

LAND VALUES TAXATION

But for the inability of people to understand the enormity of the continuing damage being done to society, the fear of change and the self interest of those whose privileges would be denied by reform, the present system of taxation would not have lasted so long. Across the entire taxpaying spectrum there is hearty condemnation of its complexity, the punitive cost of compliance, the arbitrary nature of its demands and the power it puts in the hands of the tax collector to harass the taxpayer. Increasingly it feeds the passion of governments to do for people what they, the people, are best able to do for themselves.

I have dealt with the iniquity and inequity of the present tax regime and have touched upon philosophical aspects of the land problem. The time has come to put these conclusions together in pursuit of a more equitable tax system and in correction of the social ills which flow from the monopolisation of land and the denial of access on reasonable terms which provides opportunity for some to grow rich on unearned income and capital gain at the expense of the many.

It calls for nothing less than total reform of the tax system so that present complexity and inequity can be avoided and public tax revenues can be raised in a way which would promote every human activity which the present tax regime inhibits, discourages and denies.

All present taxes must be abolished with all public tax revenues to be raised by a uniform impost, call it rent or tax as you will, on the unimproved capital value of land without exemption or concession.

It is understandable that those given to snap judgements without thought or knowledge will almost invariably greet the proposal with the rejoinder that "It is too simple. It won't work"

Certainly by comparison with the complex system of tax under which we presently suffer, the application of land values taxation is so extraordinarily straightforward and simple as to justify a measure of incredulity were it not for the fact that, although seemingly unconscious of it, we have constantly before us a practical working example of land values taxation.

For almost as long as we have had local government its revenues have been raised by a tax, or rate, on the unimproved capital value of land with occasional variations. The assessment is on valuations made generally by State Valuers General and updated periodically according to changes in the conditions which presently affect land values. Despite the knowledge that updated and increased values will become the basis for future rating the record shows that only one percent of the valuations are challenged by land owners. They are obviously acceptable to the general public as fair and reasonable.

Council will strike a rate on the value of every parcel of land in the area of its administration. The preparation of rate notices is a simple, quick, cost effective, and therefore, efficient computer operation. There are no tax returns to be lodged and assessed; there are no records to be kept and no deductions to be claimed or rejected. Administrative costs are minimal.

I have before me a rate notice from my city council. In one computer calculated and printed statement it sets out the identification and classification of my residential land, quotes the rateable value, the rate levied in cents per dollar and extends that information to an amount I must pay within thirty days under penalty of daily interest at a punitive rate on overdue payments. Having accepted the valuation of my land there can be no dispute. Better still, the system renders impossible any avoidance or evasion of residents rightful contribution to the cost of their councils

operations. There is universal acceptance of this method of financing local government.

Thus the effectiveness of raising revenues by land values taxation cannot be denied. Nor can there be any doubt that the principle is completely transferable to the raising of revenues of Commonwealth and State, as well as Local, Governments.

Certainly this invites acceptance of a radical reform but we may recall J.M.Keyne's comment about our "welcoming new ideas in spite of the difficult of escaping from old ones". Or we might turn to the famous nineteenth century political economist John Stuart Mill who, in the introductory remarks to his "Principles of Political Economy", suggested that "It often happens that a belief of one age of mankind - a belief from which no one was, nor without an extraordinary act of genius or courage, could at that time be free - becomes to a subsequent age so palpable an absurdity that the only difficulty then is to imagine how such a thing could ever have appeared credible".

To paraphrase the powerful but somewhat convoluted old English of a past century, Mill was pointing out that when we do come to understand the enormous virtue of new age political economy we will wonder how on earth humanity tolerated for so long a system which brings so much suffering to millions and permits society to achieve only half of its potential.

The legitimacy, equity and morality of taxing land values has already been established; there can hardly be anything more dramatic than the comparison between its simple efficiency and the complexity of the present method of raising public revenues.

To change the tax base it is not necessary to create any new systems. The machinery already exists. It would be necessary only to make the valuation records of individual states available to one national taxing authority

whose task would then be so simple as to cut the cost of revenue collection almost to insignificance.

Germane to the adoption of land values taxation is the question of the adequacy of revenues thus available to meet the needs of Federal, State and Local Governments within a level of impost acceptable to the taxpaying public, but having in mind that we are only changing the source of revenue and that in a manner which must see taxes fall significantly through enormous savings in the cost of government to say nothing of the savings of individuals in their economic and social pursuits.

It must be stated at once that the full benefits of land values taxation are possible only if its yield is sufficient completely to replace present revenues less the significant savings available.

If the revenue practically available should fall short of the essential needs of governments then land tax would become merely supplementary to other forms of tax as is the case in most states at the present time. That would mean retaining, if only in part, the present tax industry with all of its baneful effects on the economy generally. We would, at the same time, forego many of the benefits of tax abolition.

I turn now to the potential of land values taxation, a question hedged about by variables arising from the volatility of land prices as the market fluctuates, sometimes wildly, under the influence of increasingly frequent economic recessions and depressions. Nor can possible savings in the cost of government be quantified with any certainty.

From the report of the Grants Commission the value of Australia's lands was something like \$750 billion in 1989 whilst the Australian Bureau of Statistics publication "A National Balance Sheet for Australia" of June 1992 sets the value of Australia's alienated land at \$508 billion, down from \$541 billion a year earlier, the figure being defined as

“site value”.

With the combined revenues of Australian Governments standing at something like \$152 billion there may be a disposition to divide revenue by value to come up with an indicative rate of tax. That would be completely meaningless because of the enormous number of variables in the equation.

For reasons yet to be examined, land values must change under reform whilst presently untaxed Crown lands would become contributors to the rent/tax stream as they become more freely and economically available for public use.

The abolition of all taxes and the projection of its consequence across the entire economic spectrum must act and re-act to a degree presently unknown. One thing is certain. It must reduce significantly the cost of government even if the end product must remain speculative pending an inquiry in depth.

However the substitution of land values taxation for the raft of general taxes now in being is eminently practicable and more than capable of providing adequate revenues for the conduct of necessary government functions certainly reducing the burden on individual taxpayers below that presently tolerated.

Amongst some land reformers there is a tendency to believe that the rate of land tax to be struck should equate to the present general level of return from investment in landed property of five or seven percent.

That proposal has to be wrong on two counts. A figure applied under present economic circumstances to provide a return on investment can have no place in a completely changed environment where the purpose of the impost is to raise all public revenue.

Against the most optimistic guess as to what reductions are possible in the cost of government the five

or seven per cent impost on land values must inevitably leave a tremendous shortfall in essential revenue thus calling for the retention of some existing taxes and continued wasteful administration. Thus land values tax would become only supplementary to other forms of tax leaving us with the baneful effects of a tax system which called for reform in the first place.

Land values taxation simply changes the formula for the raising of public revenues. The rate would obviously be fixed by government decision as at present. But if Government is obliged to move to land values taxation under public pressure that same pressure must be expected to demand major savings in government expenditure and therefore the lowest possible land values impost.

One could hardly go on without the warning that as the rate can be arbitrarily raised by government there would remain the great danger that without active and constant public scrutiny governments may lapse into their old and wicked ways of buying political patronage through grants and subsidies of one kind or another.

There will still be political parties and elections to be won with promises!

However, one can be reasonably confident that through the campaign of education and debate which must usher in the reform, people will come to understand that they, and not some ethereal government, shoulder the burden of public expenditure. There is the added potential discipline that any increase in tax will affect the entire community simultaneously and should trigger public protest whereas a selective increase in one or more of our variety of taxes now fails to excite opposition from the unaffected majority.