The Association for Good Government- ACT Branch

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Ms Andrea Cullen
Secretary
Standing Committee on Public Accounts (6th)
ACT Government Land Valuation Inquiry
ACT Legislative Assembly
Civic Square, London Circuit
Canberra ACT 2601

Dear Ms Cullen

Re: ACT Government Land Valuation Inquiry, April 2006

I am grateful for the opportunity to make a submission on this very important subject. The material below provides information that should be useful in a general sense to the Inquiry and most useful with respect to the following two points in the Inquiry Terms of Reference:

"The clarity, efficiency, equity, accountability and transparency of

a) criteria and methods used for determining the value of improved and unimproved land;

and

i) impact of land tax rates on the housing rental market."

The ACT Land Valuation System and its associated revenue collection system of Rates Charges and Land Tax have a very interesting and important historical basis. Vital background reading covering the period 1788-1971 is provided by Mr Frank Brennan in his book: *Canberra in Crisis: A History of Land Tenure and Leasehold Administration (1971)* **[*Exhibit 1].**

Mr Brennan argued for the maintenance and proper administration of a leasehold system of land tenure and land rent collection for the ACT. Mr. Brennan pointed out that under his proposal, Canberra could be one of the richest cities in the world, be self-supporting and even re-pay the Commonwealth for capital expenditure of past years.

Mr Brennan's proposals were consistent with the vision of the founders of Canberra, including Walter Burley Griffin and King O'Malley. Yet, even as Mr. Brennan's book was being printed, the Gorton Government moved to dismantle the essence of the leasehold system and the collection of land rent in the A.C.T.

The ACT Land Valuation and associated revenue collection system is a remnant application of a grand philosophy of freedom and equality of opportunity that is possibly as old as human life on Earth. That is the idea that the Earth is owned by God and is provided by God for the equal use and enjoyment of all people.

In modern history this idea has been most effectively explained by 'the prophet of San Francisco', Mr Henry George (1839-1897) in his books *Progress and Poverty* (1879) **[* Exhibit 2]**, *The Land Question* (1881), *Social Problems* (1883) **[*Exhibit 3]**, *Protection or Free Trade* (1886), The Condition of Labour (1891) **[*Exhibit 4]**, *The Perplexed Philosopher* (1892) and *The Science of Political Economy* (1897).

Henry George reveals to his readers that poverty and unemployment are unnecessary and arise only because of the denial of the equal right of all people to use and enjoy the Earth. He demonstrates how human civilisation may only progress in a sustainable way through aligning public policy with the moral law or the Golden Rule.

The practical application that George proposed to secure the natural equal right of all people to the Earth was for all taxation to be abolished and for government to collect instead the full site rental value of privately held land. The method he proposed for determining these values was simply that land value is determined by the market forces of competition for access to any given site. Therefore, I submit that:

Land value can be determined by deducting the cost of replacing any existing improvements from the market value of any given site.

It is worth quoting Henry George on this point:

> *"But, as a matter of fact, the value of land can always be readily distinguished from the value of improvements. In countries like the United States, there is much valuable land that has never been improved; and in many of the States the value of the land and the value of improvements are habitually estimated separately by the assessors, though afterward reunited under the term real estate. Nor where the ground has been occupied from immemorial times, is there any difficulty in getting at the value of*

the bare land, for frequently the land is owned by one person and the buildings by another, and when a fire occurs and improvements are destroyed, a clear and definite value remains in the land. In the oldest country in the world no difficulty whatever can attend the separation, if all that be attempted is to separate the value of the clearly distinguishable improvements, made within a moderate period, from the value of the land, should they be destroyed. This, manifestly, is all that justice or policy requires. Absolute accuracy is impossible in any system, and to attempt to separate all that the human race has done from what nature originally provided would be as absurd as impracticable. A swamp drained or a hill terraced by the Romans now constitutes as much a part of the natural advantages of the British Isles as though the work had been done by earthquake or glacier..."
(Progress and Poverty, Pp. 425-426.)

I submit that:

In order to make the site rental revenue system work properly, the full value of each site needs to be collected by government on an annual basis and all other taxes need to be abolished.

The abolition of taxation would make it much easier to determine the appropriate annual site rental charge for each site. Revenue collection methods other than full site rentals skew land prices upwards and stifle efficiency and wealth creation. The adoption of an easily understood uniform calculation method coupled with making the charges payable for each site freely available for all to peruse, could eventually see a system evolve whereby the site holders nominate their own annual contribution.

By way of further explanation, Cecil Stowasser, President of the Site Revenue Society (Queensland) Inc., wrote a helpful article in 1997 titled- *Site Revenue- Good or Bad?* **[*Exhibit 5].** Mr Stowasser wrote:-

"A full tax on land values, by forcing landowners to develop their property, would remove the housing shortage, bring down house prices, boost production and improve the general health of the nation.

There are many false criticisms made against land value rating and taxation. For example, it is claimed that rates are paid only by the householders and other landlords. In fact, everyone who pays rent for lodgings or as a tenant of an office, factory, etc., contributes towards the rates payment in the rent that is charged him. So. In the long run, the great mass of the nation is contributing to the rate charges, either directly or indirectly.

Our rating system is beautifully simple and sensible, since a smaller number of landowners and householders pay over to the state a contribution made by them plus the rest of the nation.

In addition, the method has the further advantage that the land cannot be hidden so the tax cannot be avoided."

In conclusion, all people have an inalienable right to use and enjoy God's Earth in usufruct (limited only by the equal rights of all people to do so). The most practical way to secure this right is through the full collection by government of site rental values together with the abolition of taxation. This is a very effective way to promote economic freedom through sharing the advantages that come with the exclusive occupation of land. Such a system would eliminate land price, make land much more readily available, promote development, and thereby massively reduce the cost of buying a house. Under such a system, I submit that:

As housing costs fall, market pressures would cause rents paid by tenants in the housing rental market to commensurately undergo a similar massive reduction, ultimately freeing more income for productive purposes and making home ownership much more attainable for working people.

Thank you for taking the time to consider my submission. I hope it is helpful to you in your very important deliberations.

Yours sincerely

Ron Johnson
(Interim) Secretary

28 April, 2006

EXHIBIT 5

SITE REVENUE SOCIETY (QUEENSLAND) INC.

For further information visit:
http://www.earthsharing.org.au

President: (07) 5445-7315

SITE REVENUE - GOOD OR BAD?

BY CECIL STOWASSER, 1997.

Site Revenue, being the collection for community purposes of the rental value of sites privately occupied, has been referred to as "the unkindest tax of all'.

In fact, Site Revenue is the fairest and most progressive way of collecting revenue and is one of the main reasons why the level of 'Social Justice' is higher in Australia than most other countries.

Most (but not all) valuable sites are on land. The land values of Australia run into many billions of dollars. These values are created, not by the owners of the land, but by the total activity of the nation in building roads, railways, houses, shops, etc., that surround a particular piece of land and also by the number of people that live and work around a particular piece of land. Our system of rating and taxing land values ensures that at least some of this huge value is taken for the nation that created it.

Further, if we stopped collecting rates and taxes from the land values, then idle property, no matter how valuable, would pay no revenue to the nation and badly used land, no matter how valuable, would pay only a fraction of the revenue it ought to pay.

In addition, land values rise higher AND higher as we move towards the centre of commercial and industrial areas, eventually reaching fantastic amounts. Again, if the rating and taxing of land values was abolished, none of these progressively higher values would be taken for the Nation.

For these two reasons the nation would lose a huge source of revenue that rightly belongs to it. An already rich property owning section of the nation would be further exempt from taxation and THERE WOULD BE A HUGE INCREASE IN THE TAX BURDEN CARRIED BY THE MASS OF HOUSEHOLDERS, SHOPKEEPERS, BUSINESSES, PENSIONERS, WORKERS, PEOPLE ON FIXED INCOMES AND THE POOREST MEMBERS OF THE NATION.

Most importantly, our site-value rating and taxation system collects revenue from all land WHETHER USED OR NOT. This forces land onto the market, since it is clearly not profitable to hold land out of use if an annual tax is placed on it reflecting the value of that land. By forcing land onto the market land prices are kept down because the artificial scarcity is reduced. In fact, if the full annual value of all land were taken for the nation, land prices would disappear altogether and instead each piece of land would pay a rent to the nation based on the situational value of that piece of land. AT THE SAME TIME WE COULD ABOLISH A WHOLE MASS OF PERNICIOUS TAXES THAT STIFLE PRODUCTION AND HIT THE POOREST HARDEST, SUCH AS GST, PETROL DUTIES, PAYROLL TAX ETC. INCOME TAX, PARTICULARLY ON EARNED INCOMES AND AT THE LOWER LEVELS, COULD ALSO BE GREATLY REDUCED. LAND TAX PAYMENTS COULD OF COURSE BE SET AGAINST INCOME TAX.

FURTHER, A FULL TAX ON LAND VALUES, BY FORCING LANDOWNERS TO DEVELOP THEIR PROPERTY, WOULD REMOVE THE HOUSING SHORTAGE, BRING DOWN HOUSE PRICES, BOOST PRODUCTION AND IMPROVE THE GENERAL HEALTH OF THE NATION.

There are many false criticisms made against land value rating and taxation. For example, it is claimed that rates are paid only by the householders and other landlords. In fact, everyone who pays rents for lodgings or as a tenant of an office, factory, etc., contributes towards the rates payment in the rent that is charged him. So, in the long run, the great mass of the nation is contributing to the rate charges, either directly or indirectly.

Our rating system is beautifully simple and sensible, since a smaller number of landowners and householders pay over to the state a contribution made by them plus the rest of the nation.

IN ADDITION, THE METHOD HAS THE FURTHER ADVANTAGE THAT THE LAND CANNOT BE HIDDEN SO THE TAX CANNOT BE AVOIDED.

Site value rating is criticised because people living in flats or owning houses with smaller sites in a given situation pay less rates than people in the same location occupying more space, even though the former may have larger homes.

HOWEVER, THIS IS REALLY QUITE JUST, SINCE THE FORMER PEOPLE ARE OCCUPYING LESS 'SOCIAL SPACE'. In any case, why should people who have earned more income because they have worked harder be punished for their efforts by being taxed more heavily? Does one pay less for a loaf of bread because one has a smaller income?

It is also claimed that site value rating and taxation is unfair because the owner of a high rise building pays no more rates than the owner of a law building on a similar site.

BUT WHY SHOULD A LANDOWNER WHO IS SITTING ON A HIGHLY VALUABLE SITE PAY LESS RATES BECAUSE HE IS USING HIS LAND BADLY OR NOT AT ALL. If these sites paid less rates, the owners would have even more encouragement to leave them idle or badly used whilst at the same time the value of their land would shoot up even further. On the other hand, if ALL land pays full rates on the basis of annual site value, according to their locational advantages, then property owners will be encouraged to develop their properties in order to pay the site rates. PROPERTY OWNERS WOULD BEGIN TO COMPETE FOR TENANTS.

'This would not only bring down the cost of housing, office, space, factory space, etc., but, in their competition for tenants, property owners would provide more open spaces in the form of car parks, gardens, lawns, etc. The reduced price of land would allow councils to buy more land for parks, recreation space, etc.

The evil effects of NOT rating and taxing land values is well illustrated by an example from England. In 1964, Charles Clore, the property millionaire, had built a huge office block in London. Ten years later this building was still out of use owing to exorbitant rents demanded. In all those years, Clore paid no rates or taxes on this building since, in England, idle property is exempt from rates. At the same time, Clore was claiming income tax relief on the grounds that his property was a loss investment - despite the fact that the land value of his property was rising by leaps and bounds! In contrast, if Clore had had to pay full rates on the basis of the annual site value of his property, IRRESPECTIVE OF WHETHER HE WAS USING IT OR NOT, he could quickly have brought the property into use by lowering his rents, in order to have the wherewithal to pay his rate charges.

...

It is further argued that land value rating and taxation bears harshly on poorer people, such as pensioners, widows, etc., who live in houses occupying very valuable sites.

HOWEVER, if the annual rental value of all land was taken for the nation, these sort of people would have no trouble in obtaining a decent house in areas where land values were lower in meeting their living needs. This would be so for the following reasons:-

If the person wanted to build, he would have no price to pay for building land to a private owner.

If the person wanted to buy an existing house, he would find the price cheaper than at present because -

The part of the house price representing land price would be removed;

A tax on land values brings about the development of land thereby an abundance of houses.

In Addition:

The annual revenue payable to the nation would be much lower once the person moved to a less valuable site.

Because a full tax on land values encourages full production and allows us to eliminate indirect taxes there would be an abundance of goods and living costs would fall dramatically. Hence, most pensioners could afford to stay on their existing sites.

If, however, the pensioner could not afford the rates and did not want to move, s/he could stay there for life and the accumulated payment deficit could recovered at death from the deceased's estate.

To conclude, far from removing the present system of rating and taxing land values, it should be further extended as the main source of public revenue. On the other hand, taxes that stifle production and raise prices should be abolished.

For further literature and books write to:-- Prosper Australia 27 Hardware Street **MELBOURNE 3000** **TELEPHONE: (03) 9670-2754** **FACSIMILE: (03) 9670 3063**	**OTHER WEB LINKS:--** http://yarra.vicnet.net.au/~earthshr http://www.progress.org/banneker http://geolib.pair.com http://www.henrygeorge.org http://www.smart.net/~hgeorge http://schalkenbach.org