefits to the balance of payments may be non-existent.⁹

But Feldstein and Krugman's argument was in the context of introducing VAT as a whole. It is other, distorting, effects of real-world VATs which offset the benefits of the cascade relief for exports built into VAT. Cascade relief should not be confused with export incentive measures. What cascade relief does in itself is to

remove an existing distortion. At a basic level, all other things being equal, it does seem reasonable to assume that any increase in a country's costs of production which has been induced by taxation measures must in the long run reduce the competitiveness of its products in world trade, where demand is more elastic than domestic trade. Accordingly, most countries take some measures to relieve the impact of indirect taxes on exports, which nowadays is achieved by the almost universal use of VAT systems (with the exceptions of Australia, Switzerland and the USA). Furthermore, even Australia's sales tax system exempts exports per se.

*To the extent that our exports
are diminished by the tax
component in the asking price
of our exporters our Treasuries
gain nothing in tax revenue and
Australia goes further into
deficit on the current account.*

We are concerned here with the ultimate impact of tax cascading on Australia's international competitiveness and Australia's balance of payments. Domestic consumers may, in many cases, have little choice but to suffer a decline in economic welfare: potential overseas purchasers of our goods and services have the option of supplying themselves from other countries and paying nothing to Australian Federal and State Treasuries. In such situations the deadweight loss to the Australian community from attempts to levy indirect taxes on exports may be serious. To the extent that our exports are diminished by the tax component in the asking price of our exporters our Treasuries gain nothing in tax revenue and Australia goes further into deficit on the current account.

It is therefore not irrational for a country which has an indirect tax system to contemplate methods of relieving indirect taxation of exports even if it feels it cannot take the pure high road of total abolition of indirect taxation. Just as Australia has given concessions to offshore banking business and allowed a special corporate tax rate at 10% on offshore banking business on the basis that 10% of a loaf you otherwise would not get to eat at all is better than nothing, so granting relief for the indirect tax component in the prices of exported goods and services may be advantageous.

What obstacles (apart from revenue considerations) are there to the implementation of an export relief scheme to offset the impact of Australia's indirect taxes? One is tax design for any system of rebates, the other is the necessity to conform to Australia's treaty obligations under the General Agreement on Tariffs and Trade (GATT).

Tax Design

Tax design should not present great difficulties. The preferred course would seem to be a rebate system granted as a percentage of the fob price of exports. In theory, as noted by Geoffrey Lehmann, one could use the Treasury PRISMOD analysis to quantify the cost impact by classes of exported goods and base a rebate percentage amount on the product class.¹⁰

We do not, however, think that is necessary and from a tax administration point of view, it would be simpler to grant a straight rebate of 4-5% across the board on the fob price of exported goods.

The Treasury PRISMOD model suggests that embedded tax resulting from sales tax, fuel excise and payroll tax amounts to around 4% in agriculture, mining and manufacturing.¹¹ Other estimates of cascading suggest higher figures. For example a 1990 study by the Centre of Policy Studies suggested sales tax alone amounted to a 1.9% tax on exports.¹² The Department of Industry Technology and Commerce estimated on different bases that the burden of selected indirect taxes (both Commonwealth and State) on exports was 4.2% for manufacturing, 2.4% for agriculture and 3.2% for mining.¹³ Precise estimation of the cascading burden on Australian exports of all relevant Commonwealth and State indirect taxes is an empirical question. But it seems that the disadvantage Australian exporters face is around 4%. This may not seem dramatic in the overall scheme of world trade but it nevertheless represents about \$2 billion in cost disadvantages Australian exporters must bear in the absence of a VAT-type refund mechanism.

By providing an income tax rebate to exporters, rather than a cash 4-5% rebate on export sales, the Government could avoid the need for a costly system of refund administration. A rebate on the fob price of exports would also act as a natural disincentive to transfer pricing.

SCOPE OF GATT: PROHIBITIONS AGAINST EXPORT SUBSIDIES

Unfortunately any attempts by Australia to relieve the indirect taxation of exports must run the gauntlet of the General

Agreement on Tariffs and Trade, known simply as GATT.

Like sections 90 and 92 of our Federal Constitution, the GATT Agreement attempts to prevent unfair trading and export subsidies between contracting States. The most relevant provisions are articles 3, 6 and 16.

Article 3 on "National Treatment of Internal Taxation and Regulation" says:

"1. The contracting parties recognise that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products ... should not be applied to imported or domestic products so as to afford protection to domestic production.

"2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products ..."

*We are looking here at rebates
for exports, not for goods sold
internally, so the question of
discrimination does not arise.
So Article 3 appears to pose no
obstacle to any Australian
rebates for indirect taxes on
exports.*

The question raised by article 3 is whether any form of relief from internal taxation for exports would breach these provisions. However, the article is directed at products offered for internal sale rather than export. And we are looking here at rebates for exports, not for goods sold internally, so the question of discrimination does not arise. So article 3 appears to pose no obstacle to any Australian rebates for indirect taxes on exports.

However a somewhat different question would arise if there were a general form of rebating internal taxes. Conceivably it could be argued that if domestically produced goods are subject to a general sales tax of 20% but are allowed rebates or refunds of sales tax, payroll tax or excise levied on their inputs while imported products are denied such refunds then there is

de facto protection. We doubt that such an argument could succeed if the final tax levied were the same for both imported and domestically-produced goods. We note also that value added taxes do give such a general refund of earlier stage taxes and have been accepted as not contravening this article.

More relevant to the present discussion is article 16 which seeks to outlaw subsidies in general and export subsidies in particular.

Article 6 of the GATT Agreement relates to "Anti-dumping and Countervailing Duties". However, paragraph 4 of this article specifically declares that "No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes." Hence article 6 would not stop Australia from seeking to relieve the indirect tax burden on exports.

More relevant to the present discussion is article 16 which seeks to outlaw subsidies in general and export subsidies in particular. Article 16 recognises that "if any contracting party grants or maintains any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory" there may be prejudice to the interests of any other contracting party.

Hence paragraph 4 of article 16 requires that "as from 1 January 1958 or the earliest practical date thereafter, contracting parties shall cease to grant either directly or indirectly any form of subsidy on the export of any product other than a primary product which subsidy results in the sale of such product for export at a price lower than the comparable price charged for the like product to buyers in the domestic market."

The obvious question is what is a subsidy when one is talking about taxation. Notwithstanding Treasuries in both the

USA and Australia describing "tax expenditures" as subsidies, the note to article 16 of the GATT treaty states simply that "the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued shall not be deemed to be a subsidy." At face value, therefore, any system of relieving any form of State or Federal indirect taxation of exports by refund of the amount embedded in the exported product or service is not contrary to the GATT treaty and is perfectly legitimate.

This after all is only sensible. It would not, for example, be a subsidy if an indirect tax were abolished altogether. Why then should it be regarded as a subsidy if relief is given solely to exports? A country may follow a fiscal policy like Hong Kong's and have few taxes levied at low rates with reasonably generous deductions but offer no specific exemptions for exports or, alternatively, it may adopt the Singapore route of having generally higher taxes but offering exemptions or reliefs for offshore trading activities. If not having a tax at all is not a subsidy getting rid of half of it is equally not a subsidy.

Unfortunately the position has been complicated by the Tokyo subsidy code on the interpretation and application of article 16 of GATT. The Industry Commission report number 22 of April 1992 on Overseas Export Enhancement Measures Volume 1 at page 173 gives an illustrative list of export subsidies settled upon as a result of the Tokyo Round. Included in this list of export subsidies are:

- ☐ the full or partial exemption, remission, or deferral specifically related to exports of direct taxes or social welfare charges paid or payable by industrial or commercial enterprises;
- ☐ the allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are charged;
- ☐ the exemption or remission in respect of the production and distribution of exported products, of indirect taxes in excess of those levied in respect of the production and distribution of like products when sold for domestic consumption;
- ☐ the exemption, remission or deferral of prior stage cumulative indirect taxes on goods or services used in production of exported products in excess of the exemption, remission or deferral of like prior stage cumulative indirect taxes on

goods or services used in the production of like products when sold for domestic consumption; *provided, however, that prior stage cumulative indirect taxes may be exempted, remitted or deferred on exported products even when not exempted, remitted or deferred on like products when sold for domestic consumption, if the prior stage cumulative indirect taxes are levied on goods that are physically incorporated . . . in the exported product.*

At first blush the Tokyo subsidy code appears to be a radical rewriting of the GATT agreement itself in describing tax exemptions or remissions as prima facie export subsidies. However we note that the proviso in the last paragraph quoted still allows relief of prior stage cumulative indirect taxes where they have been incorporated into export products. We also note that article 11 sub-paragraph 4 of the Tokyo subsidy code states that signatories recognise further that . . . "nothing . . . in paragraphs 1-3 above and in particular the enumeration of forms of subsidies creates, in itself, any basis for action under the general agreement as interpreted by the agreement."

Unfortunately the position has been complicated by the Tokyo subsidy code on the interpretation and application of article 16 of GATT.

We also note that prior to the adoption of VAT in Europe border tax adjustments to eliminate embedded indirect taxes were ultimately regarded as acceptable under GATT so long as they were not excessive.¹⁴ In any case, a GATT panel would need to be convened and could only prohibit any tax adjustment if it not only found the adjustment to be excessive but also a cause of material injury to a complaining trading partner.

It is therefore doubtful whether there is any real GATT obstacle to fiscal incentives for particular industries. If that were so one could envisage that if the GATT agreement is extended to services our current tax incentives for offshore banking units would become illegal under GATT. But even if the term "subsidy" is now interpreted to cover fiscal incentives, the proviso quoted above still appears to leave

countries such as Australia free to examine methods of relieving prior stage indirect taxes on exports, as opposed to granting fiscal incentives for exports.

Without wishing to denigrate the virtues of low rates of taxation we need to point out that there is no such thing as a neutral tax. All taxes are distorting. The question is where do the distortions lie and are they more or less serious.

WHAT IS A TAX?

It may seem like a silly question but before we talk about relieving tax burdens on exports we ought to ask ourselves what is a tax. The classical legal definition given in *Matthews v. Chicory Marketing Board*¹⁵ is that taxation "is a compulsory exaction of money by a public authority for public purposes, enforceable at law, and is not a payment for services rendered". It is thus to be distinguished from a user charge or, for example, a royalty or a rent for Crown minerals or land.

Economists do, however, see taxes in other situations. If one were to be comprehensive we could say that a tax is a charge by a public authority which exceeds the costs of production of the good or service being purchased. Indeed we could go further and say that a tax includes a charge mandated by a public authority which is in excess of the cost of production of the good or service. Thus, for example, forced dividends out of hollow logs such as State Electricity Authorities or compulsory third party premiums fixed by administrative fiat in excess of risk-rated competitive insurance premiums (even though paid to private insurers) may be legitimately described as taxes or quasi-taxes. Similarly, road user charges in excess of the wear and tear imposed by the payee on the highways can be described as taxes.

WHAT IS A NEUTRAL TAX?

Most of you will be familiar with the Treasury advocacy of a level playing field and the concept of a neutral tax. The idea of a neutral tax is that it is one which does not distort economic activity — it distorts

neither production nor consumption decisions. Generally the advocates of a level playing field argue that it is a move towards a more neutral taxation system to remove special treatment for particular industries and use the revenue so gained to reduce the general rate of tax across the board. Just as President Reagan used the revenue from closing tax shelters to dramatically flatten US tax rates across the board and New Zealand did much the same thing, so we will get a more neutral and efficient taxation system if we do likewise. Sometimes people point to Hong Kong's very simple low flat rate taxation system as an ideal to be aimed at.

Without wishing to denigrate the virtues of low rates of taxation we need to point out that there is no such thing as a neutral tax. All taxes are distorting. The question is where do the distortions lie and are they more or less serious.

If we can put it in the form of a riddle one might pose the question "When is a tax neutral?" To which the only correct answer has to be "A tax is neutral when it is not a tax." This provokes the further question "When is a tax not a tax?" To which in turn the answer is "A tax is not a tax when it is a fair price for a service." But you say "How can a tax be a price for a service?" To which the answer is in turn "A tax can be a price when it has been capitalised and no longer represents a tax but a charge for the use of Crown property."

Thus Adam Smith in *The Wealth of Nations* progresses naturally from land rents as a source of funding governments to taxation of ground rents as a source of public revenue. Similarly when Governor Gipps was debating with William Charles Wentworth the imposition of a licence fee on squatters he objected strongly to Wentworth's claim that the licence fee amounted to the imposition of taxation. Governor Gipps retorted that "to take a rent for the use of Crown land is not to impose a tax". So if we are truly interested in neutral taxes which do not impose any deadweight loss upon economic activity we have to look at the financing of the public sector through market-determined rents for natural resources. Incidentally one of the reasons Hong Kong has been able historically to have a low income tax rate is that a considerable part of its budgetary revenue is raised from leases of Crown lands.

So it is not surprising that in the history of economic thought the discussion of neutral taxation has been interwoven with the discussion of the theorem that "rent does not enter into price". Similarly the argument that some taxes are more neutral

than others has been interwoven with the history of the real cost doctrine. That doctrine reflected the argument that there were costs to the supply of two of the factors of production namely labor and capital but not of the third, land, which was a free gift of Nature. From the Physiocrats of the 18th century through Adam Smith, John Stuart Mill, Alfred Marshall and down to modern economists the idea has been that a neutral tax should not add to the costs of production. This old idea is very pertinent to this workshop in which we are discussing the distorting ways in which indirect taxes affect the cost of production of Australian exports.

From the Physiocrats of the 18th century through Adam Smith, John Stuart Mill, Alfred Marshall and down to modern economists the idea has been that a neutral tax should not add to the costs of production.

USER CHARGES AND COSTS OF PRODUCTION

A moment ago we mentioned that a tax is not a tax when it is a fair price for a service. Conversely, however, a price may not be a price when it is a tax; that is to say, a price or a user charge may in fact represent a disguised quasi-tax.

Most of you will be familiar with the economic theorem that in economic equilibrium a competitive price will secure an optimal result for production when price is set equal to marginal cost. Essentially that requirement for optimality can be violated in several ways. It can be violated by the imposition of a tax such as an explicit indirect tax like a sales tax. It can be violated by a government regulation, for example, workers' compensation legislation which requires cross-subsidisation and therefore imposes excessive costs on some industries buying workers' compensation policies from the insurance industry.

But it can also be violated because of the presence of natural monopoly or externality elements. In a justly famous article called *The General Welfare in Relation to Problems of Taxation and of Railway and Utility Rates in Econometrica* in 1938 Harold Hotelling drew attention to the implications of this economic desideratum of

setting price equal to marginal cost. Hotelling pointed out that when it comes to user charges for natural monopolies such as railways, water and sewerage systems, highways, electricity and telephone grid systems and so on the principle of average cost pricing so beloved of accountants and those who favour full cost recovery on a user pays basis is dead wrong.

Hotelling stated that he was bringing down to date an argument "to the effect that the optimum of the general welfare corresponds to the sale of everything at marginal cost. This means the toll bridges, which have recently been re-introduced around New York are inefficient reversions; that all taxes on commodities, including sales taxes, are more objectionable than taxes on incomes, inheritances and site value of land; and that the latter taxes might well be applied to cover the fixed costs of electric power plants, water works, railroads, and other industries in which the fixed costs are large, so as to reduce to the level of marginal cost the prices charged for services and products of these industries. The common assumption so often accepted uncritically as a basis of argument on important public questions, that 'every tub must stand on its own bottom', and that therefore the products of every industry must be sold at prices so high as to cover not only marginal costs but also the fixed costs, including interest on irrevocable and often hypothetical investment, will thus be seen to be inconsistent with the maximum of social efficiency."

Unfortunately Hotelling's argument appears not to have penetrated to Australian State Governments or the Industry Commission. The recent Industry Commission reports on *Water Resources and Waste Water Disposal and Taxation* and *Financial Policy Impacts on Urban Settlement* both advocate the use of user pays charges for essential public services which are designed to secure average cost pricing and full cost recovery. The Commission's 1991-92 Annual Report thus asserts that prices which do not fully recover costs bear little relationship to efficient supply.¹⁶

Nor does the Prices Surveillance Authority in its submission to the Review of National Competition Policy question full cost recovery. Although the PSA points out that "prices charged by state authorities have increased much more rapidly than the CPI . . . In the two years ending December 1992 selected state and local government charges (including water, gas and electricity charges) increased by 10 per cent — over eight times the increase of the CPI of 1.2%, excluding those charges," the PSA nonetheless endorses full cost recovery and the concept of target

rates of return while suggesting "public authority prices are often too low rather than too high".¹⁷

It is not hard to see the attraction of such recommendations for cash-strapped Federal and State Treasuries. We have every sympathy for genuine micro-economic reform, and the plight of our Treasuries is real but it would be a gross abuse of economic theory for anyone to suggest that current formulations or advocacy of user pays charges for public services on the basis of average cost where there are externalities and natural monopoly elements have much to do with efficiency, optimality or genuine micro-economic reform. As the PSA notes "The revenue interests of State governments may impact on any proposal to extend competition and prices policy to cover what are now State authorities."¹⁸

Hotelling pointed out that when it comes to user charges for natural monopolies such as railways, water and sewerage systems, highways, electricity and telephone grid systems and so on the principle of average cost pricing so beloved of accountants and those who favour full cost recovery on a user pays basis is dead wrong.

On the contrary, "user charging" appears more and more to be all about revenue raising rather than efficiency.¹⁹ Just as governments, through bracket creep, appropriated productivity gains for many years, so we may see the fiscal demands of governments not only prevent efficiency gains flowing through to business and consumer users of public utilities but also creating new burdens. Like Hotelling, we would argue that to the extent that Australian business is going to face higher user charges for services such as water, we are moving to a less efficient rather than a more efficient system of pricing for public utilities. To put it another way, what State Governments seem to be moving towards, with the blessing of the Industry Commis-

sion, is a vast new system of disguised taxation. Perhaps a forerunner can be seen in the Australian Government Publishing Service which charges a price on additional print runs of 6 times marginal cost!

As we all know, no Treasurer likes to be seen to be introducing taxes. That is why indirect taxes are preferred to direct taxes, even where the ultimate effects of indirect taxes are worse than those of direct taxes. But it is even better for a Treasury to go one step further and try to pretend there is not even any indirect tax by burying the surcharge on marginal cost into the form of a price for public services. It is even better still when one can persuade bodies such as the Industry Commission and uncritical commentators to give their blessing to this form of disguised taxation. Unfortunately for Australian industry and its costs of production the naive pursuit of "user pays" promises to be something of a long-term economic disaster.

As we have noted above, under the GATT Treaty it is possible for Governments to take steps to remit or offset prior stage indirect taxes on the production of goods for export.

If, however, State Governments and Commonwealth utilities are used to levy quasi-taxes in the form of prices in excess of marginal cost, any attempt to offset such excessive charges will be seen as a subsidy under the GATT rules, not as remission of a tax. Thus so called microeconomic reform based on a wrong concept of user charging may represent a serious and irremediable detriment to Australian exports.

One of the arguments commonly being put for user charges is that somehow or other the Australian public must get an adequate rate of return on the billions of capital tied up in roads, sewerage works, water supply systems, electricity grids and so on. This argument is, for example, reflected as an objective of the Commonwealth Government's land transport programme which seeks "a better return on the community's major investments in land transport infrastructure".²⁰ It is also reflected in the criticisms by the Industry Commission of the low rates of return on water assets of State Water Supply Authorities in terms of the replacement cost of the capital invested in reticulation systems.

Whatever may be the merits of replacement cost accounting in terms of estimating future capital requirements for deteriorating assets, it is irrelevant to the pricing of public services provided for by sunk capital. As Hotelling argued, the concept that the community must pay current interest on irrevocable and often hypothetical investments is a nonsense. Contrary to

J.B. Clark's idea that capital is some pool of investable value that can be withdrawn at will and metamorphosed into different forms, the fact is that the dams, drains, the electricity pylons et cetera are there where they are and we must take them as we find them. We inherit the assets of previous generations just as we have inherited their debts but there is no longer any necessary connection between the two. For example the railway line from Queanbeyan to Cooma is no longer used but the public of New South Wales is no doubt still paying interest on the debt incurred in the 19th century to pay for that line. How can any user charge solve that problem?

We inherit the assets of previous generations just as we have inherited their debts but there is no longer any necessary connection between the two.

Or as Hotelling put it rather tartly "defenders of the current theory that the overhead costs of an industry must be met out of the sale of its products or services hold that this is necessary in order to find out whether the creation of the industry was a wise social policy. Nothing could be more absurd. Whether it was wise for the government to subsidise and its backers to construct the Union Pacific railroad after the Civil War is an interesting historical question which would make a good subject for a dissertation, but it would be better, if necessary, to leave it unsolved than to ruin the country the Union Pacific was designed to serve by charging enormous freight rates and claiming that their sum constitutes a measure of a value to the country of the investment. Such an experimental solution of a historical question is too costly. In addition, it is as likely as not to give the wrong answer. . . . regardless of their own history, the fact is that we now have the railroads, and in the main are likely to have them with us for a considerable time in the future. It will be better to operate the railroads for the benefit of living human beings, while letting dead men and dead investments rest quietly in their graves, and to establish a system of rates and services calculated to assure the most efficient operation. When the question arises of building new railroads, or new

major industries of any kind, or of scrapping the old, we shall face, not a historical, but a mathematical and economic problem."

Thus, as Hotelling recognises, studies of demand and revenue are relevant to investing in the augmentation of public utilities but they are totally irrelevant to the pricing of services supplied by existing investment. Sunk capital is sunk capital.

There is another aspect of this argument which bears mentioning. Most taxpayers and ratepayers in Sydney would find it rather startling that they should be charged for their water an amount necessary to yield a current market rate of return on the replacement value of Warragamba Dam and the sewers and drains of this city. They may well object that they have already paid for these things and that the Treasury is simply undertaking a double dipping exercise. They might argue that if this is microeconomic reform and economic efficiency they cannot quite understand it. Take a rather homely metaphor. Suppose someone called a tax collector comes along and seizes your car and then offers to rent it to you to get to work for \$100 a day? Would you feel that this was an efficient form of financing your transport? Or would you rather take the view that it was better not to buy a car next time and adopt the less efficient but now cheaper method of walking? This rather simplistic analogy does illustrate that if the pricing of public utilities embodies a serious element of quasi-taxation Australia's cost structure and its capacity to compete on markets for world exports may be severely damaged.

TAX INCIDENCE ERRORS

Not surprisingly in analysing the impact of taxes or quasi-taxes on exports we have to examine the theory of tax incidence. If an industry is nominally paying a tax but in truth that tax is not a tax but a price for service rendered it would be wrong to argue that that tax represents a burden on costs of production or a detriment to exports.

For example, royalties are not necessarily taxes. If the Crown in right of a State, for example, owns minerals it can charge a price for letting someone take them away. If the royalty is reasonable, it is no more sensible to describe it as a tax than it would be to describe as a tax the rent one might pay to lease a building owned by the Commonwealth Superannuation Fund.

Similarly in a recent study by ANZ McCaughan on the Australian water industry, it is assumed that rates on land values are costs to production and that a shift to volume-based charges would reduce

Policy, on Hotelling's principles, ought to be going in precisely the opposite way to that recommended by the Industry Commission. We ought to be examining the possibility of reducing the fixed costs embedded in user charges for essential services.

business costs and improve international competitiveness.²¹ This can be quite erroneous. Rates on land values are capitalised into those land values. If you buy a block of land knowing that it is going to be subject to water rates of \$1,000 per annum the person who has borne the tax is not you but the person you bought the land from. You discount the price of the land for the tax. Therefore for the current users or owners of Sydney land subject to water rates the tax has been generally absorbed. It is not an extra charge on the cost of production of goods and services. Thus the Industry Commission proposal to replace water rates on land values with user charges on producers and consumers would be to give a windfall to land holders and substitute a burden on production.

In fact policy, on Hotelling's principles, ought to be going in precisely the opposite way to that recommended by the Industry Commission. We ought to be examining the possibility of reducing the fixed costs embedded in user charges for essential services such as electricity and gas by paying for the distribution networks of those things through rates on unimproved land values similar to water rates or local rates. Similarly, instead of introducing new tollways or "3 X 3" State pseudo-excises on petrol, we ought to be going back and looking at the financing mechanism adopted for the Sydney Harbour Bridge. Apparently, the Bridge was partly paid for by a rate on both sides of the Harbour. Or to take another example, it was rather foolish of the State of NSW to abandon almost \$300 million in steady land tax revenue and rely instead on increased collections from stamp duties and business franchise fees. It substituted unstable revenue sources for a stable revenue source and substituted taxes on marginal costs for

taxes which had been capitalised and therefore were no longer a burden on production.

As Hotelling argued "if we consider for example a bridge, it is evident that the public as a whole must pay a certain cost of construction, whether the bridge be paid for by tolls or by taxes on the site value of land in the vicinity. There will be much more use of the bridge if there are no tolls, so that the public as a whole will get more for its money if it pays in the form of land taxes."

TAX INCIDENCE AND GATT GAMES

So far we have perhaps depressed you by telling you that tax incidence theory is telling us that we may be heading down the wrong track. We may be reducing the competitiveness of our export industries by burdening them with disguised taxes in the form of user charges which cannot be refunded under the GATT agreement.

However as we noted before the GATT treaty does allow remission of prior stage cumulative indirect taxes incorporated in products for export. This gives Australia an opening. Because there is no systematic tax incidence analysis built into the GATT agreement, it appears to be technically possible for a country such as Australia to give refunds of tax on indirect taxes *even where those taxes have not ultimately been borne by the producer of a good*. To take an example the Treasury PRISMOD analysis and the analysis done by Chisholm et al and by the Department of Industry Technology and Commerce have all shown that on certain assumptions the impact of unrelieved indirect taxes on exports is about 5%. It would therefore not be contrary to GATT for Australia to allow a refund or rebate against Commonwealth income tax liabilities of an amount on exports calculated as the effect of those indirect taxes.

While the GATT agreement does not allow for refunds of direct taxes per se it does appear to allow for the refund of an indirect tax such as Australia's payroll tax which arguably is a tax borne by labour rather than by the product. (This is because the Australian State payroll taxes are not apparently taxes on wage incomes but taxes on employer labour costs. They are therefore rebateable "indirect" taxes for the purposes of the Tokyo subsidy code as opposed to non-rebateable "direct" taxes.)²² To the extent that a rebate or refund of embedded payroll taxes were given for exported products there could be an element of economic over-compensation for exports. Such over-compensation would represent an economic subsidy even

though it would not apparently violate the anti-subsidy rules made under the GATT agreement.

There certainly seems no reason in principle why Australia could not give income tax rebates or other forms of tax rebate to exporters which would refund the tax component of exports based on the average indirect tax burdens calculated according to the standard industrial classification of goods. Such a refund mechanism could embrace sales tax, payroll tax, fuel excise, road registration taxes and other State taxes. A refund mechanism would not be available for user charges such as workers' compensation premiums or for land taxes or rates. On average it appears that Australia could give a credit of up to 5% of the value of exports in general without bringing itself into serious conflict with the GATT treaty.

At first glance such a mechanism may appear complex since it would in theory

There certainly seems no reason in principle why Australia could not give income tax rebates or other forms of tax rebate to exporters which would refund the tax component of exports based on the average indirect tax burdens calculated according to the standard industrial classification of goods.

require estimation using input-output analysis of the embedded indirect tax in the export commodity and then a conversion to ASIC classification of the good in question. Such a mechanism is discussed in the IMF study.²³ But given the reasonably low magnitude of any rebate (e.g. around 5%) and the level of disaggregation already performed by the Treasury PRISMOD model we would suggest that a general rounding to (say) 5% as an overall percentage applicable to all exports of goods would be the most practical and easily administered scheme for the Government to adopt.

If there is a concern about the revenue implications of funding up to \$2 billion in

export tax relief, we note there is no reason why the Government could not re-introduce a low-level general revenue duty to help fund the relief. As many commentators have observed, the current Australian cascading of taxes favours imports²⁴ and a modest ad valorem revenue duty could be justified on neutrality grounds.

CONCLUSION

We believe Australia can do more to relieve exports of tax-induced competitive disadvantages even in the absence of the VAT refund and zero-rating mechanisms. We believe this can be justified in terms of neutral tax treatment — the fabled "level playing field" which we always seem to be slipping on. We do not see the GATT agreement as necessarily being an obstacle to the provision of indirect tax relief for exports.

What we suspect exporters do *not* need is a move by Commonwealth and States into increased "user charges" which can represent disguised quasi-taxes with all the cascading problems of the existing indirect taxes but with the added disadvantage that they could not be rebated without breaching Australia's GATT obligations.

FOOTNOTES

1. Adam Smith (1776) Book IV Ch. ii p. 465.
2. e.g. *Higher Wealth Tax Sure to be Added to Labor's Agenda*: Downer, AAP, Canberra, 12 May, 1993.
3. Warren (1990) pp. 21–22.
4. e.g. Groenewegen (1989) pp. 292–295; Williams and Guthleben (1990) pp. 468–469.
5. Adam Smith (1776) Book V Ch. ii pp. 899–900.
6. e.g. Due (1984) p. 371; Warren (1990) pp. 2122.
7. e.g. OECD (1988) Chapter 7; Tait (1991) p. 9.
8. Australia seems to have more to fear from devaluation at present.
9. Feldstein and Krugman (1990) p. 263; see also Tait (1991) pp. 9–11; Brooks (1992) pp. 143–147.
10. Lehmann (1993).
11. Commonwealth Treasury (1992) Document 25 Attachment 5, Table 5.
12. Cited in BCA (1990) p. 25.
13. DITAC (1992) p. 3.
14. OECD (1988) p. 113.
15. (1938) 60 CLR 263 at p. 276.
16. Industry Commission (1992c) p. 116.
17. PSA (1993) pp. 14, 15–16, 45. Quis custodiet custodes?
18. PSA (1993) p. 12.
19. *The Financial Review* has expressed similar fears in its editorials of 26 February and 1 and 18 March 1993.
20. ALTD (1993) p. xi.
21. ANZ McCaughan (1993) p. 18.
22. Industry Commission (1992a) Vol I pp. 173–174.
23. Tait (1991) p. 9.
24. e.g. Groenewegen (1989) p. 293.

Notes on Melbourne, from Brian Kavanagh

\$2,100/sf, Becton Bldg, '88.

Now down 70%

Broadacre = van lease

S. Melbourne, \$50/sf.

Williamstown, on harbor, Capitol Marquee

Tank farm, tanks very close

Clean fronts on bldgs.

Downtown spread contained by zoning.

Mc Alpine got Melbourne to buy land around new subway stop, pay for it.

\$80 m Bldg, ^{Resurgence Bldg} now down to \$20. Owner suicides. Unrented

Floyd Podgornik. Podgor Group

Old Bldg. integrated with new.

Australia Diary.

Di - 1

Spices of U. of Sydney, reeking of adolescence, + ~~unpleasant~~ ^{unpleasant} a bit
depress. as well.

Footbridge Theatre to crowd. By "detritus walkway"
(i.e. footbridge). Ticketek techuospeak. H. + J. Mills

Louise's oil keeps me up to 2 A.M. Nick Nolte,
Susan Sarandon, Peter Ustinov. Allegory for Georgists

QANTAS, intl. terminal, go thru Munnigan, ~~to~~ ^{to} Sydney -
Melbourne.

Noticeable diff. of urban structure. Sydney + Melbourne.
Is what you wd. expect, but nice to observe it. Melbourne more
like Am. City: sprawl, cars.

Full, Civic Quay to Mandy.

Opera House

Taped skyline. Gpts. (street titles). Hats.

The "Hook Turn" in Melbourne, crossing traffic.

Cabbie from Beijing - likes it better

" " Kazakhstan: is cap. of world. Banned
Moscow. Lost to Russia only by helping Poles. Etc. Origin
of human race.

Sydney not perfect. Strip desert, Parramatta Rd.,
No tipping.

Warm, friendly country - opposite pole from studied
indiff. of southern Am. clubs.

Lead shot Tower, Nat. Trust, "registered," Built huge
circ. arcade around it. 6 levels w. escalators, huge TV screen
to watch the Grand Final of footie.

Qu. Victoria mkt, 100s of stalls: meat, fish, dairy,
produce, deli, dry goods, knickknacks, live poultry, eggs

"Southgate." Esplanade, s. of Yama R.
Footbridge crossing. Dozens of shops. Spiral stair.
Art museum. Pumpkin Soup.
Lygon St., Rick. Row. Refined, bcs. flounder was
"small." More than I could eat!

Numerous arcades (pavios, paseos?), street to street.
Jewish stalls closed, Sept. 25, Sat. (still Fri, 24th, in
Hawaii.) a few non-Jewish stalls open.

Music in the air from 1960s. Sounds of Silence,
John B. Seals, etc. Blessed absence of rap, heavy metal, sick
lyrics.

2 dead bodies on Ediz. St., never lives in Eng.

M. Pollak, 1993, "Stallholders." Sydney Morning Herald, 22 Sept p. 27

Stall fees, \$20/day, G'de Mkt (350 stalls)
\$50 " Summer Hill
\$250/- " "prestige units"

No dump off - you lose a regular spot. Owners want sympathy

Shop rentals: Min. \$300/wk
\$1,000 " , good position

Pay sales tax.

p.l. Bernie Funn, Gov. of the Reserve Bk., says no more rate cuts.

Must protect Aus \$
1/40 to 9/93, "official" bill from 18% to 5%,
home wtge, 17% to 9%.
Aus \$ is near its all time low.

Land Values Research Group

September 1993



ANATOMY OF A DEPRESSION

It is absurd that Treasury, the Reserve Bank and the Bureau of Statistics do not keep tabs on the massive capital flows in real estate in Australia.

Consequently, the build-up and collapse of the 1980s 'asset boom' and the onset of economic recession have remained very much a mystery. This study provides the missing figures, analyses them, and offers the direction for public policy which was so sadly absent in the recent federal budget.

Continuing to ignore these data does not permit

Australia to address its deepening economic and social distress.

QUANTIFYING AUSTRALIAN REAL ESTATE SALES

The following is a summary of details collated by the LVRG during the last 12 months. In addition to aggregate real estate sales, total real estate values and national income are given as references:-

YEAR	No. OF SALES	VALUE OF REAL ESTATE SALES	TOTAL VALUE OF ALL REAL ESTATE	NATIONAL INCOME
1984	556,145	\$36.339bn	- \$464.792bn	\$157.882bn
1985	536,136	\$38.445bn	- \$520.574bn	\$175.208bn
1986	513,473	\$42.308bn	- \$553.870bn	\$192.772bn
1987	514,932	\$50.020bn	- \$639.548bn	\$210.838bn
1988	654,106	\$77.003bn	- \$785.884bn	\$239.961bn
1989	661,503	\$87.709bn	- # \$1021.428bn	\$273.854bn
1990	486,412	\$65.654bn	- \$866.666bn	\$299.251bn
1991	490,267	\$61.993bn	- \$824.670bn	\$304.297bn
1992	450,000 *	\$57.000bn	- \$715.000bn	\$310.831bn

* 1992 estimate

ie. one 'trillion' dollars

The value of real estate sales doubled between 1986 and its peak in 1989, rising from \$42.3 billion to \$87.7 billion. In the same period total real estate values rose 1.84 times. Following the collapse, an amount of \$306 billion has been written off the value of Australian properties to June 1992 - equivalent to one year of the national income.

Chart 1 compares Australian real estate and sharemarket (ASX) sales. Both markets were irrational and ultimately unsustainable - encouraged by a tax system which, while scarcely interfering

with speculative rent-seeking in real estate, levies a multitude of fines upon productive capital investment and wealth creation.

In a binge ranking with those of the 1880s and 1920s, we sank \$469.2 billion into both markets between 1986 and 1989 - equivalent to 51% of the national income for those years. Sales of shares increased 550% in value in the 3 years to the peak at \$68.2bn in 1988, while the value of real estate sales increased by 240% in the 4 years to its subsequent and higher peak at \$87.7 billion in 1989.

The Australian Asset Boom: Real Estate & Equities Market

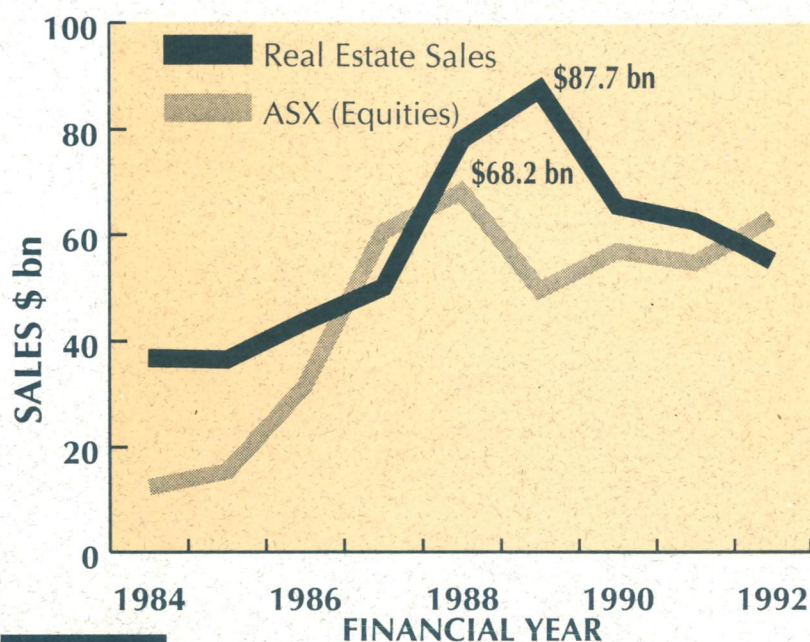


CHART 1

The shape of the graphs is remarkably similar, as there is a closer relationship between the two markets than is generally appreciated - much of the asset backing of shares being underpinned by interests in real estate. Each market performs a valuable role, but neither is well served by the unbridled speculation evidenced by the chart's two 'bubbles'.

The ASX actually outdid the property market in the financial year before the October 1987 'crash'. The sharemarket downturn then promoted investment in real estate.

The real estate 'bust' has seen share prices spiralling upwards again, capitalising towards 40% of total real estate values - when they are usually no more than 25%. A decline is likely to ensue when the market eventually factors the continuing property collapse back into the value of shares.

Despite the building boom, the real dynamic in real estate was the land component. Of the total value of real estate sales in 1989, land represented 70% in value, or \$61.4 billion - shown at Chart 2 to be equivalent to more than 22% of national income. Of the total value of all Australian real estate in 1989 (\$1021bn), the land value was similarly some 70% (\$715 bn). Perhaps the more telling statistic is that while the land component increased by a factor of 1.75 between 1972 and 1989, it almost trebled in relation to national income over the same period.

Spiralling Land Prices

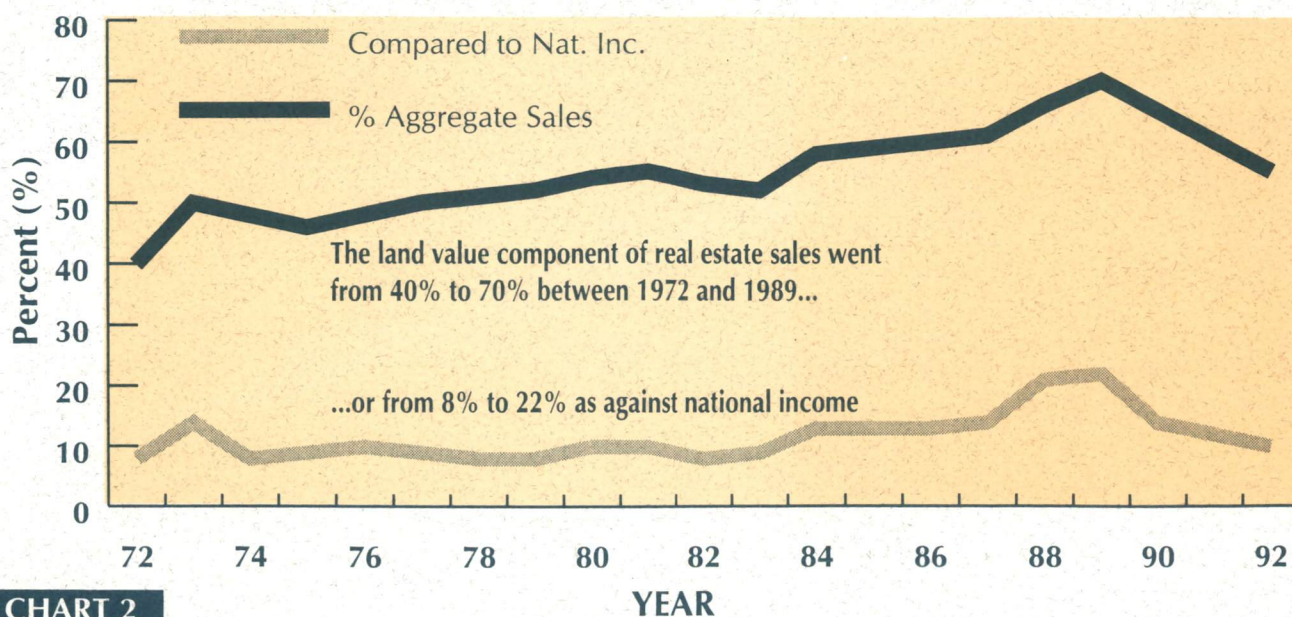


CHART 2

Taxes acted as fines and channelled the energies of many Australians into increasing land prices, instead of producing goods and services. Chart 3 is the first depiction of the peaking and collapse of this phenomenon in Australia.

Amazingly, the budget strategy is now to increase regressive taxes for government programs attempting to deal with the very unemployment, poverty and debt for which the tax system itself has been the catalyst.

A VALID SCIENTIFIC EXPLANATION HAS THE ABILITY TO PREDICT

In a submission to the Economic Planning Advisory Council (EPAC) dated 1 May 1984, The Association For Land Value Taxation forecast worldwide recession in the 1990s, following a study of property markets

on four continents. (Harrison, F. *The Power In The Land*, London 1983) On the same basis, Chart 4 is arguably the definitive Australian economic indicator. Sales are shown at constant 1972 prices, so that the size of the 1989 peak may be related directly to previous years. The sheer quantum of the peak and collapse of the latest boom establishes us to be in a period of economic depression. The chart offers little support for quarterly reports of tentative growth which have recently been taken by some analysts to herald imminent economic recovery.

Impossible debt levels created by the flood of capital into property during the 1980s are millstones around the necks of all Australians, and portend a test of our social fabric. Mass retrenchments, re-regulating, and increasing indirect taxation are not the way to confront these debt levels, nor the consequent lack of effective demand.

Wealth - Creation v. Speculation

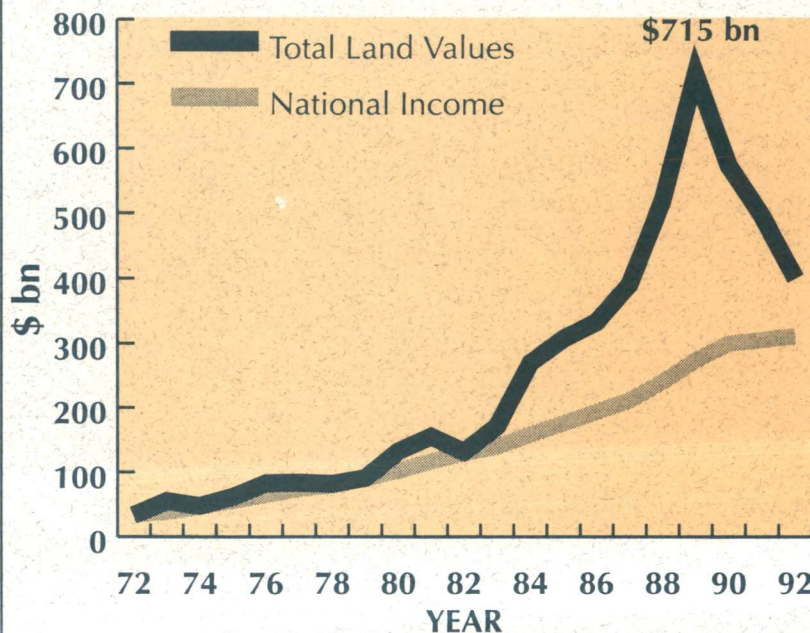


CHART 3

Australian Real Estate Sales as an Economic Indicator

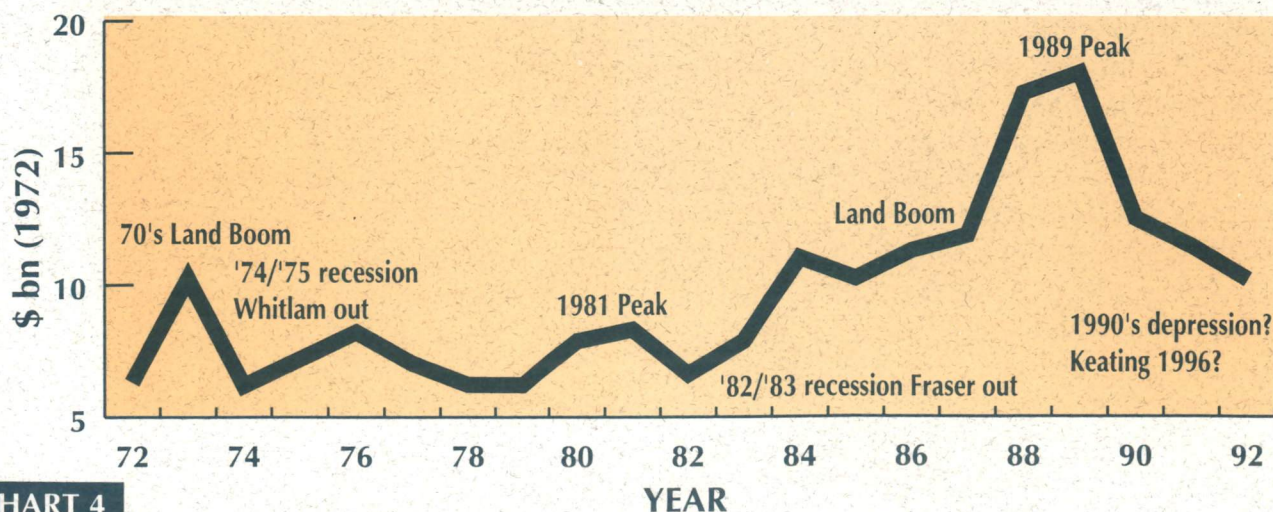


CHART 4

We are slow to learn indeed. The following table confirms the same connection between land booms and recessions in the US over a period of 200 years. The dates are very similar to Australia's - although

we could add to the table the 1961 'credit squeeze' recession which followed the 1950s boom and the significant level of political upheaval which followed the events of 11 November 1975 :-

U.S. ECONOMIC & POLITICAL CYCLES

Land Boom Peak	Building Cycle Peak	Economic Recession	Political Upheaval
-	-	-	1788
1818	-	1819	1824
1836	1836	1837	-
1854	1856	1857	1860
1872	1871	1873	-
1890	1892	1893	1896
-	1916	1918	-
1925	1927	1929	1932
WW II interrupts cycles			
1956	-	-	-
1972	1973	1974	-
1989	1990	1992	* 1996 (forecast)

(* *Economic Intelligence* Newsletter #31, Centre for Incentive Taxation, London March 1992.)

Land Values Research Group

(Established 1943)

Joint Patrons:

The Hon. Clyde Cameron, AO
The Hon. Sir Allen Fairhall, KBE

Hon. Director:

Bryan Kavanagh
Box 2688X, GPO, Melbourne 3001

Amongst previous studies

Social Effects of Municipal Rating

Reclamation of an Industrial Suburb

Natural Resources Rental Taxation in Australia

POLICY IMPLICATIONS

If the data of this study had been available to him, Mr Keating would have been unlikely to re-introduce tax advantages for the 'negative gearing' of residential investments in August 1987. Nor could he have said (as he did as late as June 1989) that the flow of funds through the 1980s was largely the gearing up of our capital stock.

At least one government agency now recognises the problem. In its recent Research Paper No. 3, EPAC points out that the profitability of investment in property has been diverting investment away from more productive activities, such as manufacturing goods for export.

The difficulty of changing institutionalised attitudes and practices is acknowledged - yet we can no

longer afford to disregard the link between real estate speculation and economic recession.

Clearly, the figures highlight the necessity to cut conventional taxation and derive a far greater part of public revenue instead from land values - the economic rent of our natural resources. This would kill off speculative rent-seeking and foster capital investment. It would force land into productive use, and stimulate effective demand and employment without inducing inflation. Moreover, our goods and services would be much cheaper at home and abroad without the need to reduce real wage levels.

Unfortunately, virtually every segment of Australian society now witnesses the fact that we need to apply this remedy urgently.

Mason Gaffney, P.O. Box 7998, Riverside CA 92513-7998
Note new area code: 909/687-1677

4 July 93

Richard Giles
P.O. Box 443
Enfield, N.S.W. 2136
AUSTRALIA

Dear Richard:

Today is our "Independence Day." Thomas Jefferson, whose Declaration it memorializes, was a land reformer, egalitarian, devotee of John Locke, and student of Physiocracy. The Liberty Bell in Philadelphia is inscribed "Proclaim Liberty throughout the land, ... ," a quote from Moses, Leviticus 25:10, where "Liberty" means Jubilee. The chapter goes on to read "The land shall not be sold forever, for the land is mine, and you are strangers and sojourners with me." Farther north, in New York, on the Statue of Liberty, is a poem by Emma Lazarus, who the year before had written a poem dedicated to Henry George. Northeast of that is Plymouth Rock and a statue of William Bradford, who had meted out the land of his colony in equal shares, requiring those who got better land to pay extra taxes, "as ye valuation wente." West of that, in Cleveland, is a statue of Tom Johnson, former Mayor, holding a book inscribed Progress and Poverty. We are transfused with cultural icons celebrating equal distribution of land, yet their meaning has been elaborately concealed or twisted so that when our favorite subject arises, most people regard it as novel, bizarre, and faintly alien.

In Australia, many of your icons date from another period, 1880-1920, when single tax was in the air. Yet your people, too, are easily led astray. We have a big job on our hands.

I will follow your latest suggestion and prepare to speak on the relation of George to current economics. I enclose a tentative outline, to be completed and revised. I had another outline started, also enclosed, but I will simply use that one for the Melbourne meeting. All suggestions gratefully received.

Thank you for your "Recession: Causes and Cure." My Kingdom for an American Rotary Club that would sit still for so challenging and thought-provoking a talk.

Is there any way you can get me some of Kavanagh's written statements, such as the one you cite? He seems to have done an excellent job of tracing the land boom and slump. I FAXed Ed Heywood the same request earlier, but it may not have come through.

Do I gather that in Australia, interest payments were not deductible from taxable income before 1987?

Interesting that anyone would attribute an economic boom to Bond's winning America's Cup! That's a new one. By rights, then, it should have triggered a slump here, but I don't recall that happening.

Also enclosed is a recent talk at Albany, New York.

Faithfully,



Progress

First published May 1904

No. 988

OCTOBER 1992

PRICE \$1 SUBSCRIPTION \$10 PA

Registered by Australia Post Pub. No. VBH 1433
ISSN 1035-1396

Editors: G. A. Forster, B.A., B.Sc.;
H. B. Every, Dip. E.E.; E. M. Best

POSTED WITHIN AUSTRALIA
(For overseas rates see last page)

OUR PHILOSOPHY

We believe that the Earth is the birthright of ALL MANKIND.

We recognise that for most purposes it is essential for individuals to have exclusive possession and security of tenure of land.

We believe that those who have exclusive possession of land should COMPENSATE SOCIETY for being excluded therefrom.

We believe that such compensation paid annually would meet the costs of Government and permit Society to abolish all taxes on LABOUR and on goods produced by labour.

LAND RIGHTS, RENT, COMPENSATION

By W. A. Dove

1. The whole Georgist social philosophy and proposals are based on *equal human rights*, including pre-eminently (a) the right to live, (b) in free and equal association with all others, (c) the right to occupy and use the earth, and (d) the right of property (i.e. individual, family, group, company and community ownership) in things produced by labour.

There is no right of property in anything not produced by labour, i.e. in land or human beings.

2. The rights *imply* corresponding *obligations*: (a) to respect the rights of all other people equally, and (b) to use, care for and preserve both the earth and all forms of life which are the environment and common heritage of our present and all future generations.
3. The earth (i.e. the land and everything provided by nature except man and the products of his labour) overflows with everything that man needs. Notwithstanding certain unavoidable natural partial disasters, and others which are avoidable, there is general abundance for all. Many great human disasters, due to man's inhumanity to man, are avoidable. Nature is not niggardly, and the Malthusian theory is totally false.

The Margin in Economics

4. When settlement begins there is always ample good land, which

anyone may use and occupy exclusively. This is not a privilege but a natural social right. Newcomers are welcomed, to the great benefit of all.

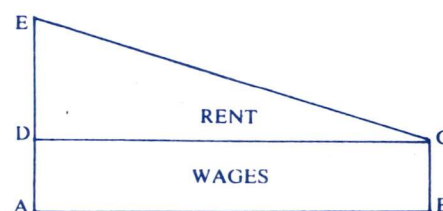
5. At the first stage everything produced by labour is *wages*; there is no *rent* (and no taxes).
6. When all available land of the first area has been claimed and taken up (even if it is still idle and unused), newcomers must now go beyond it to an area where more labour is needed to produce the same result; physically the fertility and other features are the same, but more transport and travelling are now necessary, so *economically* the new grade is inferior. The latest grade to be used is, in economics, termed the *margin*.
7. As the population of every settlement grows the margin is pushed out further and further, so that the margin (at the edge) always remains the most inferior land in use, but more and more superior grades appear, and the inner central sites are always the most superior, distinguished by the highest rent.

Ricardo's Law of Rent must now be carefully studied and mastered: see the Chart following.

CHART

(greatly simplified)

8. Showing the economic distribution of wealth and services, and illustrating Ricardo's Law.



A-B is the total land of any country or economic unit.

A is the place, or places, of greatest population and the greatest production.

B is the margin of production, i.e. any area of the lowest productive quality in use.

B-C is the total production by labour and capital at the margin. All of it is *wages*.

A-B-C-E-A-B is the total production of wealth and services over the country or unit.

D-C-E is the total excess production, i.e. excess over wages, or surplus production, called *rent*. It

INSIDE:

- Right and Wrong in Local Government
 - Gigantic Swindle Tax
 - Dates for your Diaries
- (See Back Page)

is produced on every site by the progress of the community. A site is any situation above the level of the margin.

Notes: Rent and wages divide, by economic law, the total production of wealth and services in any country.

Wages are the share of the individual producers. Rent is the share of the community.

Ricardo's Law (*as generally accepted*): "The rent of land is determined by the excess of its produce over that which the same application (of labour and capital) can secure from the least productive land in use" (i.e. the margin).

This chart is illustrative only. It is not an actual map of production or distribution, but shows only how production is distributed between rent and wages.

9. The definition of Ricardo's Law may be slightly improved as follows: "Rent is the *excess* product on any site over the product of the same application per person of labour (including capital) applied at the margin, i.e. the least productive land in use."
10. At all times and places *production* consists of labour (using capital) applied to land or to the unfinished products of labour. The labour applied to the unfinished products goes on through the innumerable processes (including exchange, transport and improvement) until it *ends* (usually with the labour of the retailer) in the hands of the consumer.

Distribution of Wealth

11. the final product is *wealth* (material objects which satisfy desire) and *services* (labour-products applied directly from person to person) the next division in economics is:

The Distribution of Wealth

From the foregoing explanations it can be plainly seen that on every area of land which is economically superior to the margin, the whole product is economically and automatically *distributed* into rent and wages, while at the margin there is no rent but only wages.

12. The whole natural process arises from the pressure of the expanding population of producers (labourers) on land. Non-producers produce neither wages nor rent, because all wealth (and services) is produced by labour. Both rent and wages

therefore rightfully belong to the producers; rent is a community product which ethically belongs to the community, and wages are individual products and belong to the wage-earners individually.

Compensation

13. It follows that when land-"owners" lose the legal but inequitable right to pocket the rent as their private incomes they have no serious claim for compensation. They will retain for themselves the income or benefit from their improvements. Rather they should pay compensation for the crimes and robberies of the past. But unfortunately the past must be forgotten. In future the injustices can be rectified and the future can be made prosperous. This is the best possible compensation for the people.
14. Whether it will happen depends on whether the people will shake off their present apathy and ignorance and acquire the quite small necessary *knowledge*.

WORLD-WIDE GEORGIST EFFORTS

Czechoslovakia – We were invited to present two papers, one in Prague and the other in Nitra (Slovakia), as the result of a grant by the Robt. Schalkenbach Foundation. Contact was made with the Finance Minister and others, but the Czechoslovaks, at this writing, seem hell-bent on restituting the land claims of absentee landowners, which has and will continue to handicap privatization efforts measurably. In any case, we published an article maintaining this in the English-language *Prague Post*.

Estonia – We have been invited by the Estonian government to bring an assessment team to Estonia to train Estonian assessors in land rent taxation, assessment and cadastre procedures as a prelude to taxing land values. We have many high-level contacts. We think that we have a 20% chance of installing a single tax in Estonia. We leave May 2nd. Stay tuned.

Russia – We have funded (for a mere \$3,000) a representative in this vast country and he is trying to make contacts for us; one of his projects is the publication (printing and distribution) of *Progress and Poverty* in Russian. We got a land value tax law passed 10/11 signed by Yeltsin, but we were asked to get cities to apply this law (!). We made *many* specific contacts in this country (we appeared on the Morning Show, for instance, 100 million viewers). The

Russians are very receptive, but optimism here is not yet called for.

Mexico – We sponsored Jeff Smith's trip to this country to popularize geonomics.

Kazan – We sponsored Gene Levin's trip to this northeastern autonomous republic; he gave well-received lectures on HG.

From a recent report of the U.S. Henry George Foundation.

150,000 JOBS FOR TEENAGERS VANISH

More than 150,000 full-time jobs for 15-to-19-year-olds disappeared in Australia in the two years up until August, 1991, and might never return, according to a national study issued in Adelaide.

The study, *A Living Income*, was compiled by Youth Affairs Councils in each state.

Between August, 1989, and August, 1991, more than 80 per cent of all full-time jobs lost during the recession were jobs held by 15-to-19-year-olds, with 150,000 teenage jobs vanishing, the study said.

Young women had been the worst affected by the contraction in the labour market.

Figures showed that in 1966 teenage unemployment was 3.2 per cent, in 1974 it was 5.8 per cent and the recession in 1982-83 pushed it to 22.6 per cent.

It took until 1989 for teenage unemployment to fall to pre-recession levels, but by August, 1990, the rate was up to 16.5 per cent, with levels now running at about 33 per cent.

The Youth Affairs Council study also linked high youth unemployment to an increasing suicide rate, with the adolescent male suicide rate having risen from 6 to 16.6 per cent per 100,000 between 1961 and 1985.

"Canberra Times, 24/5/92.

Note: Another study shows that for 15-24 year-old males, the suicide rate was 19 per 100,000 in 1983, but at present it is 29 per 100,000.

ERRATUM

The final sentence of "The Fruit and the Tree" (Dec. 91/Jan 92 issue) should have read: "Ancient Greek has a verb which enables you to say very neatly, in about the number of words: I had not noticed that I have overlooked . . . something very important."

A SMALL MATTER OF RIGHT AND WRONG IN LOCAL GOVERNMENT

By David Brooks

This article is written specifically for those who may have an interest in local government rating. The questions contained within are designed to extract the basic information as to how the rates are being levied. From these figures it should be a simple task to reveal who is getting the benefits and who is getting slugged. One thing is for sure. The answers may not be entirely what you would expect.

Justice is best served when everyone and everything is on an equal footing. This has nothing to do with people being equal for most surely they are not. It has everything to do with the way people are treated. And everyone should be treated equally and most surely they are not.

There has been much criticism about local government rates. Not unusual, for we all hate paying governments. Especially when we see little or no return. Or is it that we don't wish to recognise the return?

One thing is certain. People, generally, are not dumb. While not always able to specifically identify a wrong, the community knows when it is being ripped off. And local government is certainly ripping off the community when it comes to revenue collection. But how? And is it in the way we suspect?

The basis of raising local government revenue, in New South Wales, was the subject of probably the most intensive inquiry into the subject ever conducted in the Western world. The result of that inquiry, published in 1967, was that N.S.W. had the most (well almost) perfect rating base in the world. What has gone wrong?

We have become accustomed to taxation being used as a weapon. Used by various governments to achieve some elusive fiscal ideal. Usually the general populous suffers, grins, and struggles a little harder to make a living. So it can come as no surprise to see local council members manipulating the collection of revenue. And just to help things along the State Government freezes the valuations, upon which the rates are based, at some arbitrary date. We appear to have a recipe. It is named "kill the rating system".

It is fortunate that it is an enduring system and not easily destroyed. It is, however, necessary to restore the natural equilibrium or we may lose the system for ever.

One of the many things to reveal are those who are being unjustly taxed because of the created anomalies; conversely, to reveal those who gain from the anomalies.

But first things first. If South Australia can implement annual revaluations of its land why is it not being done in N.S.W. and other States? Are we so backward? This is a question for all our state politicians. After all, this is the age of the computer.

There are avenues open to anyone who wishes to pursue a matter with zeal. The "Freedom of Information Act" is useful if none of the local councillors are inclined to assist. The questions that require answers from each council include:

What is the total rateable value of the City (Town, shire) of . . . ?

Did Council declare differential rating and if so what categories were declared?

What was the rateable value and rate declared in each category?

How many rateable properties are there in the Council area?

How many non rateable properties are there?

How many properties are there in each category of differential declared?

What was Council's total income from all sources?

What income from rates was expected?

What are the 30 highest valuations in the Municipality, what differential category are they and what rates did each pay?

These questions should enable a reasonable analysis of any local council's income and sufficiently identify those who lose and those who gain from manipulation of the rating system.

PROFESSOR SLAMS CANADIAN GST EXPERIENCE

Professor Neil Brooks, of York University, Ontario, told a press conference that 71 per cent of Canadians opposed the GST and he expected the Government would fall when it faced the people for the first time since the

tax was introduced in about 18 months. ("Canberra Times" 6/7/92.)

The Canadian Government, he said, had achieved some sort of record in recent times when its popularity rating at 12 per cent was less than interest rates of 17 per cent. He found it hard to understand why the Opposition in Australia was proceeding with a measure he deemed inflationary, inequitable, costly to ensure compliance with and a very heavy burden on small business.

Canadians rushed across the US border for cheaper goods and some Canadian shopping centres paid the GST themselves so that they could advertise "GST-free shopping".

Professor Brooks said Australia was risking economic damage from Fight-back and an unequal shift in compliance costs from big to small business and from men to women. Women tended to do the shopping and often received no more money to account for higher prices under a GST.

Book Review

THE TRIAL OF CHAKA DLAMINI

This book newly from South Africa is the clearest thing I've read on 'reform economics'.

It is entirely in dialogue, with young Black activists and young White socialists deeply questioning Chaka, a gentle elderly man named after his fearsome Zulu ancestor. Gradually he shows them that relief from tyranny and its accompanying poverty can come only through a proper understanding of day to day economics, the economics of commerce rather than, alas, of the universities.

The reader comes to appreciate that the 'invaders' arrived mainly to escape from the tyranny and oppression of their mother countries, but then knew no better than by armed force to impose it afresh.

Each of the one hundred and eleven pages carries the sparkle of common sense, with the passages that concern the rights and duties related to landholding being succinct and superb in their quality.

Copies are available at 31 Hardware Street Melbourne. The recommended retail price is \$15.00. T.R.A. members may have it for \$10.00. Postage \$1.50.

W.H.P.

PRESS LETTERS

AFTER US, THE DELUGE

Echoing the sentiments of Louis XIV, notorious for his dictum "L'état, c'est moi!", Jeff Kennett on the election trail (Age 20/8) indicated he wishes to "make the individual supreme". He almost sounded like saying that man has no social responsibilities.

When will politicians and economists realize that man is both an individual and a social being simultaneously and, consistent with the duality of human nature, there is both personal and social property? This fundamental truth has yet to be recognized. To sacrifice either form of wealth to the other is wrong.

The present depression, euphemistically styled "a recession", was brought about by the ruthless, selfish pursuit of private wealth in the eighties. And the result of greed is lack.

Greed waxes rich through depriving others of their natural stake in the land and its economy. More of the same philosophy will not rectify the economic problem and the social evils that stem from it.

The eighties were the boom decade of greed and thus the decade of poverty-creation. This poverty is now upon us in the depressed nineties, affecting broad sections of the community and even governments. Jeff Kennett and John Hewson have no explanation, or answer to this fact, neither has the Labor side.

Well might the tinkering politicians and economists say: "Après nous, le déluge!"

Roland Staub,
Box Hill.

"Progress Press", 8/9/92.

THE ECONOMIC MESS

Our universities and trade unions seem full of economists who work to justify higher taxes so that our governments may aid the poor and unemployed. Others work for employers to justify low taxes and low wages so as to create capital investment and greater productivity.

Each group silently ignores that low profitability, low employment and low wages all result from governments levying taxes instead of collecting site rentals.

At each location, site rental is the market worth of the facilities provided by our public servants. It is thus their natural wages fund. Instead, our

speculators and landholders pocket it and then join in the monopolistic game of keeping land idle or poorly used. Along with taxation, this inflates prices, reduces employment and destroys prosperity. Of course we are in a mess!

Russia and China tried communism; Germany, Spain and Italy tried national socialism; Israel and Japan each try a sort of religious patriotism; we suffer under a monopolism where millionaires shrug their shoulders at the failing business or farm, at the unemployed and at the homeless.

The remedy is to have our municipalities collect the full site rental for every landholding, spend whatever is necessary locally and send the balance to the other levels of government. Land ownership would stay intact, yet overpayment to any monopolist or bureaucrat would be impossible.

The first requirement is some independent thinking in parliament.

W. H. Pitt.

sent to Leader Group.

LETTER TO A CLERGYMAN

This is in reference to the seminar on 'Employment' to be held on July 16th.

It is a matter for regret that the subject matter related only to the strategy most likely to succeed in the search for limited job opportunities, rather than how full employment may be achieved.

It is a national disgrace, that in a country so richly endowed as Australia, nearly a million people are unemployed, including 35% of our young people. All employment involves the application of labour to land, either directly or indirectly. It follows that any restriction placed upon labour or access to land will result in unemployment.

The answer is to be found in scriptural injunction. "The land shall not be sold forever . . .", "He formed it to be inhabited," "The earth hath He given to the children of men," "And ye shall inherit, one as well as another," "Woe unto them that lay house to house, that lay field to field, till there is no room and ye be made to dwell alone in the midst of the earth."

Governments, elected to represent all the people, have enabled 10% of the people to acquire 90% of the value of the land of Australia. Similar conditions exist in all countries throughout the world. More than 200,000,000 young people are without jobs and one billion people live in dire poverty. Millions die in consequence of malnutrition and violence. The suicide rate in Australia has increased by nearly 400% since 1965. A child dies somewhere in the

world every few seconds from a preventable disease.

The Christian Church remains silent in the face of such appalling injustice – "What doth the Lord require of me?" "To do justly, to love mercy and walk humbly before God." The latter two injunctions are impossible without justice, to "the neighbour."

In consequence there is no moral leadership on social issues and no protest when governments ignore the messages so clearly stated in the Bible, because the Church does not want to be involved in politics – social life.

The Church nevertheless is involved in charity, – in mopping up the mess which anti-Christian governments have created and so relieving them from much of the responsibility for evil doing.

Bishop Gore said, – "The Church has been too long engaged in picking up the wounded in the battle of life, in applying medicines and staunching wounds when it should have been thundering at the gates of tyranny."

There is a simple remedy, publicised as the science of political economy, which ensures that all people shall have the right of equality of opportunity to apply their labour to the God-given, freely provided, resources of nature and have the right of property in their earnings.

The site rental value of land is generated by the presence and industry of all the people in an economic community, it is sufficient for providing the necessary services of government and is therefore the natural source of public revenue.

When not taken for public revenue site rent is capitalised as land price at about twenty times its annual value.

When 'economic rent' as termed by economists is taken for revenue land price disappears and only man-made improvements are bought and sold – not the Divinely provided land. Scriptural injunction is then obeyed.

Land rent varies enormously, in Australia from zero in outer regions to \$8 million an acre in the centre of Sydney.

Economic rent is the market assessed measure of the relative advantages which attach to each particular site, and which each landholder should pay to all the people who have created its value.

All who engage in production would then do so on equal terms – preserving equality of opportunity.

Land speculation and monopoly would then become unprofitable and

land would become available for use. People would not then be led "into temptation". Full employment would then be assured and the theft of about seventy different taxes and charges could be abolished – "Thou shalt not steal." (There is no fine print absolving governments in the Bible).

God rules the earth by scientific laws which are unfolded as needed. The physical laws govern production and the abstract laws govern the human relationship of people with each other and with the land, including the distribution of wealth according to equities involved.

The science of political economy is simple, as are all great truths. There are about seven laws which can be learned in an hour, but an open mind is necessary.

Penalties for non-observance are provided to lead people in the right direction for their ultimate good. "Be sure your sins will find you out."

Graham Hart,
Georgist Education Association.

WHOLE HOGGERS

It was amusing to read Arthur Cannon's letter (July 92) in which he suggested that the "whole-hoggers" had a victory over those who recommended gradual increase in land value taxation. I don't know who "declared" the "victory". It seems to me that the step-by-steppers got a bill passed by the English parliament, whereas there has never been anywhere in the modern world a bill passed to collect the full site rent for revenue. Presumably the whole-hoggers assisted and enjoyed the rescinding of the land tax legislation – what a victory for them!

Turning to Australia, for about 80 years local government in NSW was financed almost entirely by site value rating; sadly that has been diluted in recent years by Federal subsidies (from other taxes) and by fixed charges. There had also been long periods of State Land Tax in NSW.

Mr. Cannon is wrong in suggesting that applying site value taxes "would cause violent fluctuation in rents". If he is basing that assertion on tables in a pamphlet by Mr. Hodgkiss, then he has been led astray, because Mr. Hodgkiss made some erroneous assumptions. I do not have the pamphlet with me but if I recall rightly he claimed that the application of a rate of sixpence in the pound would cause the price of a certain site to fluctuate over several successive years to values of something like 780, 480, 700, 520, 660 . . . That was what he predicted would occur. If such a prediction is possible, would not

everyone sell when the price was 780 or 700, and buy back again the next year at 480 or 520? Who would buy at 700 or more, or sell at below 600? He provided a number of tabulations with such absurdity.

A small increase in a land tax rate would cause a small decrease in prices for land titles, but it does NOT cause "violent oscillation". There have been very high rates of municipal tax set in NSW over many years but they never caused violent fluctuations on a yearly basis. On the other hand, there have been steady increases in land prices over long periods leading to booms followed by slumps. The boom during the 20 years up to 1991 was caused partly as a hedge against currency debasement, partly by an increase in population and public works, and partly by the erosion in the intensity of rates and taxes on land value. The expectation that these conditions would continue caused ill-advised and over optimistic borrowing, and un-businesslike lending by banks.

Quoting out of Context?

Yes, Henry George did use the words: "do it at 10 o'clock tomorrow morning", but . . .

In question time after his famous lecture "Scotland and Scotsmen" in the Glasgow Town Hall he is recorded as saying:

"I want to do this at 10 o'clock tomorrow morning; but if we all wanted to do it, it would take a good while. It necessarily must be a progressive step. We must necessarily, on account of resistance, move step by step. And as we do this, land owners will have a chance; your recent purchaser will have a chance not to purchase. The decline would be slow and gradual."

It is clear that George was a gradualist, a "step-by-stepper". The wording seems a little disjointed, maybe because the reporter was jotting down the main points, and was perhaps a little weary.

The "next-morning" – "whole hoggers" could only achieve immediate change by the use of *violent* revolution. A good government avoids the grief which results from violence. Violence often leads to bad governments.

A policy of very gradually replacing other taxes by site value taxes, would have *strong immediate* incentive effect leading to increased economic activity and prosperity. Sadly, all our State governments have been going in the opposite direction for twenty years, with resultant unemployment and poverty.

Syd Gilchrist,
Roseville, N.S.W.

SITE RENT – IS IT ENOUGH?

Mal Booth (Progress, June 92) poses the question, Site rent – would it raise enough money?

Site rent is the nation's birthright and as such is the Government's legitimate source of revenue.

Whether it is collected (socialised) in whole or in part (that which isn't is then privatised) is not in question here, but that which is collected is the Government's cloth and it must cut its coat accordingly.

After all, isn't that what Mal and the rest of us have to do with our incomes? What we have is often not "enough" to satisfy our expanding desires but we have to make do or face bankruptcy. Government should be no different.

George had no doubt that site rent would yield "enough" revenue to meet the needs of Government, and nor do I.

T. C. Whittle,
West Leederville, W.A.

FAVOURABLE PRESS LETTERS IN CENTIMETRES

Mornington Mail – 9/1/92, (L) (19) G. Forster says site value taxes would enable other, injurious, taxes to be abolished.

Nunawading Post – 11/3/92, (L) (14) W. H. Pitt says Site value tax is better than GST.

Progress Press – Camberwell, 11/3/92, (L) (15) G. Forster says GST is "Grab & Sting Tax".

18/3/92. (L) (4) M. Hutchinson endorses G. Forster's attack on GST.

Nunawading Gazette – 25/3/92, (L) (13) W. H. Pitt says site value should be taken for revenue instead of selling public assets.

Herald/Sun – 28/3/92, (L) (10) C. Somerville advocates leasehold land tenure.

13/4/92, (L) (25) B. Kavanagh says rates based on land best form of revenue for Melbourne Water.

Greenshoots – Baptist Social Justice Group, May 1992, (80) (A). Article by G. Forster says GST would suit the greedy and harm the needy.

Mornington Leader – 10/6/92, (L) (25) G. Forster says GST caused havoc in UK and NZ – tax site values the answer.

Organic Gardening & Farming Society – Devonport Branch, June 1992 newsletter. (40). Bev Twibell supporting H. Ferris, and quoting Bible – "The Earth hath He given to the children of men," – all, not some.

Hobart Mercury – 15/7/92, (L) (3) R. B. Excell quotes Henry George that the people must think for themselves.

GIGANTIC SWINDLE TAX

(How to Shoot EVERYONE in the Foot)

HOW GST WORKS

GST is as simple as 1, 2, 3. Using the diagram opposite, we've followed a leather briefcase through its stages of production, showing how a 15% GST is collected and paid by the consumer at the final point of sale.

The Abattoir

The abattoir sells a cow hide to a tannery for \$20 plus 15% GST (\$3). Therefore the total amount paid to the abattoir by the tannery is \$23.

When the time comes for the abattoir to complete its GST return form for the Tax Office it takes the GST on its sale (\$3), subtracts any GST it paid on inputs (\$0 in this case) and sends the total (\$3 - \$0 = \$3) to the Tax Office.

The Tannery

The tannery processes the cow hide into leather and sells the leather to a leathergoods manufacturer for \$40 plus 15% GST (\$6). The leathergoods manufacturer therefore pays \$46 for the leather.

When the tannery fills in its GST return form it takes the GST it collected on its sale to the manufacturer (\$6), subtracts the GST it paid on its input (\$3 paid to the abattoir on the purchase of the cow hide) and forwards the difference (\$3) to the Tax Office.

The Leathergoods Manufacturer

The leathergoods manufacturer makes the leather into a briefcase which it sells to a leathergoods retailer for \$80 plus 15% GST (\$12). The retailer therefore pays \$92 for the briefcase.

The leathergoods manufacturer subtracts the GST it paid the tannery for the processed cow hide (\$6) from the GST it collected from the retailer (\$12) and sends the difference (\$6) to the Tax Office.

The Retailer

The retailer sells the briefcase for \$100 plus 15% GST (\$15). The customer therefore pays \$115.

The retailer subtracts the GST paid to the manufacturer for the briefcase (\$12) from the GST collected on the sale of the briefcase (\$15) and sends the difference (\$3) to the Tax Office.

The consumer pays the 15% GST on the final value of the briefcase. However the GST has been collected as the product passes through each stage of production and has value added to it. The GST paid at each stage of production is passed on through the production chain so that the consumer ends up paying the full amount.

Do not believe for one minute that the Goods and Services Tax will be revenue neutral. The Coalition is already buying votes with the windfall in tax revenue they know will come. In Canada it was a bonanza for Government and a disaster for the people. It was so bad that the people of southern Canada, who were near enough to the US border started border hopping to do their shopping. Some provinces even tried to bring in horrific departure taxes and re-entry taxes to make life miserable for those who sought relief from GST. WAKE-UP. If you do not change the Coalition plans you will have GST or even worse you will endure another three years of the World's Greatest Treasurer and the World's Greatest Fiscal Stuff-ups.

There are four questions to be asked about GST, "Will we be paying more in tax?" YES. "Will business make less?" YES. "Will customers get less for their money?" YES. "Will GST cause severe inflation?" YES AGAIN. If you want to know the facts about GST, check the following calculations.

Take as an example a one-man business which has gross takings of \$250,000. This size business typically

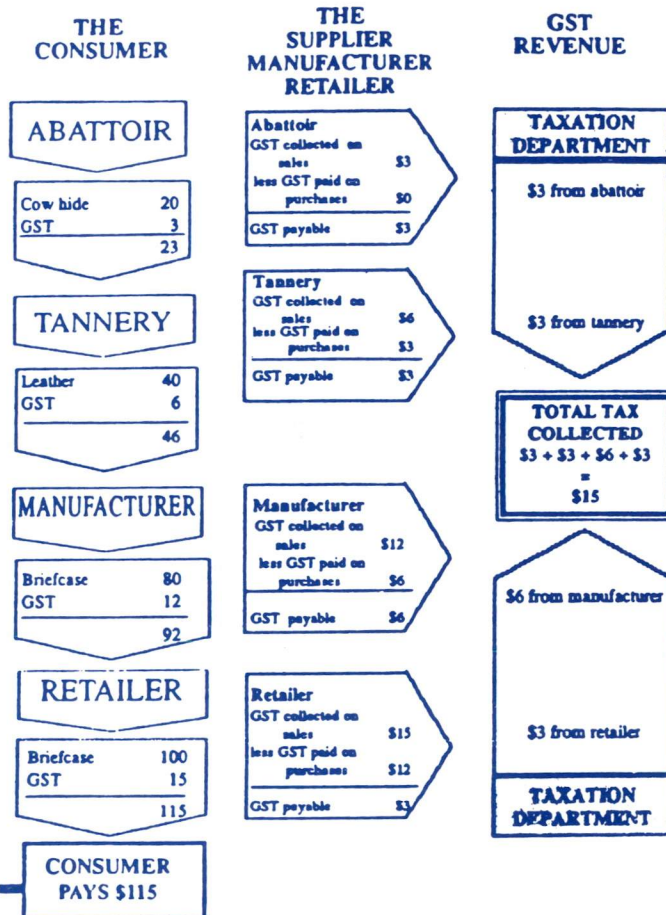
gives the owner \$25,000 net income so he pays about \$6,000 in income tax. It is intended that GST be imposed at a rate of 15% on gross sales so the government would get \$37,500 in GST from that one business. The government gets six times the rip-off, plus the income tax they still impose. Even if income tax is halved, that one business would yield, to the government, over \$40,000 in tax which is \$34,000 more than before GST. The only bright spot in the GST is that the worker will actually see his money pouring into the cesspool of the public pig bin. The workers will also see prices rise ten percent in one year, but will they have the brains to see that the inflationary rise of ten percent was really the equivalent of a national pay cut of ten percent?

The GST will require a staff increase at most businesses with a staff of twenty already. People in smaller businesses will work longer hours and get less sleep. All large and most small businesses will have to buy a computer and an expensive program to keep track of the huge numbers of transactions. This is the UK, Canadian and NZ experience. To understand why, follow the fiasco through grower, processor,

wholesaler, retailer and buyer. When the goods are bought off the grower the processor pays GST. When he sells at a much higher price the wholesaler pays proportionately higher GST. The first and smaller load of GST can now be claimed back from the government. When the retailer buys he pays even higher GST so another claim is required to recover the GST the wholesaler paid. To suggest that dropping sales tax will offset GST is an outright lie. Only 90,000 firms collect sales tax. Over a million businesses will collect GST. Look at the following chart. Here it is in their own words.

The bureaucrats think it is as simple as 1,2,3. I do not. I estimate that the process of monitoring the paying of tax at each stage of the four transactions and the processing of the claims for a rebate at three of the four stages will require 80,000 people or their computer equivalent in government employ, and about 160,000 in the private sector. These people would be better employed producing something for us to export or to avoid importing more.

I sent this warning on the real potential impact of GST to every daily newspaper in Australia, all 375 of them.



So far it would appear not one has published the warning that GST will be far more severe than we are told. It would be fair to say the media are very co-ordinated in their agreement to suppress vital information. If we allow this tax to be imposed we will become the poor white trash of Asia. The downturn we are having will become THE END.

The only solution I can see is to tell all businessmen what the Liberals really have in store for us, not so they will vote for Keating's fiscal failures, but so they will convince the Liberals and Nationals to wake up to what their leaders are trying to do to us.

If you are a businessman go to your records. Look at your sales figures and work out what the net income will be after GST. **Remember, your customers will not be spending more. They have not got it.** Look at your expenditure, add fifteen percent, look at what you had left last year, work out what you will have after GST, then you tell me what should be done.

If you are a customer, ponder what groceries you will get with your money when the price of every item is increased 15%. If you are an employee manager, ponder how you will come up with satisfactory figures under GST.

If enough businessmen give a hundred or two hundred dollars we can get the message across Australia despite the media gag. If we do not stop the rot, God help us. A couple of hundred dollars will be peanuts compared with our disastrous losses under Hewson's GST, which is really Keating's old VAT idea renamed. **The politicians play with us as we flee from one rotten party to the other bad party.**

If you have any better ideas let me know and I will help you with yours. If not, give a donation so I can get this FIGHT paper across Australia. This is your last chance to beat the HEWSON/GST/KEATING/VAT. After it is in it will be too late. If you think times are hard now, wait until you get GST.

All prices will rise. All profits will drop. All shoppers will get less for their

money. All businesses will make less. About a twentieth of our nation's manpower effort will be consumed feeding the bureaucratic GST monster.

Something can be done, but only if we make everyone aware.

From "Fight",
(Confederate Party),
June 1992.

NEW WINE – NEW WINE SKINS

The use of the terms "taxation of land values", "land tax", "incentive taxation" and "taxation of site values" by people who supposedly understand the writings of George and the empirical study of economics has raised my ire a good many times.

Georgist, Geocrats and Geonomics are not about taxation (save its complete abolition) or taxation reform, but about collecting (socialising) community created 'site rent' as Governments just revenue source.

Taxation is the means by which Government revenue is raised from the legitimate (privatised) earnings of labour and capital, production and exchange, and results from Government failure to collect the community (socially) created "site rent".

"Site rent" arises from the social presence and activities of people who seek to fulfil their daily need with the minimum of effort from 'land'.

Government and community provided services will contribute to an increase of "site rent" for the duration of the community.

"Land value/s" arise due to Government failure to socialise "site rent" and when "site rent" is therefore allowed to fall into private hands as unearned income access to 'land' can only be had via capitalised rent and this privatisation, of that which is social, is the communities undoing.

The private collection of "site rent" enriches fewer and fewer as 'land' falls

into fewer hands following the speculative forces of the market (which is endeavouring to minimise effort to satisfy ever expanding and insatiable desires) and holds the community at bay from access to "land" on reasonable terms. Recessions, depressions, revolutions and wars are the natural outcome.

The terms "tax" and "taxation" have a long history as impost, extortion, robbery, thievery etc. of that which is the private property of labour and capital.

The terms "tax" and "taxation" rightly deserve to be the ultimate obscurity in the vocabulary of all people engaged in the co-operative efforts of production and exchange.

The use of the terms "tax", "taxation", and "site rent" are not ones of semantics but of applying and using scientific terms.

George raised the study of political economy to that of a science; scientific terms have precise meaning. While George continued to use the terms "taxation of land values", even after he had corrected himself, it does not give us license to continue making the same error. Our continued use of terms such as "taxation of land values", as we have done for the past 100 years, has done untold harm.

George brought us new wine; let us not lose it by putting it into old wine skins, for that is what we do when we package "site rent" as taxation of land values.

Is it any wonder that the great mass of people have been so slow to respond to this message of hope, economic justice and equity? They have every reason, with hundreds of years of collective experience, to be wary of this, or any, proposed new tax.

Until "taxation", with all its penalising connotations and effects, is completely abolished, no people can call themselves civilised and no nation will truly prosper or progress.

"Site rent" is the nation's birthright; as such it is the legitimate revenue of

GOOD GOVERNMENT

The bi-monthly for serious thinkers
Official journal of the

ASSOCIATION FOR GOOD GOVERNMENT

122 Little Eveleigh Street, Redfern
N.S.W. 2016

\$10.00 (A) \$10 (U.S.) Overseas

LAND and LIBERTY — 6 times a year

Since 1894

- 177 Vauxhall Bridge Road
London SW1V 1EU
£7.50 (stg.) \$15.00 (Aust.)
- 121 East 30th Street
New York NY 10016
\$13.50 (U.S.)

Government; we are in grave danger of losing the nation's birthright to be regained, if ever, by violent and bloody struggle.

The world's people are in urgent need of new wine; it's high time Georgist, Geocrats and Geonomics gave it to them in new wine skins – Abolish All Taxation – Site Rent for Government Revenue.

Tom Whittle,
West Leederville, W.A.

The poem on "Moses" in the August issue was written by Dov Ryzman.



DATES FOR YOUR DIARY:

- Lunch-hour videos, Series, 12.30 p.m. 1st Monday of month.
- Executive Meeting: 7.30 p.m., Thursday, November 12th.
- Melbourne School of Economics: 10.30 a.m. Wednesdays.
- Mind-Body-Spirit Festival: 26-29 November, 10 a.m.-8 p.m. Volunteers needed for T.R.A. Stand. Contact Roland Staub, 890 5913.
- Georgist Council: Friday, 27 November, 31 Hardware Street, 5.30 p.m.
- Georgist Council of Australia – Public meeting at Doncaster November 27 – details from office.
- Christmas Social Tuesday December 15.

The views expressed in articles are those of the writers and not necessarily of Tax Reform Australia Inc.

AUSTRALIA AND NEW ZEALAND

VICTORIA — TAX REFORM AUSTRALIA INC.
31 Hardware Street, Melbourne 3000

NEW SOUTH WALES — ASSOCIATION FOR GOOD GOVERNMENT
122 Little Eveleigh Street, Redfern 2016 (02) 319 3313 or
P.O. Box 443, Enfield NSW 2136

QUEENSLAND
SITE REVENUE SOCIETY
P.O. Box 6179, G.C.M.U., Bundall, Qld. 4217

SOUTH AUSTRALIA
HENRY GEORGE LEAGUE
Visitors welcome to meeting.
Enquiries: John Hall
26 Lansdowne Ave., Belair, 5052 (08) 278 7560

WESTERN AUSTRALIA
GEORGIST EDUCATION ASSOCIATION (Inc.)
10 Broome St., South Perth 6151
Phone (09) 367 5386

TASMANIA
HENRY GEORGE LEAGUE
G.P.O. Box 1370P, Hobart 7001
Phone (002) 34 6553
Fax: (002) 34 5807

AUSTRALIAN CAPITAL TERRITORY

Bill Mason, 8 Cherry Place, Pearce A.C.T. 2607
Phone (06) 286 1353

NEW ZEALAND

Henry George League, 20 Connaught Terrace,
Brooklyn, Wellington, N.Z. 389 9975
The Crown Leasehold Association,
P.O. Box 6038, Auckland, N.Z.
The New Zealand Land Value Rating Association,
P.O. Box 6038, Auckland, N.Z.
Enquiries: Mr. R. D. Keall, 45 Dominion Street
Takapuna, Auckland, N.Z. 486 1271

INCENTIVE TAXATION

Monthly bulletin from the Centre for the Study of Economics,
2000 Century Plaza, Suite 238, Columbia, MD 21044, U.S.A.
Subscription \$US8 p.a. Editor: Steven B. Cord.

Published by G. A. Forster, 31 Hardware Street, Melbourne, 3000, and printed by The Print Press, 452 Neerim Rd., Murrumbidgee, 3163.

MEMBERSHIP FORM

I agree with the ideas of Tax Reform Australia.
I enclose \$16 annual fee — including PROGRESS
NAME
ADDRESS

Signature

Cheques to: TAX REFORM AUSTRALIA INC., 31 Hardware Street, Melbourne, 3000. Enquiries: (03) 670 2754.
Honorary Secretary: Geoff Forster. Office Supervisor: Loma Sutton. Fax: (03) 670 3063.

SUBSCRIPTION FORM

I enclose one year's subscription to Progress

NAME

ADDRESS

Annual Subscription: \$10 posted (Aust.)

£4 (stg) C'wealth Countries, \$A12 other countries

RAMADA® HOTEL

PARRAMATTA

Nepean, Colo. Hawkesbury

Wentworth Falls

3 Sisters

Kookaburra

Bumblbee

Blackbirding

Kemaka

Butcherbird

Cockatoo

Red blunders

Electric Trains - yellow seats

Hayley & Juliet Mills, Father Angus,

Noel Coward

Marine Museum venue,

Esplanade

Sydney Harbor; Manly Beach

Breakfasts

Devil Plant

Hanging swamp

Fire hazard

M A B O

Land Rights For All Australians

Mr. John Batman, with three white followers and seven Sydney Aborigines, passed into Port Phillip Bay, Victoria, on May 29, 1835, in the schooner "Rebecca", and anchored a dozen miles inside Indented Head. With some of his party and Aborigines he landed and inspected the country. In the course of his excursions Batman met several natives, and was pleased to think he had discovered the owners of the rich country that he was anxious to possess. Travelling some eight miles into the interior he met a further eight of the natives who were supposed to be chiefs. They were asked to accept presents of tomahawks and knives. Subsequently he went through the form of buying a considerable tract of land from these "chiefs".

Batman had a lawyer's eye to business; for before leaving Launceston, he had prepared, in true legal form, two deeds of conveyance with blanks to be afterwards filled in. It is stated he claimed that with the aid of two of his Sydney black fellows, he was able to make the vendors clearly understand the purport of the parchments. The bargain was struck, the deeds "signed, sealed and delivered", the consideration paid down, and possession given by marking certain trees, and each of the chiefs handing to Batman a lump of the alienated soil.

These celebrated deeds now repose in a glass case in the Melbourne Public Library.

They were formerly engrossed on two separate parchments and each drawn up in triplicate. One was endorsed, "Grant of the territory called Dutigallar, with livery of seisin endorsed, dated June 6, 1835," the other, "Grant of the territory called Geelong, with livery of seisin endorsed, dated June 6, 1835." Thus did these original settlers barter away their own and other people's birthright for the glittering articles which dazzled their eyes.

The Mabo judgment overturned the legal concept of "Terra Nullius", a concept that suggested Australia and its islands belonged to no one prior to "discovery" some 200 years ago. Australia's law courts have now recognised a new form of land tenure - native title.

Many fear this new form of land tenure, since giving native title to traditional lands, may interfere with the land rights of other Australians, for example miners. This is a dilemma that has paralysed government. But the paralysis can be overcome. Where native title is given, it is possible to give Aborigines land rights without taking away the land rights of others.

Present Difficulties

The present Mabo difficulties between our indigenous and much of the white population are partly economic in their origin. Any solution then, must of course satisfy the demands of the conflicting parties. For the indigenous, the economic model should fully support the preservation of traditional tribal customs, including land rights, where the native people still possess an authentic relationship to the land. For white Australians, living in an advance market economy, the economic model must permit the profitable mining and farming of appropriate areas, to produce many of the things upon which we as a society utterly depend.

Economics can offer a simple, yet just solution. Economic Rent [Site Revenue] is at the heart of this solution and the key to reconciling both arguments.

Economic rent pertains to land. The economic rent of any piece of land is the terms given to the measure of its superior productivity over the least productive land in use (marginal land). Such superior productivity may refer to better agricultural or mining possibilities or simply better location in a street or town. Marginal land is land that will yield only enough to cover the costs of production, including wages for labour and profits on capital. In simple terms, when, for example, iron ore or uranium is discovered underneath a particular area of land, it is noticeable how suddenly the value of that land increases. That is the basis of economic rent. Now an important question arises here.

To whom does this increase belong?

A Possible Resolution of the Conflict

Our case rests upon both the economic and ethical distinction between land, created by nature, and what we as humans produce ourselves. Land is not, and cannot be produced by human beings.

The point about the economic rent of land is that the features which give land a superior rental value, eg iron ore or uranium, are not due to the efforts of the individual owner. The law of title as generally understood today, incorrectly implies a prior personal right to the value of the land, which originally carried no value at all until community effort arose to give it one.

Our Suggestion

Since the rental value of land does not have the same moral sanction of exclusive ownership as does, for example, interest, profit or wages, originating from human mental or physical effort, land then is peculiarly suitable as a source of government revenue. Government could therefore legislate to collect the economic rent [site revenue] of land. The current mechanism of collection is via higher municipal rates. (The Victorian Government currently does this via its Underground Railway loop rate.) Simultaneously, the government could lower the taxes placed upon wages, profit and interest.

Why is this simple change so important:

This simple suggestion reconciles two opposing points of view; that of the indigenous people and that of the miners, farmers and others occupying land. For the indigenous peoples – as they instantly recognise, land ought not be treated as a marketable commodity; a thing to be bought and sold like any other item. Land, by its very nature, is different. For the miners and others – although the economic rent of say, the mining site is surrendered back to its correct source, the community, this in no way takes away the benefits of mining, nor the profits of doing so. Indeed, the profits would fully belong to the miners. And why not? The miners earned it! As previously stated, government collecting the economic rent allows for the removal of taxes on profits.

(Note: Collecting the economic rent [site revenue] of land in no way invalidated current title. Building on land, mining equipment, etc would still be bought and sold on the market, exchanged privately, bequeathed or whatever, as happens now. The difference is of course there would be no capital cost of land.

The advantages of one site over another come from nature and the community. The value of these advantages belongs to the nation. This arrangement does not disturb Aborigines since the economic rent [site revenue] of marginal lands is zero. At the same time it does not disturb the existing activities of others either. To do so would leave the owner liable to the payment of economic rent. So no one may live off the efforts of others.

A Reconciliation:

Freedom of access to resources and land does not recognise creed or colour. Government collecting the economic rent [site revenue] of land the, allows for many possibilities.

- ☞ The economic rental value could be remitted back to the indigenous peoples.
(Less maybe, some percentage of expenditure common to everyone, such as defence costs?)
It is up to them what they do with the value collected. It is generally accepted that people in charge of their own affairs usually do things wisely, in their own interest.
- ☞ The rental value could of course be collected by the indigenous people themselves.
As such this would be a significant contribution toward Aboriginal self determination.
- ☞ It is only in today's market type economy that we think of the economic rent being paid in cash. Historically it has not always been this way, and it need not be so today. Economic rent of land is ultimately in the nature of service; that is, rendering to the community, what is due to the community. It is an obligation upon all of us. In Aboriginal custom, this service could manifest perhaps as a sacred site. If so, recognition is needed.

Prior right of ownership

Native title is asserting that because the Aboriginal people were the original inhabitants of this land, it belongs to them by right of prior possession. Extending such a line of argument would suggest that the Welsh should own the whole of England. If every continent was examined on such a basis, how far back should the tracing of ancestry extend?

Ultimately, whether we be black white , Indian, Christian, Muslim or whatever – we are all tenants on an earth we neither created, nor can exist without. All of Humanity's wealth comes from the land. It is our human made laws that determine how our wealth is distributed, and to whom. The earth was, is and will always be here first. Land is the source of life for this, and all future generations. The rent of land belongs equally to all people.

Conclusion

All people have an equal right to the use and enjoyment of nature's bounty, be it for mining rights, agriculture or tribal customs. The Mabo debate could be an immeasurable move forward with the ethical redistribution of the economic rent.

Land rights for all Australians means government collecting the economic rent of land, a value created after all, by everyone in the community.

COMMERCIAL PROPERTY

Bid to create business valuers body wins support

By KATHLEEN BUCHANAN

A visiting American valuation expert has endorsed proposals by Australian industry authorities to create an organisation of business valuers, separate from the property valuation area.

Dr Shannon Pratt, founder and managing director of Willamette Management Associates Inc, one of America's oldest and largest valuation firms, said that in the United States and Canada the professional spheres of business valuation and property valuation had been separate for the past 20 years.

"Valuation in business is largely intangible assets such as the assets of hotels, insurance brokers, casinos, or airlines," he said.

"Those values don't arise from the value of the real property but rather from the cash flows.

"Property values, to some extent, are also dependent on cash flows, but to the degree their present use does justify their value in dollar terms, they can be converted to other uses."

Dr Pratt said that in Canada a group called the Canadian Institute of Chartered Business Valuers, and in the US, the American Society of Appraisers, provided separate education and accreditation in the valuation of property, machinery and equipment, and businesses.

"In Australia, I understand the Institute of Valuers has an accreditation on property valuation, and also on machinery and equipment, but no professional organisation here provides an accreditation on business valuation."

Dr Pratt said he supported the movement towards a division between property and business valuations in Australia.

"Property is very different to business valuation. Property is physical, whereas business is to a greater extent, a combination of people, markets and patronage."

Dr Pratt, who has written several books on business valuation practice, is speaking at a business seminar at the Hilton hotel Melbourne today.

Institute to offer banks instruction on valuation

By KATHLEEN BUCHANAN

The Australian Institute of Valuers and Land Economists has announced a list of guidelines for banks to prevent distortions on commercial and industrial property values.

The long-term goal is to establish a standard format between banks, according to the institute's national executive officer, Mr David Hocking.

"A number of major commercial banks approached us to see if we could devise a set of model instructions to assist with the instruction of valuers," he said.

"We held a small committee last year to set out the guidelines. This included the ANZ bank, Commonwealth, Westpac, the State Bank of NSW, and contributions from the Australian Bankers Association. And the Reserve Bank of Australia came in as observer.

"We understand real problems occurred in the 1980s when a lot of banks didn't have the knowledge to instruct valuers.

"In addition, borrowers were instructing valuers, and lenders, in our opinion, should have been instructing the valuers."

Mr Hocking said the situation presented property values in a distorted light, and this had been occurring Australia-wide for the past year.

"Unfortunately, it takes something like a property collapse to bring them to their senses."

Overbuilding, as a result of poor developer judgment, had caused values in the commercial property sector to plummet by about 50 per cent across Australia.

Mr Hocking said that while borrowers were understandably acting in their best interests, the banks might not be obtaining maximum return on their investment, in the event of another property collapse.

"You have problems when a lender is lending against a particular property, and they want to be certain the value is real.

"But if a property's value has been distorted by optimistic instructions to the valuer then the bank is going to lose out."

Mr Hocking said a large percentage of property in the portfolios of banks had been acquired from defaulting borrowers.

The institute's model set of instructions was prepared as a guide for the banking industry, particularly commercial and industrial property.

"Commercial and industrial property is most important because that is where the big money is loaned."

Mr Hocking said that in the late 1980s and early 1990s, Australian banks were lending against an upward curve in values. As a result they were losing billions of dollars.

"The only way to protect banking interests is to advise the banks."

Mr Hocking said guidelines prepared for the banks included advice on comparable sales within areas, the potential of buildings to be converted, projections on demand for office space within areas, even considerations on contamination of land, such as reclaiming factory and railway sites.

He said ANZ in Melbourne had a contract with the institute's Victorian division to train its staff in the valuation process.

"If that particular project is a success, it will be extended Australia-wide," Mr Hocking said.

He said the institute was printing a guideline booklet for the banks this week.

The institute's national president, Mr Alan Hyam, said the guidelines were a recognition of certain problems in the commercial property sector.



The building in Victoria Parade, Collingwood, leased by Telecom Mobile.

Telecom has taken out a substantial lease on what is believed to be one of the last new city fringe properties available for lease in Melbourne, according to the agent Richard Ellis.

The agent says Telecom has leased 79 Victoria Parade, Collingwood, a three-level building of 3855 square metres.

It was completed in 1992, by Pyramid Building Society, as mortgagee in possession, according to Richard Ellis.

Telecom signs big lease

"This lease will be additional to the current 1917 square metres which Telecom already occupies," said Mr Stephen Gorman, the agent's manager, suburban office leasing.

He said the building would be leased to Telecom Mobile for four years.

"Telecom Mobile have been seeking a head office," Mr Gorman said.

The Telecom lease, he said, represented \$741,420 a year. "This brings a total rent of in excess of \$1.1 million."

He said the lease was significant because Telecom had secured the city fringe accommodation it had been searching for for "some time."

"This is the first time a substantial building in the parade has been leased for a while," Mr Gorman said.

He said Telecom's new lease began this month. Due to a ratchet clause in the agreement, the rental return on the building would remain stable, he said.

— Kathleen Buchanan

Melbourne ready to bask in Sydney's glory

By KATHLEEN BUCHANAN

Victoria could expect spin-offs from Sydney's 2000 Olympics, several commercial property industry spokesmen said this week.

The chief economist with Price Waterhouse, Mr Paul Baxter, said some spin-off effects were likely to flow through to Victoria, particularly in major central business district areas.

But he said Melbourne's gain "is not going to be that great in any direct sense".

"New South Wales, and probably Queensland, will benefit most as they develop various venues," he said. "Queensland will be successful because it will attract tourist traffic."

Mr Baxter said all investment would not necessarily go to NSW, because many international companies still had headquarters in Victoria.

Plans for a Melbourne expo in 2000 would also provide benefits for the city's commercial property market, he said.

Mr Doug Lane, senior valuer with the Melbourne firm Herron Todd White, said that while there would be gains for Victoria from the Olympics, NSW would "kick ahead of Melbourne".

But, he said, Melbourne would be considered by investors towards the year 2000.

"They will look at Melbourne as an investment, particularly with the casino site," Mr Lane said.

The international agent Raine and Horne said Melbourne should benefit from the Sydney Games.

Mr Shane Heffernan, a director with the agent, said Sydney's good fortune would rub off on Melbourne, particularly in the hotel and retail commercial property sectors.

The agent Colliers Jardine said

IN BRIEF

Office block auction

A nine-level office block at 390 Little Collins Street, to be auctioned today at 3 pm, is valued by industry analysts at about \$1.5 million.

The building, which has been owned by HBA since 1955, according to the agent, Stanton Hillier Parker, is to be offered with vacant possession.

The sale of the building, which has just under 3000 square metres of net lettable area, is being handled by Richard Ellis and Stanton Hillier Parker as agents in conjunction.

City building sold

A Malaysian investor has reportedly paid \$5.28 million for the 17-storey office building opposite the Rialto at 520 Collins Street.

According to the selling agent, Hooker Corporate, the buyer of the building, which has a net leaseable area of 8826 square metres, spends part of the year in Australia.

The building, with parking for 17 vehicles, is only 40 per cent leased, with a net income of \$282,000, according to the agent.

Hookers also recently secured the private sale at \$2.06 million of Bendigo House at 250 Collins Street, a six-level office building with basement and 1350 square metres of building area.

A Hookers director, Mr Scott Davies, said the building returned a negative cash flow of \$30,000 a year and was purchased by a Singaporean investor who planned to occupy the ground floor.

Sydney's successful Games bid had had an immediate impact on the value of most major Australian hotels. The price of four and five-star Sydney hotels — which were selling for up to \$300,000 a room — might have escalated by as much as 18 per cent overnight.

Victoria and Queensland and, to a lesser extent, other states and territories, would also show some signs of instant value rises because of Sydney's success.

