Public Charges Upon Land Values

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THE RESULTS OF AUSTRALIAN EXPERIENCE

(An important statement presented as evidence before the Rural Reconstruction Commission has come to the attention of the Editorial Board. The Statement entitled "Rating and Taxing Land Values in Relation to Rural Reconstruction," presented by A. R. Hutchinson, B.Sc., A.M.I.E.(Aust.), surveys the effects of public charges upon land values in reducing the price of land and the resultant effects upon economic and social development in the various States. We reproduce the Summary of the conclusions and practical proposals contained, all of which are strongly substantiated by some 42 pages of text and Statistical Appendices.)

Summary of Conclusions

1. High land values are a handicap to rural development and prosperity.

2. Rates and taxes falling upon the unimproved value of the land reduce the price which would otherwise prevail by the amount of the rate capitalised. The price of land is thus reduced by approximately 20 times the amount yielded to revenue in the rate or charge imposed.

3. The weight of rates and taxes upon land in Australia varies greatly between the States which may be classified into two groupings: one with considerable weight and the other with little weight of such charges upon land values.

4. The price levels of land in the various States vary in conformity with the weight of rates and taxes imposed upon land values.

5. In Victoria and South Australia which do not rate generally upon land values, reductions in the price of lands have been experienced in rural areas within the State which have adopted rating on land values. The reductions were experienced immediately upon adoption of the system.

6. The reduced level of land values associated with the heavier charges on land values, has promoted considerably greater development in all the key indicators of rural prosperity checked, in those States in which rates on land values are general.

7. Not only is the group average higher in the states imposing charges upon land values but the degree of prosperity shown, in general, follows the order of the weight of such rates. The higher the weight of rates on land-value, in general, the greater is the prosperity shown.

8. The summarised comparison of the two state groupings for the key indicators is shown in tabular form below. These compare the group averages in the three States in which general use is made of rating on land values in rural areas as against the three in which little use is made of the system.

Item Compared	Period	3 States Rating Land Values	3 States Rating Annual Values
Area Cultivated, Increase	1929/39	21.5 %	— 7.6 %
Area Under Wheat for Grain, Increase	1929/39	9.9 %	—19.2 %
Rural Population, Increase	1921/33	23.4 %	9.2 %
Rural Population, Change in % on State	1921/33	2.04%	— 2.05%
Nett Migration Gain in Population	1929/38	8.8 per 1000	—10.0 per 1000
Rural Dwelling, Increase	1930/39	28.5 % *	11.0 % *
Ratio Improvements/Land Value (Rural)	1938	140.0 %	61.0 %
Increase in Value of Raw Materials Used in Factories	1929/39	32.3 %	20.2 %
Increase in Value of Plant and Machinery in Factories	1929/39	18.0 %	5.0 %
Avge. Value Improvements per Cwlth. Land-Taxpayer	1939	£17,340	£8,620
Avge. Value of Land per Cwlth. Land-Taxpayer	1939	£11,573	£10,917
Avge. Value Total Assets per Cwlth. Land-Taxpayer	1939	£28,913	£19,537
Avge. Salary per Adult Male in Factories	1938/39	£237	£219

* Figures for two States only in each group, as N.S.W. and Tasmanian figures are not available for this item.

9. Landowners have been encouraged by placing the charges on land and lifting them from improvements to make fuller use of their land, looking to its yield to usage rather than profits of speculation for their income.

10. Landowners have not been injured by the charges upon land. Their incomes are greatest in the states where the charges on land are heaviest. The indications are that their position has been improved, but by development of their holdings, not by speculation.

11. The assets of landowners are much greater in value in the states imposing charges on land value and exempting in improvements per taxpayer is far greater in the state imposing the heaviest weight of charges on land value than any other.

12. The real and nominal incomes of all classes other than landowners, are considerably greater in the state groupings where charges on land are heavier than in the group where they are lighter.

13. There has been no adverse effect upon the assets of financial institutions where charges on land values are heaviest. On the contrary, investments in property have been stimulated and are backed by a higher proportion of the total assets in improvement values.

14. The regional comparisons between portions of three States confirm the fact that heavier development attends the placing of charges on land values and their lifting from the value of improvements.

15. The state and regional comparisons indicate that the districts imposing the heaviest charges upon land values withstand periods of adversity and depression much better than those with light charges on land values.

16. Any rate which falls upon improvements has a restrictive effect upon development, even though the weight of such rate may not be great.

17. The markedly greater proportion of the assets of land holders held in real wealth (improvements) as against claims to wealth (land values) in the states with heaviest charges upon land values is socially very important. It indicates an augmented supply of the real wealth which is available for distribution. Directly and through its indirect effects this fact contributes to the result that the former states are more prosperous than the latter.

18. The high price of land is responsible for increased costs of production by increasing the annual charges for interest and principal repayments, by curtailing the area which can be farmed by a farmer of limited means and by reducing his balance of working capital.

Practical Measures Suggested

19. **The fact that public charges upon land reduce the price of land by approximately 20 times the amount received as revenue forms a simple and effective means of controlling land values in any State or area.**

20. This means of control of land values may well be embodied in a general plan for Post-War Reconstruction based upon the two broad principles that: **(a) Expenditure incurred for public works and services which maintain or increase land values be treated as a charge upon the unimproved value of the land. (b) Expenditure which does not maintain or increase the value of land be treated as a charge to be borne by the community as a whole through general taxation.**

21. To this end the Federal and State Governments may divide their accounts to form a National and State Development Accounts respectively from which capital expenditure for public works would be met.

22. The National and State Development Accounts would be financed by a uniform flat rate upon the unimproved value of the land without exemption.

23. From the National and State Development Accounts would be met all charges connected with capital expenditure (interest and sinking fund) on public works and services as classified under 20 (a), past and future.

24. The transfer of capital charges in connection with such public works and services to the Development Accounts would be attended with reduction of the charges in freights, fares, water rates, etc. and general taxation to the extent that these now cover such capital charges.

25. The reduction of these charges would be a form of perpetual subsidy to rural industry which would benefit the actual land user and the amount of which would increase with distance from centres of population. At the same time the rate upon land values would prevent this subsidy from being capitalised in higher land prices.

26. As a contribution to rural reconstruction Local Government areas should be required to levy their local government rates upon the unimproved value of the land in those parts still rating upon the Annual Value system.

27. The National and State Development rates upon the unimproved value of the land should be based upon the value which would obtain if no rates were levied upon land and not merely based upon the selling value [i.e., basis should be selling value plus the capitalised rates already levied upon land value].