



ASSOCIATION FOR GOOD GOVERNMENT

INCORPORATING THE AUSTRALIAN SCHOOL OF SOCIAL SCIENCE

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AFTS RECEIVED

15 OCT 2008

9th October, 2008

AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Sir,

RE: Australia's future tax system

At its meeting on 5th September, 2008 the Committee of the Association for Good Government resolved as follows:-

"That this Association contribute a submission re Australia's future tax system to the Tax Review Committee and authorises the Secretary, Richard Giles, to attend to same ."

In accordance with that resolution we now have pleasure in enclosing "*Submission to the Federal Tax Inquiry on Behalf of the Association for Good Government*". This submission is forwarded both as a hard copy and on computer disk.

The submission does not contain the personal information of any third parties and we have no objection to it being treated as a public document.

Yours faithfully,

FAYE GILES,
Administrative Officer.

SUBMISSION TO THE FEDERAL TAX INQUIRY ON BEHALF OF THE ASSOCIATION FOR GOOD GOVERNMENT

Like other governments the Australian Government finds itself having to deal with what many predict is an economic depression on a scale with the Great Depression of the 1930s.

THE GROWING GAP BETWEEN LAND VALUE AND EARNINGS

Government has not so far addressed the key indice in relation to this economic depression. This is the fact that land value is growing faster than earnings*. A graph illustrating this fact from *Unlocking the Riches of Oz* by Bryan Kavanagh (2007) is given as an *Appendix*.

As a consequence of this growing gap between rising land value and earnings home mortgages have grown more unmanageable. So large is this gap becoming that mortgagees in 2006 began to suffer 'mortgage stress' when interest rates had not reached half what they were at the time of the last recession in 1990.

It is true that, since 1975, speculators have at least twice carried land prices well beyond their market value to land users. But these 'bubbles' were initiated by rising land values. As such they are not as important to address as the primary tendency of land values (and thus land price) to outstrip wages.

*** Land is here defined as the whole material universe other than man and his products.**

THE CAUSES OF THE GROWING GAP BETWEEN LAND VALUE AND EARNINGS

The cause of this growing gap between land value and wages is fourfold. Primarily, this growing gap is a measure of the accumulating social advantages given to supra-marginal sites by the community. This gap will tend to grow with the natural progress of society.

However, factored into this gap are three outcomes of private property in land. The first is land shortage and, thus, a general scarcity price. The second is the tendency for periodic land speculation, what obscurely is called asset inflation. The third is the fact that land value is capitalised and sold as land price. Land price exacerbates the problem, especially when associated with rising interest rates.

These four factors widen the gap between land values and wages. They must in the end produce a society that excludes the greater part of society from home-ownership, leaving valuable land, and thus 'economic rent', in fewer and fewer hands.

This tendency towards social inequality is made worse by the regressive effect upon earnings of the now intensified use of user-pays charges, and the GST. Any Government should regard this prospect of growing social inequality with revulsion. It should wish to enable more rather than less people to own their homes. It should regard subsidies to investors or community land trusts to provide more rental accommodation as a poor substitute for greater home ownership. It should find regressive taxation as abhorrent.

REPLACING GST BY LAND VALUE TAXATION

At present the States get most of their funding from the GST. At the same time every State uses 'land tax'. The preceding discussion suggests that GST should be retired and replaced by land value taxation. Such a reform has several large advantages.

1. It permits the progress of society without, at the same time, enlarging social inequality and endangering social cohesion;
2. It prevents artificial land shortage and scarcity prices that result from it;
3. It prevents periods of frenetic speculation that cause land prices to reach unsustainable levels;
4. It causes land price to disappear.

It may be said that replacing GST by land value taxation is impracticable; GST is a federal tax while LVT is a State tax. But GST has already replaced several State taxes. All that is being done here is to reverse the process. In effect, the procedure by agreement with the States in COAG is the same.

The recent IPART tax inquiry in New South Wales spoke of the danger of land tax to the citizens' primary asset. A citizen's primary asset is not a 'windfall gain' from property. A citizen's primary asset is his or her earnings from work. These can only be protected by taking 'windfall gains' from property as public revenue. How else? The growing unmanageability of home-ownership is the biggest challenge facing government today. Banking regulation will do nothing to resolve this problem which may only be done in the way this Association has argued.

Richard Giles, Secretary on Behalf of the Association for Good Government

APPENDIX

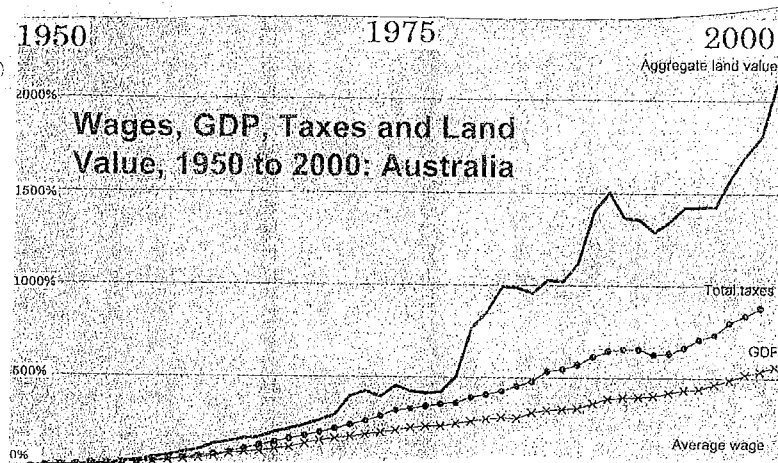


Figure 4, p.8, *Unlocking the Riches of Oz*, Bryan Kavanagh, Land Values Research Group, 2007