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Tax Forum
Treasury
Langton Crescent
Parkes ACT 2600

I thank the Treasurer for this opportunity to put forward proposed changes to taxes on behalf of family and many friends living in rural Australia and in doing so, have used my time as chairman of Gundagai District Council of the NSW Farmers' Association (2000-2007) and the ongoing research since then to validate recommending such changes to the system.

Jim Beale



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14-09-2011

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19 SEP 2011

TSY LIAISON

Session 4: State Taxes

This submission totally agrees with the statement from "The Context for tax reform" discussion paper p 3 Reform to make the Tax System fairer, "It is important to address any holes in the tax system's integrity, because otherwise these can result in some taxpayers having to shoulder a disproportionately larger burden in order to fund the services the community needs". Add to that, the Productivity Commission and the Local Government and Shires Association of NSW state that those receiving a benefit are liable to be taxed and backed by general public agreement, the user should pay.

The discussion questions p 27 have not been ignored, but their influence on the national economy does not approach the anomalies created by local government rates. Would their correction, or adjustment have the same effect on employment, creating new industries, affect demographics, and improve environmental outcomes as the taxes nominated below? The answer is no.

From ABS in 2006 there were 102,600 farming families and rural financial advisors at that time were claiming 60% of farms were reliant on off farm income. If 20% of those farms become free of off farm income because of the following proposed changes, then that alone gives 12,000 job vacancies to be filled.

The state taxes in need of review are Local Government rates in all states, Livestock

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Health and Pest Authority (LHPA) in NSW, irrigation infrastructure authorities, Catchment Management Authorities (CMA), and a loading on power supply for rural areas.

It could be argued that power supply and irrigation infrastructure are not taxes but charges by state government authorities. The history shows that before these authorities for power were created the state supplier recouped the cost directly and the government of the day bore the odium. Irrigation infrastructure was a natural progression.

These taxes fit into the holes of the tax system because they by virtue of their localised and concentrated application do burden a minority with excessive tax. The services provided by the instigators of these taxes go beyond the local area to beneficiaries outside their scope for recovering the costs and therefore the ultimate user is not paying.

This situation is amplified when those taxes are applied in disproportionate amounts on farming businesses who cannot recover the cost in the sale of produce from the farm. In that respect where Rural and Remote local government can not recover costs beyond their borders and agriculture, are in the same predicament. Fixed income retirees do have options but it is the actions of others changing land use causing distress because the sale of their property does not necessarily fully compensate.

There is another side effect from excessive taxes being levied on minorities and that is; health. With suicide among farmers more than twice the average and their general health also less, it is reasonable to claim that excessive taxes are a contributing factor. As a result the National economy must suffer to some degree, while the local economy is devastated.

Local Government

(a) Inequities

Summary:

- Technological change but no governance change. Farmers, local government and fixed income retirees suffer.
- New land use (life style seekers, MIS) Crown Land increase, consequences.
- Disparity in wealth, HFI
- Ignorance of farming's cost structure and its contribution to National economy.
- Research into governance systems not done. Effect on agriculture ignored, history repeats itself.
- Taxing capital a bad principle.
- Demands and expectations of cities at cost of rural communities.
- Productivity Commission study confirms inequalities and dependence on FAGs.

Local Government in Australia has not changed with the time and circumstances brought about with the evolution from a local, largely self contained society to the modern interdependent society of the 21st century. The Poor Laws of 1601 suited the self contained horse drawn society that existed up to the end of the 19th century. Using land value was a logical and efficient method of taxing, but the affects of the Industrial Revolution and rapid adoption of technologies brought on the interdependent society of today and with it, made value as a base, redundant. Land has

become a commodity with large variations in value depending on locality and unrelated to its earning capacity.

This is not a phenomenon of farming only, because fixed income retirees suffer the same disadvantage brought on by escalating land prices due to developers and speculators with greater wealth capacity. For the fixed income retiree, it is upheaval and loss of long standing social contacts and for farmers adjoining the View and Lifestyle seekers, higher rates that normal grazing activity cannot compete with.

The disparity in wealth between country and city has hastened the process, affecting small farms near to large population centres. The demand for that land has escalated, goaded on by the prospect of further subdivision in the future.

Land of similar usage or productive capacity depending on which shire it is in can have vastly different rates imposed from \$1.00 to \$6.00 per acre. The product, wool, sheep, cattle ends up on the same market putting the producer in a shire near to population centres, or with a high Crown Land content, at a severe disadvantage to a similar type producer else where.

The main revenue base for rural and remote local government, farming and grazing, shows the extent of imbalance brought about by a value based rating system. Less than 1% of population in NSW provided 8% of the total rate requirement for the State. (See "Are Councils Sustainable?").

There are other distortions brought about by perceptions that farmers have more wealth than other businesses in a shire.

In Gannawarra Vic., a newly elected council gave a rate cut to all except the farming community who were 13% of the population, but required to pay 58% of the total rates. The case was finally settled out of court. (Source ABC-TV Landline)

A rate increase at Horsham Vic. Had 8000 town residents pay \$46.00 increase and 500 farms pay \$640.00. Nearly a 14 fold increase for use of the same services.

It must be emphasised that it is the rating of local government on income producing capital that makes farming (agriculture generally), plus having to sell at auction or at fluctuating commodity prices; a completely different business to all others including its primary producer partners, mining, forestry, and fishing.

It taxes the main capital base and does so regardless of the capital's ability to earn in times of natural disasters and commodity downturns. To pay the tax under those circumstances without incurring the very high interest rate for late payment, alternate finance is sought, thus compounding the situation.

In the 1900s CSR Ltd had two saw mills and a chip board plant at Tumut and paid \$5000.00 per year while two farms less than 4ks away paid \$6000.00 on 1180 acres and \$9000.00 on 2400 acres of hilly country. CSR would have turned over before lunch each day the combined annual gross income of the two farms and recouped the cost of the tax. The two farms could not recoup the tax and had to cope with the demise of the wool market.

The following is an extract from a paper prepared for the NSW Farmers' Association in October 2009 "From The House of Commons". See Appendix

There were a number of enabling Bills necessary to make such a change, one of which was the Rating and Valuation (Apportionment) Bill, read for the second time 6th June 1928. As indicated in the second reading, the whole field of rating reform had received good coverage in the debate on the Finance Bill the day before.

The following quote from the Minister of Health (Mr Chamberlin) who moved the motion gives a partial over view.

"The difficulty in which agriculture and industry find themselves to-day is that there is not sufficient margin between prices and costs. It would not be possible for us to solve that difficulty by increasing prices, even if it were desirable-----It might, perhaps, be possible to reduce costs, either with or without a decrease in wages, by means of reorganisation of industry, but a process of that kind is bound to be long, bound to be slow, and bound to be accompanied by a great deal of suffering and hardship. There are, however, certain ways in which, I think, the Government can give some assistance to agriculture and to industry, in order to enable them to reduce their costs, and those ways are by a reduction in the dead-weight burden of local rates, and a further reduction in the cost of transport, whether by rail or by water. These are ways which have been indicated by industrialists and agriculturists themselves as those which would be most helpful to them, and these are the ways which the Government have adopted in the scheme which is now before the House."

From the second reading of the Finance Bill Mr Churchill as Chancellor of the Exchequer said "We have been guided in the main policy by a fundamental principle .It is this, that the instruments of production ought not be taxed but only the profits resulting from their use."

Cost shifting continues although brought to attention by RATES AND TAXES: *A Fair Share for Responsible Local Government* October 2003 House of Representatives Standing Committee on Economics, Finance and Public Administration.

Rural and remote Local Government has problems imposed on it that inevitably require increases in rates resulting in more inequity. Crown Land that changes from forestry to National Park with big loss of local employment, or private land becoming Crown Land that depletes the revenue base and causes hardship in one form or another.

It should be noted that these changes are at the behest of city populations driven by emotion, theory, and no practical experience, but it is the local population along the Murray River and Bourke in recent times who suffer the disadvantages and pay the extra cost. This is cost shifting at its best. Other examples are given above, re Gannawarra and Horsham.

The Productivity Commission Research Report: Assessing Revenue Raising Capacity April 2008 points out the effort for Rural and Remote LG is greater than city/urban. See Table 5.9 and Finding 5.5 p 92, 93.

Finding 5.5

A number of councils, particularly in capital city and urban developed areas, have a means to recover additional revenue from their communities sufficient to cover their expenditure without relying on grants. However, a significant number of councils, particularly in rural(87%) and remote(95%) areas would remain dependent on grants from other spheres of government to meet their current expenditure. Some councils

would remain highly dependent on grants.

Also under existing conditions services provided to the tourist industry, transport industry, National Parks and forest industries are expected and should be of equal standard at Toorak, Vacluse, Urana or back of Bourke. To attract industries like Visy it is obvious that a high standard must be set. The benefits of Visy in Tumut or Cargill in Wagga Wagga City Council flows beyond those shires creating full and part time employment, cheap food or housing materials. Good facilities makes it easier to attract professionals and assets such as retirement villages to rural areas and are just as important as industrial development, but there is no way to recoup that cost, or consequential benefit, from the beneficiaries living in other jurisdictions.

(b) Reluctance to Change

Summary:

- Wrong information from governments prolongs no change policy.
- No investigation, or realisation of HFI and no research into causes.
- Politicians uninformed therefore no action and misinformed on action overseas.
- Knowledge vacuum has lead to inappropriate action, or no action.
- Productivity commission shows interested groups are looking for change but at this stage still thinking within the box with the exception of sub. 9. That now extends beyond NSW.

The first line of resistance arises out of a Federal Government classification of councils into groups of similar characteristics, from which the NSW Dept of Local Government publishes annually a document "Comparative Information on NSW Local Government Councils"

This document is misleading because it is based on assessments which can increase with every subdivision but the land area stays constant. Agriculture's cost base is on a per hectare, so while land type, rainfall and distance varies, similar enterprises can be compared and comparative position on markets assessed.

The effect over the years has been to divert attention away from investigation. Lack of investigation of earning capacity of land and the effect of rates on reinvestment in earning capacity has been overlooked.

The late 1980s review in NSW of Local Government brought cosmetic changes and some adjustment in Tumut Shire where 75% of rates came from farms who were 25% of population to 19% of farms paying 40% of total rates. Submissions to that enquiry and change of Act did mention the Poor Laws but there appears to be no recognition of the UK change in 1930 and subsequent changes and therefore no recognition that at very least the UK were avoiding taxing the instrument of production, land.

Another area of resistance comes from farmers themselves, based on the misguided belief that the system of government cannot be changed, so "Don't waste time trying and/or, taxes and death are the certainties of life". A gutless attitude because death is certain but taxes can be altered.

Why have farmers turned politicians holding Cabinet rank of all political persuasions in State and Federal Parliaments; not brought on meaningful change?

One could speculate that occurrences in WWI had a profound effect on Australian thinking and remarks coming from The House of Commons such as those from Rt Hon Philip Snowden "What is the value of the sites of this country? I do not know—no one knows. We have not even an approximate estimate, but at any rate, we can form some idea from those countries where they have accurate estimates of site values. Take New Zealand. In the last 47 years, the site value in New Zealand has increased from £62,000,000 to £339,000,000.—All the local rates raised by the Corporation of Sydney are raised by a tax on site values"

Remarks like those would only increase the sense of superiority in Australia and lead to apathy.

Also the fact that the means of change in the UK at that time was about using a tax on petrol, which may not have had relevance here, but the metamorphosis from petrol through to dwellings seems to have been missed here.

Reluctance also stems from "subsidies" and the firm belief that they are trade distorting, inflationary, and unaffordable etc.

The fact is the EU, UK and other Northern hemisphere countries have a partnership between agriculture, tourism, protection of land for food, fibre, wood production and environmental protection that require equalisation payments to be made to achieve a balance.

For the Australian population, mislead and uninformed, to be criticising the huge populations of the UK, EU, USA, Canada and Japan; is ludicrous, especially when to overcome the problems created here arising out of no equalisation, the obvious solution for us, is financial equalisation payments.

Living in the interdependent society of today does not fit with the concept that local government is 'local' in all respects. The above shows the need when it comes to revenue raising, that it has to be done on a whole of community basis beyond its individual boarders.

The new age culture of 'managerialism', or 'economic rationalism' does not look at local government as nearly 700 individual parts all dependent on one another for stability, all providing a service of some sort to every citizen of the country. The new culture overlooks their maintenance by the whole community and that it has to be proportional, just the same as blood supply to the little toe on our own bodies. FAGs and Special Purpose Payments are not keeping up with the increasing and un-costed demands of cost shifting and the expectations of the masses.

The following extract from "Assessing Local Government Revenue Raising Capacity" does show a desire to improve, but within the status quo.

From pages 99, 100 *Views about prescribed valuation methods*

A number of submissions made to this study and reports commissioned by local governments suggest that prescribed valuation methods might be a constraint on revenue raising, both on rates revenue and total own-source revenue (PwC 2006; Beale, sub 9; Local Government of Queensland [LGAQ], sub11; Local Government Managers' Association of NSW [LGMANSW] sub17; Pilbara Regional Council, sub DR76; Shire of Collie, sub55; Mosman Municipal Council, sub 60). It is argued that a limited choice of valuation methods constrains the flexibility of local governments to raise rates revenue, thereby reducing councils' ability to raise sufficient revenue to meet their infrastructure requirements and demands for public

goods and services. This is claimed to be especially the case in New South Wales, Queensland and Western Australia.

Specifically, it is suggested that greater choice of valuation methods is associated with higher rates revenue per person and higher rates revenue growth. PwC data comparisons appear to indicate that, where State Governments permit councils to choose between valuation methods, councils tend to have the highest average rates revenue per person and have had the highest revenue increases over the five years to 2004-05 (Australian CEOs Group, sub.18; PwC 2006).

Beale (sub. 9, p. 8) claims in relation to New South Wales:

...the doubtful usefulness of the inflexible UCV indicates a new base is necessary plus the fact that users are not paying is the ultimate cause of lack of funds, from which the other problems [such as financial sustainability] are a natural progression.

Similarly, the Local Government Association of New South Wales (LGANSW) and Shires Association of New South Wales (SANSW) (sub.52, p. 12) argue:

ICV would help alleviate the apparent distortion where, for example, very high value home units pay significantly less rates than free standing homes(of comparable or lesser value) in the same council are ... Outside a rate pegging environment, capital values could increase a council's rate revenue-raising capacity by increasing the value base. Within a rate pegging environment, there may be indirect advantages via greater flexibility to maximise rate revenue through special rate variations; for example, better targeting of capacity to pay.

It is understandable that reluctance to change and the least willing, could be greatest from within the State and Territory Government Departments. The staff would be well convinced of the task they are performing and its long term good in their eyes. To be suddenly presented with an alternative that, written evidence from a few years back, shows they are not even aware of, has no appeal for them.

With a chain of events where local government reduces farm capacity to save and invest and the overall community reducing the capacity of local government and farmers, the national economy is adversely affected.

Farmers leaving the land after years of such internecine activity is only to be expected. The farmers, rural and remote local governments may have "failed", not through the incompetence of individuals, but the unjust tax system. FAGs, SPP, and Exceptional Circumstances all help but the true cause remains; an inappropriate tax.

(c) *A new method*

Summary:

The aim.

Proposed change is based on the UK system.

Local government under utilised.

Sets out examples of application.

Consideration of third tier of government, or change within States only.

List of benefits.

The aim is to iron out the inequalities, reluctance to change and the numerous problems arising out of a lack of finance, cost shifting and the unbridled demand from interest groups and poorly informed individuals, for more services without knowing the real cost, or who, or how the outlay is to be paid for.

Any change to part of a system presents a chance to reorganise other parts of the system, or organisation. The fact that the proposed basic change is working well in the UK requires adaptation to the conditions in Australia. This country is thirty times the size of the UK with one third to one quarter the population, depending on the time of year, which in itself requires adjustment.

Whereas in the UK they have eight levels for determining the rate base used in seven regions; here the evidence shows that having six state and two territory administrations would be better replaced with one organisation. That is; create a third tier of Government made up of all the existing local government areas and still using the grouping of council in the Region of Councils (ROCs) system.

Using dwellings, their size and location provides the common denominator necessary to achieve equity and remove the power of wealth (albeit unwittingly) possessed by View seekers and developers to disadvantage others, small farms and fixed income retirees. Table 6.1 of "Assessing Local Government Revenue Raising Capacity" lists eleven property evaluation methods permitted in Australia, therefore a dwellings base would resolve the problem raised, p 100 of LGANSW and SANSW, of that report. Curtilage may be a consideration where extra distance between dwellings causes extra expense in providing services.

In making this change there are other areas where the potential of local government is under-utilised and could provide in the future, the mechanism for funding environmental work on Crown Land, stewardship payments to landholders, CMAs, irrigation maintenance, and LHPA in NSW with consequential adjustments in other states. The Australian Conservation Foundation has indicated their support for stewardship payments.

The new method would require all councils to submit their individual requirements, normally raised from rates, to a central office to be pooled. Safeguards to prevent extravagances such as the Port Macquarie Glass House would be a requirement. The total requirement plus any extra to gradually cover past shortfalls is then divided by the number of squares in all the dwellings of the Commonwealth to give the base rate per square. Using VFI and location would give the rate for individual dwellings.

In NSW using figures from "Are Councils Sustainable?" and stats sourced from the ABS. The cost of giving farmers social justice would be:

\$179,000,000 rates from all farms, less 40,800 farm dwellings @ \$605.00
\$ 24,684,000
\$154,316,000 to be shared by 2,323,879 dwellings including farms= \$66.40
per annum.

From the same document \$500 million is required in extra rates per year and equates to \$215.00 per year using a dwellings base.

With the role of local government expanded to be the source of revenue for irrigation infrastructure, LHPA and weed and feral animal control on Crown Land to the same standards as those required for private land and for stewardship payments to

landholders, the additional revenue would be recovered by an assessment showing cost recovery for the environment, and for food security. Irrigation, LHPA and stewardship payments under food security and environment would cover weed and feral animal control on Crown Land.

The combined budgets nationally; if possible, or by State, would be divided by the number of squares to give a separate assessment for these activities on the same local government rate notice issued and payable locally.

“Are Councils Sustainable?” had as a preferred option, the creation of a constitutionally recognised third tier of government for Local Government. Due to the poor results from referenda in the past little hope was expressed of success by that means in the future.

However with a new revenue raising base with benefits to all levels of government, a COAG agreement may solve that problem.

The dwellings option can be applied by individual States, but to avoid HFI between states, it would be better to make only one change to an independent third tier of government.

Benefits

User pays and knows the cost of services provided or called for.

For Federal Government.

- Deal with one entity not seven.

- FAGs not necessary.

- Gradual reduction in level of Exceptional Circumstances as financial drought subsides.

- More employment in rural and remote areas with some stabilisation in expansion of major cities.

- Cost shifting would result in rates reflecting the cost.

For State Governments

- SPP should reduce.

- Budgetary saving with one less department, if third tier adopted, if not, dept. is fully funded by ratepayers.

- If used to obviate other State taxes and charges further savings should occur.

- Rate pegging in NSW no longer necessary.

- \$500 million shortfall listed in “Are Councils Sustainable?” would disappear.

- Rates are not at caprice of markets or wealth disparity.

- Environmental funding established.

- Health improvement and less suicide.

For Agriculture and Rural Communities

- Economic activity will increase as funding from new sources becomes available and burden shared equitably providing new investment in

productivity on and off farm in new industries associated with bio-fuels, weed and feral animal control.

Restore the desirability of farming with families and members.

Secure economic base with new industry and employment opportunities should stabilise populations or desirably grow them.

CMAAs, LHPA, Irrigation Infrastructure.

CMAAs at the moment have not sought funds from landholders, but do have the right under current legislation to rate landholders. That they will need funds in the future is not disputed, except that their funds need to come from a very wide base on the grounds that the beneficiaries of their effort are spread over an even wider base. The argument sustaining that is the same as for local government. It is conceivable that one CMA, due to the peculiarities of their catchment may have higher expenditure than adjoining catchments. The source of funds need that spread to avoid HFI where HF equalisation is the desirable outcome.

LHPA rates are peculiar to NSW and although asked for originally by landholders a century ago, the technological changes that effected local government hold good for LHPA.

The special levy for locust control being enforced onto coastal landholders who are not effected by the pest is an anomaly in the system. In fact it demonstrates that if a landholder never affected has to contribute to the good of those at high risk, then it follows all parties in cities and towns should contribute because they are the final beneficiaries of the good done in preserving the State's crops.

It is a tax on a minority's capital and a tax on inputs the same as local government and is levied on those who have no ability to recover the cost in the price of goods sold. LHPA rates are selective in that landholders of ten hectre or less are not rated, but those small areas present a greater risk of harbouring exotic animals, disease, weeds and potential weeds so that small areas should be inspected more often. The fact that the owners are less likely to know what to look for or react to, makes additional reason for more inspection that has to be paid for.

On that score alone the rates should be abandoned and funding provided from the broad base of dwellings and curtilage.

For other states the activities covered by LHPA in NSW present a way of savings on their agriculture department's expenses.

Irrigation Infrastructure charges (not the cost of water used) imposed on a very small minority that by their efforts greatly enhance the wellbeing of our whole society is an anomaly beyond belief.

Certainly the cost of maintaining the infrastructure is high but in essence the infrastructure is like a railway for delivering water. The infrastructure is, like a railway, there for every one's benefit.

When no water is being delivered and charges are due and payable from a facility that was originally installed to benefit the nation and continues to do so, to expect such a small minority to shoulder the burden is unrealistic.

The validity of this tax has gone unchallenged because irrigation farmers are understandably intimidated by the perceived superior knowledge of economists, State premiers and the city media, all making a case for them to pay the impost. Those same economists (not named without Parliamentary protection) have revealed how little they know about the basics of agriculture, when they imply that farmers have control over their selling price.

The unanswerable question is, if this tax had not been applied, how much would have the support communities been better off and with able to stand the drought? Would have EC payments been sought by those support communities?

With funding coming from a dwellings base there is no excuse not to abandon this form of taxation.

Loading on Power Supply to Rural Areas

The fact that the cost of the service is compulsorily recovered from individuals and businesses makes it a tax no matter the method of collection.

The rising price of electricity has already caused the closure of a door factory at Tumut NSW. Certain light industry can move from rural to lower tariff areas (See appendix: The House of Commons Sir R. Horne p 14), but farming, dairy, milk processing, forestry, timber and paper have not got that luxury.

An extra loading of 20% on rural areas on the grounds that the distances for supply are greater and that the population is less to share the cost among, is a cost shift. It is a repeat of the Horsham Vic. case above, only on a much larger scale.

Clearly the minority is expected to carry all the burden, but that minority, one third of the total population provides the other two thirds with goods and services using the same power from the same sources.

Cost recovery

Obviously the amount making up the 20% surcharge is known and should be added to the cost of production at its source so that all retail power authorities have an equal starting point.

The pros and cons of competition policy may be invoked, but a Productivity Commission study into Rural Reconstruction should reveal where taxes and other governance systems are not helpful to the national economy.

Appendix

From the House of Commons

This research from the House of Commons 1928 applies to us in 2009

Britain's industries in the 1920s were in crisis — mining, transport (rail and canals), ship building, heavy manufacturing and agriculture. Both sides of the House recognised there was a problem, how to fix it, is what was in contention.

Mr Churchill had no proprietary rights over the principle he espoused "*that the instruments of production ought not be taxed but only the profits resulting from their use*" was universally accepted practise up until WWII. The President of the Institute of Chartered Accountants of Australia Sir George Allard KB remarked on hearing the Curtin Government's introduction of payroll tax, "That it was a tax on production and therefore, bad".

Mr Churchill's criterion for assessing depressed or flourishing industry, still holds good.

As it was then for British manufacturing and agriculture, so it is for Australian manufacturing and agriculture now. The fact that Australian manufacturers in recent years have resorted to going off shore is confirmation. Rural and remote local government are strange bedfellows with agriculture, not because their capital is taxed but because, they cannot tax the consumers of their services that are beyond their jurisdiction.

There is no measure for just how depressed an industry or local government body is, with only subjective measurements on the level of possible employment, markets taken by imports, number of farms in debt, extent of debt, and FAGs per capita, as a guide.

When agriculture becomes depressed in Australia, whole districts or regions lose populations, people's health declines etc and even political representation declines. The propensity for natural disasters to be a regular feature, (disregarded when imposing rates, water infrastructure charges etc.) with the only countervailing adjustment being drought aide or declaration of natural disaster, the final user not paying, because there is no system to facilitate payment: shows the goose that lays our golden eggs is dying of starvation.

Comparing the information from the debate with then and now, highlights the differences along with the effects of new institutions such as the concept of free trade, globalisation, RBA interest rate control over inflationary pressures in our modern economy, and a proposed Emissions Trading Scheme, requiring that these concepts too, are not above scrutiny.

This research is based on the second reading of the Finance Bill, House of Commons 5th June 1928 to explain;

Why the UK Government changed their centuries old practice of rating land in 1930 to end up with a much fairer local government system than Australia and New Zealand by the end of the 20th century; at a time when they were acknowledging Australia and other Dominions had a better system

However in reading this debate there were then other factors influencing the necessity for change in the UK.

There are 30 pages of small print recording this debate. The endeavour here is to avoid the party politics, to give a dispassionate coverage of the facts and arguments that may have contributed to the final change in their rating system and note any other

circumstance that may have relevance to our current economic situation. In quotations where irrelevancies occur, are indicate thus ----, or if it is the same speech with no application to our present situation, thus —.

There were a number of enabling Bills necessary to make such a change, one of which was the Rating and Valuation (Apportionment) Bill, read for the second time 6th June 1928. As indicated in the second reading, the whole field of rating reform had received good coverage in the debate on the Finance Bill the day before.

The following quote from the Minister of Health (Mr Chamberlin) who moved the motion gives a partial over view.

“The difficulty in which agriculture and industry find themselves to-day is that there is not sufficient margin between prices and costs. It would not be possible for us to solve that difficulty by increasing prices, even if it were desirable-----It might, perhaps, be possible to reduce costs, either with or without a decrease in wages, by means of reorganisation of industry, but a process of that kind is bound to be long, bound to be slow, and bound to be accompanied by a great deal of suffering and hardship. There are, however, certain ways in which, I think, the Government can give some assistance to agriculture and to industry, in order to enable them to reduce their costs, and those ways are by a reduction in the dead-weight burden of local rates, and a further reduction in the cost of transport, whether by rail or by water. These are ways which have been indicated by industrialists and agriculturists themselves as those which would be most helpful to them, and these are the ways which the Government have adopted in the scheme which is now before the House.”

One aspect of the debate was about the necessity to bring in a Petrol Tax to raise money to pay for abandoning rate taxes on agriculture, rail transport, ship building, coal mines and heavy industry. Ship building had long delays in designing and building but a constant drain on their finances due to the rates.

Part of the discussion was about collecting the petrol tax immediately and saving it for distribution after the commencement of the new scheme. Who should be a beneficiary and to what extent was a large part of the debate. Revealed in the debate was that industry was not only being taxed on land but also any capital fixtures attached to the land, thus compounding the negative effect created by taxing capital and not the profits from capital.

In the UK up until that time there was a wide spread belief that all wealth creation was based on land ownership. However as Mr Churchill pointed out: “ It was apparent that there were hundreds of different ways of creating and possessing and gaining wealth which had no relation to the ownership of land or an utterly disproportionate or indirect relation. Where there were 100 cases 20 years ago there are 10,000 cases now, and that is why radical democracy, looking at this proposition of the single tax-----has turned unhesitatingly towards the graduated taxation of the profits of wealth rather than to this discrimination in the sources from which it is derived, and that is what we have done.” A little further on in his speech he said “There is a very great deal to be said for concentrating the whole of the relief upon the basic industries, and we have done so in regard to the railway part of our proposals. We have been guided in the main policy by a fundamental principle. It is this, that the instruments of production ought not be taxed but only the profits resulting from their use.”

“There is no actual definition of a flourishing or of a depressed industry. Any decision on that point must necessarily be arbitrary, Therefore, I select four main tests by which to tell what is a depressed industry or an industry which is not flourishing. Here they are. The first is that unemployment is normal; the second, that the ratio of rates to profits is excessive; the third that the profits are subnormal and the fourth that the profits have been decreasing in recent years. These are, I think, four very fair guides of a depressed or not flourishing industry, but there are three other factors which ought to be taken into consideration. The first is whether the industry provides wages for very large masses of manual labour, the second, is whether it is unsheltered, and the third is whether it is markedly concerned in the export trade. If all these seven qualifications are present, it will be agreed that the industries

helped are the ones which we ought to help.”

Lord H Cecil talking on the value of land “The right hon. Gentleman the Member for Colne Valley said a very surprising thing when he stated that every increase of population and every increase in transport facilities causes the value of land to go up. What happened to agricultural land 50 years ago as the result of greatly improved transport was to bring cheaper corn to this country from the ends of the earth which competed with our home produce, and enormously reduced its value. As a matter of fact, the owners of agricultural land are very much poorer to-day than their ancestors were 50 years ago.”

However what the Member for Colne Valley the Rt Hon Philip Snowden did point out was that in the UK at that time the site values were unknown. “What is the value of the sites of this country? I do not know—no one knows. We have not even an approximate estimate, but at any rate, we can form some idea from those countries where they have accurate estimates of site values. Take New Zealand. In the last 47 years, the site value in New Zealand has increased from £62,000,000 to £339,000,000.—All the local rates raised by the Corporation of Sydney are raised by a tax on site values”

Sir R Horne on rate differences

“It is a bad thing which has grown up in our country of recent times that in many cases businesses are not put in those parts of the country which are most suitable for them, but in parts which are selected because the rates in the district are lower. I am of the view that, so far as businesses are concerned, no consideration of that kind ought to come into the picture at all, but that businesses ought to be planted in places where they can be most effectively worked, and that there should be no temptation to them to shift from one part of the country to another because it happens that in another part of the country the rates are lower than in that in which they thought fit to establish themselves. As the House knows, there is a very embarrassing movement going on at the present time, which is costing this country vast sums of money, and it is taking place for no other reason than the great establishments are moving from places in which they are heavily rated to places where the rates are lower.”—“instead of remitting rates in all these various districts to the extent of three-fourths, an attempt should be made to have an equal rate for industries throughout the country.”— “Two main arguments have been put in the country against the scheme of the Chancellor of the Exchequer. For example, my right hon. Friend the Member for Carnarvon Boroughs (Mr Lloyd George) is constantly appealing to the cottager on the ground that, next door to him is going to get relief in rates to the extent of three-fourths of the amount it pays, he poor cottager, is going to have no relief at all; and for the purposes of these illustrations we always find on these Saturday afternoons that the establishment next door to the cottager is Courtaulds or some other lucrative firm earning enormous profits. That argument however, does not appeal to me at all for the reason that the industry which is near the cottager is in most cases an industry which is in a condition of depression, and is the industry upon which his employment depends, so the relief given to the industry is a provision for him of his livelihood. It is no attack on these proposals to say to him that the industrial establishment being relieved while he is being left in the lurch, because in fact his position is being sustained and bolstered up in order that he may live a life of peace and contentment.”

Mr Montague

“But this relief is not going into the pockets of the depressed industries. There are scores upon scores of firms in the North of England and Scotland, and other parts of the country, whose debentures are largely owned by big American companies, international financiers, who have the big industries of this country in their pockets. They are the people who have financed these industries in the bad times, and now they are to get the taxpayers of this country to recoup them. An Hon Member opposite has said that money is cheap in America, that you can get money at 3.5 per cent. Yes, to be lent to British industry at about twice that percentage, and now in order to prevent these industries going under, they have come to the House of Commons for legislation in order to tax the nation so that these foreign financiers, who are more and more controlling British industry, may have the advantage.

That is the position we are fighting. Not because we do not realise the difficulties of British industry: we do; not because we do not realise the importance of the question of rating: we do. But we say that we should proceed from a national point of view, that the interests of the nation should be first in our minds, and not the interests of international financiers.”

The House divided: Ayes, 322; Noes, 135

Not revealed in the debate was how rates were assessed in the UK but it can be seen that transport costs in Australia did not contain a component of rates because the land on which our rail system was established was Crown land. Other differences were our forested areas and some large parcels of agricultural land were on Crown land with considerable benefits arising out of raw material cost with no rate component in wood products. Royalties on logs covered the admin of running state forestry commissions and departments. They were a service not a profit entity. Rural lands and forestry areas were leased to graziers who followed Aboriginal practice as a matter of good husbandry.

Mr Churchill reminded the House of the principle "that the instruments of production ought not to be taxed but only the profits resulting from their use.", was a widely accepted practice and remained so up until WWII. WWII brought some big changes out of the necessity of funding it. In Australia one of the worst changes that has endured, is pay role tax , but because income tax became the sole preserve of the Commonwealth, States were given this tool to finance their expenditure and the ever increasing demands of a population that has grown by a factor of 7.

Other changes have grown out of this practice due to the supposed benefits of corporatising parts of what was normal government services or creating new entities and authorities that impose charges for their services.

The unpalatable truth about this practise, is that populations here and abroad were misled into thinking that taxes could be reduced and services would still flow from government.

This practise was introduced by politicians trained at university business schools, proves the theory does not line up with the practise. Economic theory for the Northern Hemisphere has its limitations in Australia.

What has been overlooked , is that those being charged in agriculture have no ability to recoup the charge and is compounded further when no delivery of service is provided, but the charge remains due and payable. The ultimate user; the community does eventually benefit handsomely at the farmers' expense.

Whereas in 1928 site values could be assessed with rural road maintenance to farms and Crown land grazing leases being a legitimate responsibility of the farms benefiting, those same roads now are used by metropolitan based industries to deliver their produce to rural areas and the expanded National Parks demanded by metropolitan communities, plus the tourist industry. All of whom contribute nothing because there is no mechanism by which they can do so.

The contrast between the UK and Australian system now for agriculture shows that the UK system moved away from the initial petrol tax to a tiered system based on dwellings, their size and location and a partnership with the tourist industry.

Agricultural commodity prices are stabilised by taking land out of production and limiting plantings of certain crops.

Their agricultural land is for agricultural use only including forestry and wood lots to

keep the English country scene, so important to the tourist industry and maintaining an independent source of food for the populace.

Australia has regressed into taxing the instruments of production, while not taking into consideration our physical (drought, natural disaster), geographical (population disparity, land types) and sociological (wealth disparity) conditions. In addition our agriculture has imposed on it for the benefit of the population at large, various rules and conditions that cost time and money and reduction on use of capital for which there is no compensation.

When new industries are established in rural areas they benefit the nation as well as the local area and are dependent on good roads but cannot operate at optimum efficiency when those roads become sub standard for the new uses required.

The remarks of Mr Montague, re low interest rates in America and high interest rates in Britain, whether right or wrong, has little to do with rates and taxing capital, but with our own interest rates going up then down due to the financial crisis and now projected to rise again, ushers in a new factor in cost competitiveness for Australian exporting industries, not just agriculture.

The remarks of Lord H Cecil, re agriculture competitiveness is as applicable now for Australia as it was for Britain 80 years ago. It may have been corn (wheat) then, but now in Australia we bring in every edible commodity in competition with our farmers and with no regard for disease or pestilence. Improved transport and better technology in storage has facilitated the change.

The Noble Lord in criticising the Member for Colne Valley may have been right then re, "every increase in population and every increase in transport facilities causes the value of land to go up", but very wrong here in present day Australia, to the point that taxing that capital to such an extent through UCV, the land cannot create the wealth to sustain its original wealth creating capacity. The rural land that was around Sydney is swallowed in urban development requiring billions of dollars now to provide the rail transport services. By European standards the land has been squandered and therefore underutilised.

The taxing of agriculture's capital is bad enough but with that extra competition there is a hidden wages competition too, because Australia compared with South American and Chinese wages, or the subsidies paid by Northern Hemisphere competitors can not compete.

Mr Churchill remarks about "It was apparent that there were hundreds of different ways of creating wealth and possessing wealth and gaining wealth which had either no relation to the ownership of land or an utterly disproportionate or indirect relation." is just as true now as it was then, in fact more so.

Where there is unlimited supply from cheap labour sources merchants do make substantial profits, but those modern day cottagers cannot all make a living from the merchant's coat tail or rely on mining: wealth must be created for society to be sustainable.

The vital question is; At what point does the economic balance have to get to, when our own self generated effort is not equal to our capacity to pay for imports, be that

goods and/or money?

To keep going the way we are it wont be only rural reconstruction to be considered. Mr Churchill's seven qualifications of a depressed industry hold good for Australian agriculture and a majority are applicable to manufacturing where employment would crash without government support and some tariff protection.

Adding to farmers and all exporters woes is the floating dollar and its companion, interest rates. Perhaps there is a hint from Mr Montague in that other nations are making money at our expense if we have to borrow.

From a layman's point of view; increasing RBA interest rates to curb inflation has a lot of counter productive side effects, such as making it harder to compete on export markets, increasing farm costs on any borrowings. When the duration of drought is longer than normal, interest rates only hasten the decline of farm businesses.

The action does not always address the causes of inflation such as high oil prices ratcheted up by hedge funds and speculators, a chronic shortage of houses and rising food prices, due to a Trade Practices Act in need of review.

On the positive side from a consumers view, is that a higher dollar helps keep the price of imports lower but if more is earned and produced by exports the need for imports declines.

The mentality of the average consumer is that the cheapest price is the best, regardless of the fact his livelihood may become stressed. Also not known or recognised is that cheaper prices aid turnover, so the merchant has a greater incentive to depress buying prices too.

An examination of competition left to govern itself through market forces has demonstrated through the global financial crisis that it is in need of regulation. The mantra that "The customer is always right" is a fallacy.

Unbridled competition to give immediate benefit to consumers can be contrary to their long term benefit.

Because of our unique geographical and social condition in this country we cannot always do what the rest of the world does and to improve our systems of governance to fit in with our condition, adaptation and improvisation should at least be looked at.

On that basis, if we adapted the UK system of local government to achieve partnerships with agriculture, tourism and environment, what is to stop the RBA having an anti-inflationary pro infrastructure control mechanism in partnership with local government? Let it be designed to keep the usefulness of interest rates, but be able to dampen spending excess while using money so raised for productivity orientated infrastructure.

Sir R Horne's observations on rate differences hold good for Australian agriculture, with farm enterprises either closing down, as around Sydney, or relocating dairies from the North Coast and Illawarra to less desirable locations inland where water is less abundant, does not make for the long term viability of food security for the country. The vegetables that used to be grown at Sydney's doorstep are replaced with unknown quantities of imports.

In conclusion; drought summits, exceptional circumstances etc, while necessary are