



THE HARD ROAD OF LAND REFORM

THE CONSEQUENCES of land speculation are most apparent in a new community. The early governors of Australia disposed of Crown lands by grant or auction of freeholds, or by legalising the actions of those who had seized land without any legal formality. The frenzy of land speculation which followed culminated in 1842 in a severe depression and mass unemployment.

Thus within a few generations, the people of Australia saw a whole continent monopolised by a few and all the poverty, insecurity and squalor of the old world reproduced in the new.

There were numerous attempts at reform, probably the earliest and most typical movement being William H. Gresham's Land Tenure Reform League which started an active campaign in Melbourne in 1870 but survived only a few years. Its manifesto consisted of quotations from Emerson, Carlyle, Spencer, Dumas and John Stuart Mill and its objects were:—

1. The immediate cessation of the sale of all Crown lands.
2. The fee simple of the public domain to vest in perpetuity in the state, that is, in the people in their corporate capacity.
3. Occupancy, with fixity of tenure, subject to rental for revenue purposes.
4. Land alienated to be repurchased. No resales to individuals but the transfer of rights to be permitted.
5. The gradual abolition of all indirect taxes, the revenue of the state to be derived solely from the rental of land.

A great impetus to the movement for reform was given by the publication in 1879 of Henry George's *Progress and Poverty* and by his tour of Australia in 1889-90. The lesson was noted and when in 1910 it was decided to build a new capital city at Canberra, a clause in the enabling Act read:

"No Crown lands in the territory shall be sold or disposed of for any estate of freehold except in pursuance of some contract entered into before the commencement of this Act."

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This was the background to the history of land tenure in Canberra, a fascinating account of which has recently been published.*

The story of Canberra is in many ways a success story. The author felt that Canberra's growth stood as proof of what could have been done in other Australian cities

* *Canberra in Crisis* by Frank Brennan, Dalton Publishing Co., Australia. £2.05.

had a system of leasehold tenure operated there.

But it is clear that what was achieved is but a shadow of what might have been achieved had it not been for a series of mistakes in implementing Henry George's proposals.

The first mistakes were embodied in the detailed legislation:—

"The City Leases Regulations 1921 spelt out in detail the basic provisions which were to govern city area leases. An annual rent (exclusive of rates and payable quarterly in advance) at not less than 5 per cent of the unimproved value of the land as assessed by the Minister was prescribed. The unimproved value of the land was to be reappraised at the expiration of twenty years and thereafter every ten years. The erection of a building, suitable for the purposes for which the lease was granted, and according to plans and specifications approved by the Minister, was to be commenced within one year and completed within two years after the granting of the lease."

The more serious of these mistakes were pointed out at the time by Senator John Grant who denounced the twenty year lapse before first reappraisal, as being too long a period and rejected as absurd the idea of the land rent being based on the Minister's assessment of the unimproved value of the land. In Grant's view the public were the best judges of Canberra land values. He felt that leases for ninety-nine years—each containing a clause specifying the purpose for which the land might be used—should be widely advertised and sold at auction with the *annual land rent assessed on the unimproved value as bid by the purchaser*. By this method the Commonwealth would, he considered, obtain the full rental value, and no more. In other words, it would be fair both to the Commonwealth and to the purchaser of the lease.

A popular feature of the method by which new leases were auctioned had been that no capital outlay by the purchaser was involved: the auction merely committed the bidder to pay an annual rent. By 1935, this system had given way to a system of cash premiums. Critics related this development to the government's attempts to control the market.

According to them, the government had been deliberately pursuing a policy designed to restrict to the minimum the availability of residential blocks in order to keep the demand as buoyant and vigorous as possible and it was a foregone conclusion that this would result in the payment of premiums.

The second mistake was essentially a mistake in the administration of what was known as the purpose clause.

This clause could restrict down to minute particulars, the use to which a piece of land might be put, e.g. not only might retail sales alone be permitted on a site but the



exact sort of goods which might be sold could be specified in the purpose clause.

The author comments, "Such detail and such arbitrariness is quite unnecessary. The purpose clause should merely indicate the general purpose for which the leased land may be used without too much particularity.

"It is not unreasonable for the purpose clause to divide residential leases into types ranging from single houses to high rise flats. But if the purpose clause permits a site to be used for retail shopping, that is sufficient and it should not specify the nature of the business to be carried on. There is a great danger inherent in the purpose clause in this field. For example, in a suburban shopping centre the planners may so arrange the purpose clauses that in effect only one butcher, one greengrocer, or more particularly, one food store is permissible. The result is of course that competition is thereby abolished, a monopoly is given and the quality and cost of service given must be affected. This is not town planning. It is a system of licensing of business and when the site of such a business is sold, what is in effect being sold is not the lease but a monopoly trading right."

At the time the book was being written, the residents of Canberra were paying both rent and rates, both related to the unimproved capital value of the land. One might conclude that the rates (which were nominally levied to correspond with municipal expenditure) represented an attempt to overcome some of the obvious difficulties arising from infrequent valuations and rapid inflation. The author points out, however, that if the rent charged had been the full economic rent of the land, the payment of separate rates would have been unnecessary. It seems unlikely that anything approaching the full economic rent of the land of Canberra has ever been levied. The author observed that the land rent and rates collected in Canberra were about half of what would have been collected in rates alone in a comparable urban community and commented that Canberra residents were being handsomely subsidised by other Australians.

Unhappily, the author had to add a postscript to his book, to the effect that the Prime Minister of Australia had announced a fundamental change in the Canberra leasehold system which would mean the cessation of payment of land rent and consequently the cessation of the twenty-year re-appraisal of land values for rental

purposes, and an increase in rates to make up the income lost in consequence of the abolition of land rent.

The author comments:

"This change envisages that the premiums paid at auction for lease by future purchasers shall be sufficient to pay the cost of kerbing, guttering, draining, water supply, sewers etc. This means in effect that the raw land is given away for the cost of necessary services and thereafter the land, apart from town planning requirements, is completely at the disposal of the so-called lessee. Inevitably land prices will rise and rise steeply. Here is a gift to the first 23,000 lessees in Canberra. But what of the next 23,000 lessees? Whereas the first 23,000 lessees were forty-six years coming to Canberra the second 23,000 will come within six years. They will have to pay their rates which need not and should not be levied, as they will have to pay for their homes, shops and offices against the ever rising barrier of high land costs. In short, instead of paying land rent to the Commonwealth they will be paying high interest rates to the mortgage companies for money to build."

This is a sad story, a story of a people who have forgotten the lessons of their history. The Canberra experiment, though marred by serious mistakes, was basically a success, but its success was not appreciated. To quote the head of the Urban Research Unit, Research School of Social Sciences, "It seems that only a lack of understanding can explain the fact that State politicians, who claim they are short of resources to service their own urban areas, are not resisting a proposal to hand over an equity worth over \$100 million to the lessees of Canberra.

"Increased levels of property rates on the unimproved value of sites will not adequately replace land rents, as a rate is usually 'struck' to cover the cost of community services.

"We seem to have forgotten what the rents are for—a strange situation when we consider the attention it was given in the early years of the Commonwealth Parliament."

N.K.G.

WHAT BUTLER SAW

Rumours had been rife that I wished to make the pound convertible to non-residents at a floating rate of exchange. These rumours were well-founded. In the long term I believe that the decision not to free the pound was a fundamental mistake. The absence of a floating exchange rate robbed successive chancellors of an external regulator for the balance of payments corresponding to the internal regulator provided principally by bank rate. If such a regulator had existed and a floating rate been accepted, Conservatives would have been saved some of the uncertainties and indignities of "stop-go" economics and Socialists the traumatic experience of a second formal devaluation. This is not being clever after the event.—Lord Butler's *Memoirs*, Hamish Hamilton.