

VERY FAST RAILROADING!

RECENT developments as diverse as the prospect of a Very Fast Train, increasing Japanese investment in tourism, some dramatic corporate collapses, and the introduction of a 100 percent betterment levy in the national capital may, just conceivably, rekindle latent Australian recognition of the special significance of land. Whether public perception will discern a cohesive philosophy linking these disparate strands remains to be seen.

The Very Fast Train proposal being promoted by a consortium of Australian and international companies envisages using the latest high-speed railway technology and the construction of a new line linking Sydney and Melbourne via Canberra. The initial publicity has captured popular imagination with the prospect (as yet technically unsubstantiated) of a space-age passenger train completing the 500 mile trip between the nation's two largest cities in three hours; and local town councillors along the prospective route have been entranced by visions of "development".

For a nation bedevilled with three different railway gauges and an embarrassing volume of freight being transported at high energy cost on a sorely taxed (and increasingly dangerous) highway network, by far the most urgent need, however, is for the upgrading of existing railways within an integrated national transport system.

OPPOSITION to the VFT has also focused on the likely environmental impact of the most favoured route. One of the most debatable features of the scheme, however, is the consortium's proposal that the VFT be underwritten by allowing the consortium to appropriate the profits which would accrue from the rezoning for urban uses of rural land along the route to be traversed.

This prompts the question: *if a private enterprise railway can be funded by publicly conferred land value increments, why cannot public railways be similarly funded?*

Indeed, why haven't Australia's existing railways been credited with all the enormous land value increments they have created?

One recalls the remarks of Judge Foster in the Arbitration Court in 1947 when he observed that, far from being a losing proposition owing some £30 million, the railways would be in credit to the order of about £100 million if the land value increases they had created were entered on the credit side of the ledger.

But the VFT consortium goes further. With mind-boggling presumption it envisages that privately owned land along and adjacent to the route will be compulsorily acquired (at pre-development values) and transferred to it.

The enormity of this may yet be suf-

icient to shunt the VFT into oblivion - along with other objections on environmental and economic grounds, including the fact that overseas borrowing by the consortium will aggravate the nation's already chronic balance of payments deficit.

On the other hand, a society which cherishes the comfortable delusion that more "development" - in this case not (overtly) funded by the public purse - is all that is needed to alleviate structural unemployment and mounting socio-economic inequality, may be tempted to acquiesce.

Irrespective of the compulsory acquisition aspect, the VFT affair raises the query inherent in all privatisation proposals: if the privately funded provision of a public facility is affordable, why shouldn't publicly funded provision be equally affordable?

As for Japanese investment (one member of the VFT consortium, incidentally, is a major Japanese construction firm), the extent of Japanese land ownership in Australia, measured by area, is much less than British and American ownership.

Measured by value, however, Japanese investment in city commercial properties and coastal resort areas has become significant and the subject of considerable public debate, especially in Queensland where the new Labour Government's Treasurer has foreshadowed releasing Crown land to foreign nationals only on a leasehold basis.

By contrast, when Crown land was sold by the previous government, the

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PHILIP DAY reports on the land value controversy which surrounds the new Sydney to Melbourne train project

people of Queensland benefited from a lump sum payment for the freehold, but all subsequent (sometimes dramatic) increases in land value accrued to the purchasers and their entrepreneurial successors.

Logic - as well as legitimate public revenue requirements - suggests that all Crown land should be released on a leasehold basis irrespective of nationality. This could be done in perpetuity, if need be, provided only that the regular reappraisal of rental values recoups for the community the benefit of increases in land value attributable to public planning decisions and community growth. (The difference between freehold and leasehold would of course be unimportant if all land - regardless of tenure - were subject to land rent payable to the community).

IN the event, debate tends to be clouded by the notion - assiduously propagated by the development industry as a time-ordained fact of life - that developers need an "incentive" to develop. In other words - unlike the producers of all other commodities, who must rely on the competitive quality of their products (and the demand for them) - the development industry expects to make, additionally, a profit from raw land. Thus there is an expectation of profit from obtaining planning permission, regardless of whether or not there is a genuine demand for the development proposed.

To the extent that land value increases are not offset by infrastructure contributions imposed as a condition of planning approval, literally all land - irrespective of zoning controls or its environmental significance - is therefore potentially subject to developmental pressure. The proponents of sustainable development have a hard road to hoe.

Prevailing high interest rates in Australia have finally exposed the

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truth to landowners but it is an indisputable fact. One must hasten to add, for the benefit of irate farmers, that we are talking about a site or unimproved value of land. Any improvements that a farmer makes to his land create a private income which is his. Unimproved land is the bare site to which nothing has been done. No-one has laboured on it so why should its owners expect a reward?

As Sir Henry Campbell-Bannerman, the Liberal prime minister, said in 1903: "Let the value of the land be assessed independently of the buildings upon it, and upon such valuation let contribution be made to those public services which create the value."

"This is not to disturb the balance of equity, but to redress it. There is no unfairness in it. The unfairness is in the present state of things. Why should one man reap what another man sows? We would give to the landowner all that is his, but we would prevent him taking something which belongs to other people."

JOHN Muellbauer has opened up an old debate that comes to the fore whenever we have a property boom and a slump, which is a cyclical event caused by our failure to have an economic policy that is related to the land question.

The Tories are saddled with their wretched poll tax which they cannot drop because Mrs Thatcher is too stubborn to ever admit she has made a mistake. But drop it they must unless they want the country to drop them.

John Muellbauer's paper points out that the Tories recognise the economic effects of public works. For example they have negotiated a contribution from property developers towards the extension of the

Docklands Light Railway. The Uniform Business Rate also acknowledges the workings of such factors.

The paper goes on to examine Labour's proposed "Roof Tax". Because it is based on property and not on land it has all the disadvantages of the old rating system - improve your house and you pay more tax. If it were based on land values you would not pay more.

Indeed, because the site tax would also fall on land not in use it would stimulate the release of such land for development. So the sooner Labour's Jack Cunningham and John Smith come off the roof and on to terra firma the better.

John Muellbauer favours integrating the tax on imputed

land rents into the national income tax system. An alternative would be to collect it locally, as with the old rating system, and redistribute it using an equalisation scheme.

A bolder move would be to take the whole of the site rents (some £118.8 billion in 1990 according to *Costing The Earth*, by Ronald Banks) and scrap the income tax system altogether. The revenue would cover all existing local government expenditure including education and a sizeable chunk of national expenditure as well.

Perhaps the Institute For Public Policy Research would like to commission a study on the practicability of such a proposal - surely a vote winner if ever there was one?

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lack of real demand for many development projects fuelled by land profit expectations. Some spectacular company failures have left a legacy of derelict building sites and unfinished tourist resort developments - and some residual environmental scars.

The expectation of and assumed entitlement to an "incentive" land value profit has been a key factor. It is therefore interesting to note that in the Australian Capital Territory (A.C.T.) - the 900 square mile Commonwealth enclave in which Canberra is located - the development industry's alleged need for an incentive has in effect now been challenged by an increase in the betterment levy from 50% to 100%.

All land in the A.C.T. is held in leasehold, and land use planning is effected by lease purpose clauses which stipulate the permitted land use. When a change to a higher intensity land use is approved by the planning authority, the increase in land value is subject to a betterment levy which until recently has been fixed at 50%. It is this percentage which has now been changed to a graduated scale rising to 100% in the case of leases extant for less than five years.

While "Canberra" is synonymous in the Australian media with the national

government - and never more so than in relation to economic management and taxation policy - this significant change in Canberra's local administration has attracted very little attention outside the A.C.T.

On another front, however, more or less contemporaneously, a committee appointed by the Lord Mayor of the Queensland capital, Brisbane, one of the world's largest local authorities, reported after an exhaustive inquiry that a rate on the unimproved value of land was not only the "most efficient and equitable" source of general revenue for the city of Brisbane, but was in principle "a logical and appropriate basis for revenue-raising irrespective of the level of government".

Reverting to the question implied at the outset, if the 1990s see some long overdue recognition of the special nature and significance of land, there could be an element of symbolism in the timing. Ominous symbolism, perhaps.

It is now a century since the Australian colonies experienced the notorious land booms of the 1880s and the disastrous financial crash of the early 1890s. It is a century or so, too, since Henry George visited Australia in the lead up to federation and influenced the infant Commonwealth's choice of leasehold tenure for its federal capital territory.