TOTAL RESOURCE RENTS OF AUSTRALIA

Harnessing the Power of Monopoly

prosper australia

About

Prosper Australia is a Melbourne-based organisation seeking to advance economic efficiency and social justice through tax reform and education. Along with its partner organisations Earthsharing Australia and the Land Values Research Group (LVRG), it is at the forefront of advocating ideas and policies based upon the work of the U.S. classical liberal economist Henry George (1839-1897), who believed poverty and social disorder stems from the misuse of the third factor of production, land. By advocating the capture of the economic rents from natural resources and licenced monopolies, Prosper Australia promotes the elimination of behaviour-distorting taxes on capital and labour.

The Author

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This report updates the late Tony O'Brien's Total Resource Rents of Australia (1999).[1]

Assumptions

- This is a static analysis; transitional issues are not covered.
- Conservative assessments have been adopted.
- 2011-12 figures used where possible. Figures accounting for inflation were not used.
- Percentages of valuation vary according to risk, reward, certainty and valuation type (see Table 1, column 2 and 3).

Second Revision

1 http://www.earthsharing.org.au/facts-and-figures/australias-resource-yield-2000/

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Major Findings

The Total Resource Rents of Australia report finds:

- The influence of monopoly is 10 times greater than mainstream economists acknowledge.
- Economic rents are a significant component of the Australian economy, comprising 23.6% of GDP.
- Almost half of all government revenues could be delivered by channelling the property boom to more productive purposes.
- Income, company and sales taxes, along with 122 present taxes could be scrapped.
- Those with monopoly rights should face higher tax burdens than risk-taking entrepreneurs.
- 90% of taxes are distortionary, adding 23% to prices of goods and services.
- Efficiency dividends of $66 billion could be delivered to the economy by removing deadweight costs.
- Low income earners could benefit from lower housing prices and an increased demand for labour.
- Small business would rapidly expand due to less paperwork, lower commercial rents, reduced monopoly power and greater discretionary incomes.
- The mining industry should pay 10.5% of government revenue for the privileges granted in accessing the common wealth.
- Fishing licences, largely given out for free, should be charged a yearly licence fee based on the value of fish multiplied by volume; this principle would apply to all natural monopolies.
- The water trading market should pay a yearly licence fee, as should other industries where resource privatisation grants ‘super profits’.
- Monopolies should be targeted in recognition of the negative economic outcomes they deliver (i.e. DNA and seed patents, satellite orbits).
- Carbon taxes should triple in order to replace excise duties on fuel and diesel, placing the burden at source.
- Under a land tax system, the rural sector would enjoy a lower tax burden, encouraging decentralisation.
- The licensing agreement with public airwaves owners could allow free advertising time for political parties in elections, thereby reducing the potential corrupting influence of campaign contributions.
- The ability to finance infrastructure at lowest cost: capital works projects could be financed by property owners according to the benefits they enjoy, effectively repaying State Government bonds over 20 years.
- Under a system of economic rents, tax havens and tax loopholes would be dramatically curtailed as natural resources have a fixed address and cannot flee overseas.
- There is a need for public awareness of new forms of monopoly where super profits can be had with little risk or effort (e.g. cyber squatting).

PART I – Executive summary

Total resource rents

In an era where natural resources have been increasingly privatised and access is increasingly denied, monopoly should be investigated for its capacity as a taxation base. Efficiency outcomes from our study are important to all taxpayers.

The Total Resource Rents of Australia report finds monopoly rents are capable of replacing taxation at all levels of government. In 2011-12, local, state and federal governments required $390.067 billion in operating revenue.[2] The most efficient form of government revenue-raising, the taxation of economic rents, can raise 87% ($340.719 billion) of revenue needed. By including 'sin taxes' and non taxation revenue, a fairer, more equitable tax base is possible.

As demonstrated in Table 1 (below), monopoly rents have the capacity to finance government:

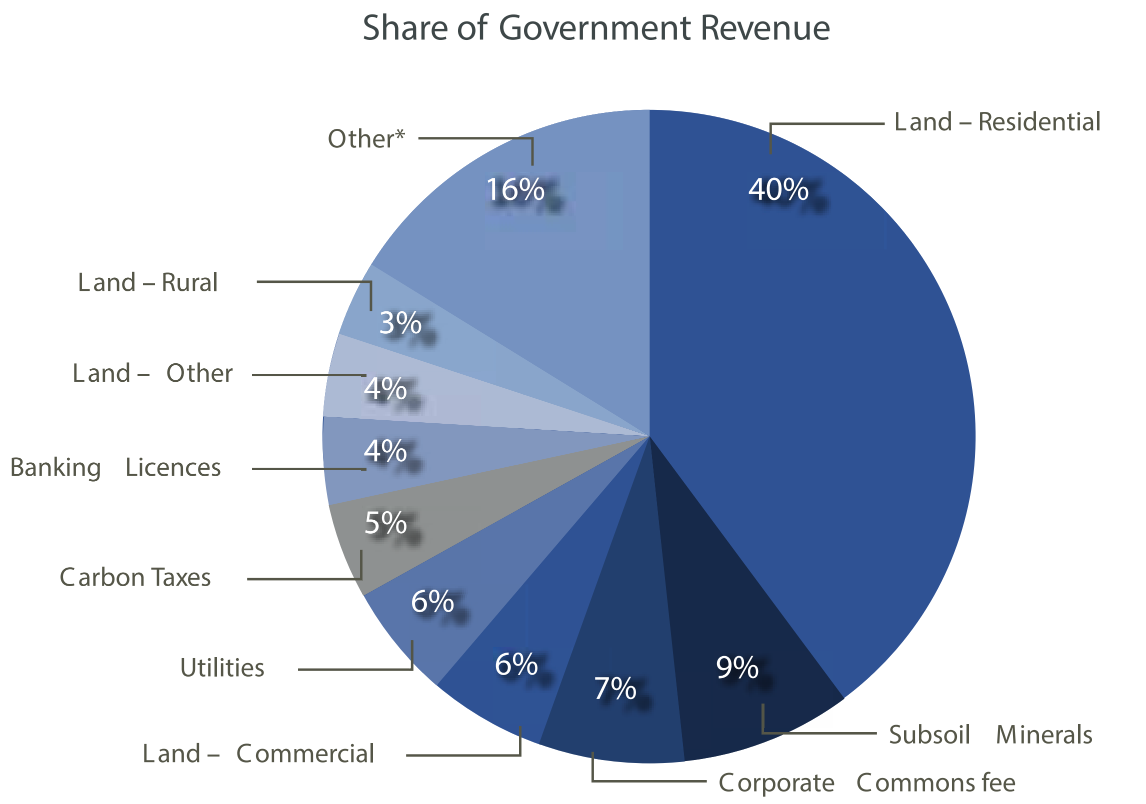
Item	Valuation	% of valuation	Raised $m	Sources
Land – Residential	2,794,800	5.5%	153,714	ABS 5204061
Land – Commercial	338,500	6.5%	22,002	ABS 5204061
Land – Rural	263,700	5.5%	14,504	ABS 5204061
Land – Other	287,100	5.5%	15,791	ABS 5204061
Subsoil Minerals	67,359 +14.637	40%	32,813	EBITDAX BHP, Rio, Xstrata + div
Oil and Gas – PRRT	20,229	40%	8,092	EBITDAX ABS 8155
Water Rights	50,000	2.6%	1,300	estimate
Taxi Licences	25,000 p.a	14,402*	360	* Number of licenses
Airports	1,919	40%	765	EBITDA
Utilities	220,000	10%	22,000	EBITDA
Fishing Licences	2,100	40%	840	ABS 1301
Forestry	1,800	2.7%	50	DAFF 2010/11
Gambling Licence	18,450	40%	7,380	Aus Gambling Stats 28th edition
EMS	10,560	20%	2,122	4G spectrum + rest of spectrum
Satellite Orbit Rights	5,100	10%	510	Space Foundation revenue
Internet Infrastructure	64,500	10%	6,450	NBN + estimate
Domain Name Registration Licence	100	3 million *	300	* 3 million domain names
Banking Licence Fees	43,427	40%	17,371	Cash basis + dividends
Corporate Commons fee	1,382,000	2%	27,640	ASX market capitalisation
Patents	12,980	0.005%	65	ABS 5310.0.55.002 (indicative)
Parking fees	estimate		250	based on MCC revenue
Public Transport	estimate		2,400	based on MTR EBITDA
Liquor Licences	Govt budget		4,000	11-12 govt revenues
Vehicle rego, Driver Licences	Govt budget		5,294	ABS 5506
Sin Taxes - Tobacco, Alcohol	Govt budget		12,510	11-12 govt revenues
Carbon Tax	4,020 +14,200		18,220	Added fuel excise taxes
Govt Non Tax Receipts	20,323	50%	10,162	11-12 govt revenues
TOTAL			386,905	$3,162 MILLION DEFICIT

Table 1

Note on Table 1, column 3: The available valuation data affected percentage rates charged depending on stocks or flows. For example, residential land has a 5.5% rate on a total asset stock valuation of $2.8 trillion. Airports, however, face a higher 40% rate on the revenue flow of returns for those assets (EBITDA profits). There is no total asset valuation for airports. In time we would like all resources to have a total asset valuation and cross referenced with an analysis of their 'flow' related profits.

2 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5512.02011-12?OpenDocument

Additionally, Figure 1 illustrates proposed resource rents by type as a percentage of government revenue:



* Other = Liquor licences, Non Tax Revenue, PRRT, Gambling, Internet Infrastructure, Tobacco/alcohol taxes, Vehicle rego/ licences, Public transport, Electromagnetic Spectrum, Water Rights, Fishing, Airports, Satellite Orbit Rights, Taxi Licences, Domain Name Registration Licence, Parking Fees, Patents, Forestry

Figure 1

A need for tax reform

Thousands of pages of tax legislation can be questioned in light of recent controversies with Apple, Google and Starbucks structuring their tax affairs according to legalised loopholes.[3] The most recent Australian Tax Office (ATO) figures find that 70 Australian millionaires paid their accountants a combined $33 million to avoid paying any tax.[4] [5]

Economists are increasingly discussing the need to move from mobile to fixed tax bases as a means of downplaying such behaviour. However, a lack of evidence on the magnitude of economic rents as a taxable revenue source has discouraged analysis. (For a list of economic terms used in this report, see the glossary on the final page.)

This report demonstrates the possible revenues available from such a tax shift and gives an overview of potential outcomes. Each budgetary line item is listed to explain how revenues could be calculated in light of economic rents.

The findings are of immense importance. The taxation of productive labour and industry can legitimately be replaced by a more efficient and equitable system. The privileges enjoyed by monopoly can finance government at all three levels with significant efficiency and equity outcomes for all Australians.

"The privileges enjoyed by monopoly can finance government at all three levels with significant efficiency and equity outcomes for all Australians."

3 http://theconversation.edu.au/digital-disruption-is-eroding-australias-tax-base-11061
4 http://www.ato.gov.au/content/00345977.htm?headline=taxstats&segment=home
5 http://www.theage.com.au/business/millionaires-snub-taxman-20130506-2j3pr.html

Resource rents post GFC

Following the Global Financial Crisis, a number of government reports advocated the harnessing of economic rents for the public benefit. The UK's Mirrlees Review,[6] New Zealand's Tax Working Group paper[7] and Australia's Henry Tax Review[8] all advocated the taxing of monopoly rents. At the Australian state level, the NSW Lambert Tax Review[9] and the ACT's Quinlan Review[10] also call to some extent for economic rent taxation.

The IMF, the World Bank and the OECD have also released reports in support of such efficiencies.[11] In its Action Plan for Enduring Prosperity, the Business Council of Australia advocated for 'value capture initiatives on individual projects, for example, area levies (preferably moving to land taxes over time)'.[12] Respected accounting firm PricewaterhouseCoopers' Protecting Prosperity report advocated a greater prominence for economic rents: 'Taxes on immovable resources (e.g. land tax) have low economic costs.[13]

Supporters from both sides of politics include Leo Tolstoy from the Left and Henry Ford from the Right. Economists in the modern era include Milton Friedman, who once stated 'Land tax is the least bad tax', to former World Bank Chief Economist Joseph Stiglitz's work on the Henry George Theorem.[14]

What is monopoly power?

A monopoly occurs when a single supplier has the power to limit supply to enforce scarcity, pushing prices above the marginal cost of bringing such a product to market. The marginal cost includes a normal return on investment. A recent example of monopoly involved Microsoft, which was found guilty of anti-competitive behaviour by bundling its Internet Explorer web browser with its dominant Microsoft operating system.[15]

Monopolistic behaviour delivers less product at a higher price. Consumers are worse off due to the loss of discretionary income. Additionally, fewer consumers are able to enjoy the product. The combination of these factors is known as a 'deadweight loss'.

Monopoly can be either natural or legislated. An example of a natural monopoly is ownership of land. Each property is unique; there is no other GPS location on the planet like it. An example of legislated monopoly is our largely privatised electricity transmission system.

The above-average profits monopolists obtain are called economic rents. Economic rents are the profits delivered over and above the normal profit required to bring a product into supply. Natural resources are a gift to all – there is no entrepreneurial effort involved in production. For this reason, natural resources claim a unique place in any discussion about monopoly. In particular, land costs nothing to produce. Any land price above zero reflects an economic rent. This is ensconced in economic theory, but rarely taught in economics degrees.

Traditionally, economists have been wary of monopoly power due to the inefficiencies that result. Monopoly is the antithesis of the free market and should be abolished wherever possible. Natural monopolies run for the public benefit should not be permitted to be run as private profit centres, as higher prices affect competitiveness for the entire economy. However, in an age of corporate influence, privatisation and tax loopholes, the pursuit of easy profit (known as monopoly based 'rent-seeking') has blossomed.

"Monopoly is the antithesis of the free market and should be abolished wherever possible"

The trend in private rent-seeking, though distortionary in economic terms, has developed due to the often hidden nature of unearned incomes. Unearned incomes occur when an owner of an asset receives a 'windfall gain' through no effort of his or her own.

Michael Hudson, Professor of Economics at the University of Missouri, Kansas City, writes:

> Economic rent taken by landlords, monopolists, and financial institutions has no counterpart in the technological requirements of production, but stems from legal and historical privileges that privatize

6 http://www.ifs.org.uk/mirrleesReview
7 www.victoria.ac.nz/sacl/cagtr/pdf/tax-report-website.pdf
8 http://www.taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm
9 http://www.treasury.nsw.gov.au/__data/assets/pdf_file/0014/21605/NSW_Financial_Audit_Report_Part_2011-_Full_pdf.pdf
10 http://www.treasury.act.gov.au/TaxReview/Index.shtml
11 http://www.ibtimes.com/oecd-northern-europe-raise-your-property-taxes-412038
12 http://www.bca.com.au/Content/102212.aspx
13 http://pwc.com.au/tax/tax-reform/
14 http://www.jstor.org/stable/1884466
15 http://en.wikipedia.org/wiki/United_States_v._Microsoft

> the free gifts of nature or permit monopolistic power to charge access fees over cost for the use of basic infrastructure. (Classical economist) Patten believed that economies should minimize the cost of living and doing business by becoming as rent-free as possible … at least taxing land, mining, and other natural resources, and regulating prices to minimize unnecessary rentier charges.[16]

The value of economic rents has been quantified in Vermont, USA:

> In terms of its resources, Vermont resembles an economic colony more than a sovereign state. Our major minerals are owned by a foreign corporation, our groundwater is exported by out of state bottling companies, our hydropower resources are owned by TransCanada, and 82% of surface-water withdrawals in Vermont are used by Vermont Yankee for cooling water. The federal government has given away 98% of our "public airwaves" for free, and allows private banks to create 93% of the currency with interest attached. Meanwhile, citizens and businesses are subject to taxation of earned income, which impacts job creation and economic productivity, while resource owners collect massive amounts of unearned income.[17]

Winston Churchill quipped that 'Land is the mother of all monopolies'.[18] The economic rents of Australia's land markets are considerable, capitalising to $3.68 trillion (2011–12).[19] Some say oil is the world's largest market, but the total market capitalisation of the Australian Stock Exchange, including oil companies, is about $1.382 trillion. The land market is nearly triple this – reiterating why it is so important to get right. High land prices affect every part of the economy, undermining competitiveness.

Property investors in Australia have some of the most significant incentives and subsidies in the Western world, assisting investors to triple in proportion in less than 30 years.[20] [21]

"Property investors in Australia have some of the most significant incentives and subsidies in the Western world, assisting investors to triple in proportion in less than 30 years."

Figure 2 shows the crowding out of owner occupiers by investors in the Australian home ownership market. As a percentage of housing related loans, investors jumped from a 12% average (late 1980s) to a 34.5% average over the last decade.[22]

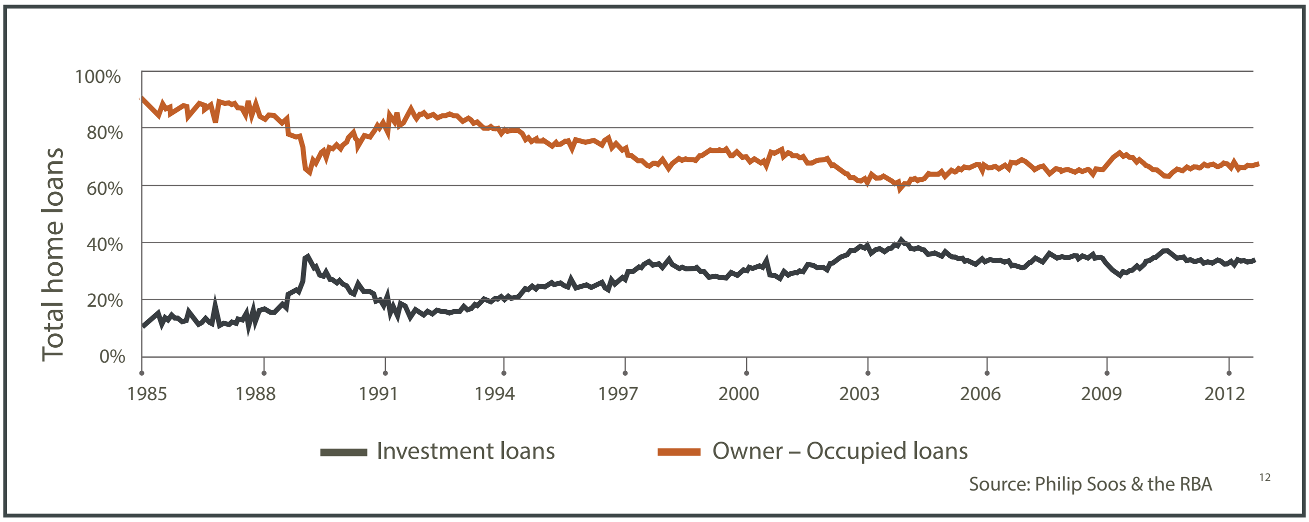


Figure 2

16 http://michael-hudson.com/2011/10/simon-patten-on-public-infrastructure-and-economic-rent-capture/
17 http://www.leg.state.vt.us/jfo/Tax%20Commission/Valuing%20Common%20Assets%20-%20Flomenhoft.pdf
18 http://www.landvaluetax.org/current-affairs-comment/winston-churchill-said-it-all-better-then-we-can.html
19 Table 61, http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5204.02010-11?OpenDocument#Publications
20 http://www.ahuri.edu.au/publications/download/judith_yates_research_paper
21 http://www.aph.gov.au/Parliamentary_Business/Committees/Senate_Committees?url=hsaf_ctte/report/index.htm
22 The RBA data can only be tracked from 1985, courtesy Philip Soos http://www.rba.gov.au/statistics/tables/index.html#money_credit

Compounding affordability pressures, 92% of negative gearing investment has been used to buy existing housing rather than build new dwellings.[23] Such a large jump in investment would see greater supply and lower prices in any other marketplace. Additional demand side pressures include the recent capital gains tax exemption for Self-Managed Super Funds buying into real estate to bolster their future pensions. The recent relaxation of regulation for foreign investment in real estate has also exacerbated matters.

As economic theory would predict, these incentives resulted in record high land prices. Australia's property juggernaut continues to defy reality. When more money is spent in a market with a limited supply, prices are destined to rise. The relationship between supply and demand for land delivers natural advantages to the owners of scarce locations. These windfall profits can be taxed without distorting productive behaviour.

The low taxation of land clearly works to generate excessive private debt by encouraging speculative behaviour. High land prices have acted as a barrier to entry for an entire generation into housing and attendant family formation, a cornerstone to any economic democracy.[24] Young people cannot choose to be born into the housing markets of the 1850s or 1950s: time, of its very nature, means that 'a first come, first served' approach to ownership of resources has therefore been biased under the existing economic regime against future generations.

"High land prices have acted as a barrier to entry for an entire generation into housing and attendant family formation, a cornerstone to any economic democracy."

Pressures on society are mounting in a carbon-constrained world. Climate refugees, aging demographics and the desperate need for investment in public transport are issues just beginning to place tensions on our decision-making processes. Society will need to question more closely the dire economic consequences of property speculation.

The easy gains from land speculation were explained by Mark Twain, who famously said 'Buy land – they're not making it any more'.[25] Investment in a finite amount of land without public recoupment of land rents is guaranteed to push prices up.[26] Small business needs to recognise that every extra dollar spent on bubble-priced housing is lost to possible customer expenditure.

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This report finds that some 52% of government revenues could come from the naturally rising value of land. Such a system will immediately deter property speculation, with the revenue gains used to cut income and company taxes

23 http://www.prosper.org.au/2012/10/04/written-off-negative-gearing-report/
24 http://www.bloomberg.com/news/2013-02-19/china-housing-slaves-helping-property-rebound-mortgages.html
25 http://thinkexist.com/quotation/buy_land-they-re_not_making_it/173450.html
26 http://www.contactmusic.com/news/hopes-widow-upsets-la-residents-in-land-sale-deal_1069747

A note on data sovereignty

Limitations to the existing system of national accounts create major challenges in evaluating rent-based assets. There are no publicly created national valuations for:

- Fishing licences
- Forestry licences
- Water trading licences
- Domain name asset values
- Patents (particularly patent thickets)
- Satellite orbit rents
- The value of public and privatised utilities

Given that genuine economic democracy requires regular valuations of the common wealth, this paucity of data is cause for concern.

World Bank Group President Jim Yong Kim is promoting the need for such transparency.[27] US President Obama has also called for greater transparency of publicly collected data. However, the global trend has been to cordon off data relating to natural resources via privatisation – in particular for land and property prices.

Prosper Australia recently paid $6,000 for a 30-year data set on just the turnover of residential and commercial property - information that was once freely available. Our American colleagues can visit the local library to access the data gratis. Many US jurisdictions allow free online access to such data.

In a positive step, the Australian Bureau of Statistics (ABS) has released a publication on a System of Environmental-Economic Accounting (SEEA), a UN-sanctioned measure of resource value and usage.[28]

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27 http://blogs.worldbank.org/voices/world-bank-president-jim-yong-kim-opens-data-conference-in-washington

28 http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4628.0.55.001main+features10May+2012

PART II – Calculation of economic rent

The capabilities of economic rent

The naturally increasing value of the earth (and government-gazetted monopolies) suggests itself as a logical financing option for government. It is the missing link in economic analysis and requires modelling. Moves in the UK for government modelling of economic rents as a financing vehicle are an encouraging development.[29] For a reform with so much potential, it is a mystery why modelling has not been undertaken previously.

However, neo-classical doctrine has traditionally dismissed the notion that fixed asset bases are capable of financing government. In essence, neo-classical economists dispute that economic rent plays a significant role in the economy:

> "Rent is one percent of the US income in 2004", Economics, Paul Krugman and Robin Wells.[30]
>
> "… land rent forms such a small percentage of national income: that 2% is nothing compared to the present tax percentages which is around 30", Income Distribution, Jan Pen.[31]
>
> "The percentage [of property rent in the economy] has dropped to well under one percent today", New Ideas from Dead Economists: an introduction to modern economic thought, Todd G Buchholz.[32]

Neo-classical economists came to these conclusions due to a fundamental change in the core economic equation. Classical economists believed a nation's output, the GDP, was produced by three factors of production: land, labour and capital. The classical formula finds applied labour onto land produces capital. Neo-classical economic theory, however, defines that all output is produced by just labour and capital. In the transition from classical to neo-classical economics, land became a subset of capital.

"In the transition from classical to neo-classical economics, land became a subset of capital."

But Mason Gaffney, Professor of Economics at the University of California, writes that land and capital have fundamental differences that are ignored in current micro-economic theory:

> Only after mankind forms and makes capital does it bear much likeness to land, in that they coexist. Ordinary micro-economics obscures the differences because it deals mainly with relations of coexistence, ignoring the continual formation and destruction of capital, ignoring time and relations of sequence. Thus it excludes from its purview one of the prime differences between land and capital. The life of capital, like that of people, is marked by major sacraments of birth, growth, aging and death - all missing from micro theory. Micro deals mainly with how existing resources are allocated at a moment in time, not how they originate, grow, flourish, reproduce, age, die, and decompose... Land is not produced, it was created. It is the world, the planet from which man evolved, with the sun that energizes it and the orbit that tempers it. Land is a free gift...[33]

Due to the paucity of resource valuations, it has been difficult for economists to calculate the value of economic rents. For example, land in the City of London has not been valued in 200 years due to the fallacious belief that land valuation is too complex.

In contrast to neo-classical economics, the Total Resource Rents of Australia report finds economic rents can raise 87% ($340.719 billion) of the $390 billion currently required to operate all three levels of government. Based on our annual GDP of $1.45 trillion,[34] the economic rent herein calculated constitutes 23.6% of GDP. This is a significant finding and implies that nearly one quarter of the economy is a 'free lunch' to owners of natural monopolies, delivering high rates of return for little effort or risk.

"Based on our annual GDP of $1.45 trillion, the economic rent herein calculated constitutes 23.6% of GDP... nearly one quarter of the economy is a 'free lunch' to owners of natural monopolies, delivering high rates of return for little effort or risk."

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29 http://www.guardian.co.uk/politics/2012/nov/08/land-value-tax
30 Economics, Paul Krugman and Robin Wells, Worth Publishers, 2006, p.283.
31 Income Distribution, Jan Pen, Pelican, 1974, p.210.
32 New Ideas from Dead Economists: An Introduction to Modern Economic Thought, Todd G Buchholz, Plume, 2007, p.86.
33 http://www.masongaffney.org/publications/C9Land_Distinctive_Factor.CV.pdf , p5-6
34 http://www.abs.gov.au/AUSSTATS/abs@.nsf/mf/1345.0?opendocument?opendocument

Revenue-raising can be broken down as:

	% of GDP	% of Govt Revenue
Land Rent	14.2	52.8
Natural Monopolies	6.6	24.6
Resource Rents	2.8	10.5
Sin Taxes	2.1	7.8
Non-Tax Receipts	0.7	2.6
Total	26.4	98.3

Table 2

Table 2 reflects the disparity between the neo-classical claim of rent at 1 to 2% of GDP, and the 23.6% of GDP calculated in this report. Natural monopoly rents, covering airports, utilities and fishing licences for example, account for 6.6% of GDP alone. Resource rents in mining and petroleum account for 2.8% of GDP. Land rent is 14.2% of the economy, yet rising property prices are heralded as a productive outcome for the nation. All of these rents drain the productive sector by pushing prices higher than need be.

As Adam Smith wrote in The Wealth of Nations, such land rents are the ideal subject for taxation:

> Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before. Ground-rents, and the ordinary rent of land are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them.[35]

The role of government is not only to raise revenue, but to encourage productive behaviour by the manner in which revenue is raised. Negative outcomes must be discouraged. Accordingly, the 'sin taxes' on carbon, alcohol and tobacco should raise 7.8% of government revenue.

"The role of government is not only to raise revenue, but to encourage productive behaviour by the manner in which revenue is raised."

We are presently taxing the wrong things, festering problems that require more taxes, which in turn compound the failure of markets. But by deterring rent-seeking behaviours, economy-wide efficiencies will be found, as would a reduced need for welfare and taxes on labour and capital.

35 http://www.progress.org/banneker/adam.html

Land bubbles and the GFC

If 'asset bubbles are always followed by tears', the pain felt by ignoring rent-seeking can be seen in Japan (Figure 3). Once the economic powerhouse of the East, Japan has lost two decades of growth. This has been mirrored by over 20 years of land price falls following their 1980s property bubble. The slow correction of land prices has ensured the weight of mortgage debt restrains productive and consumptive activities.

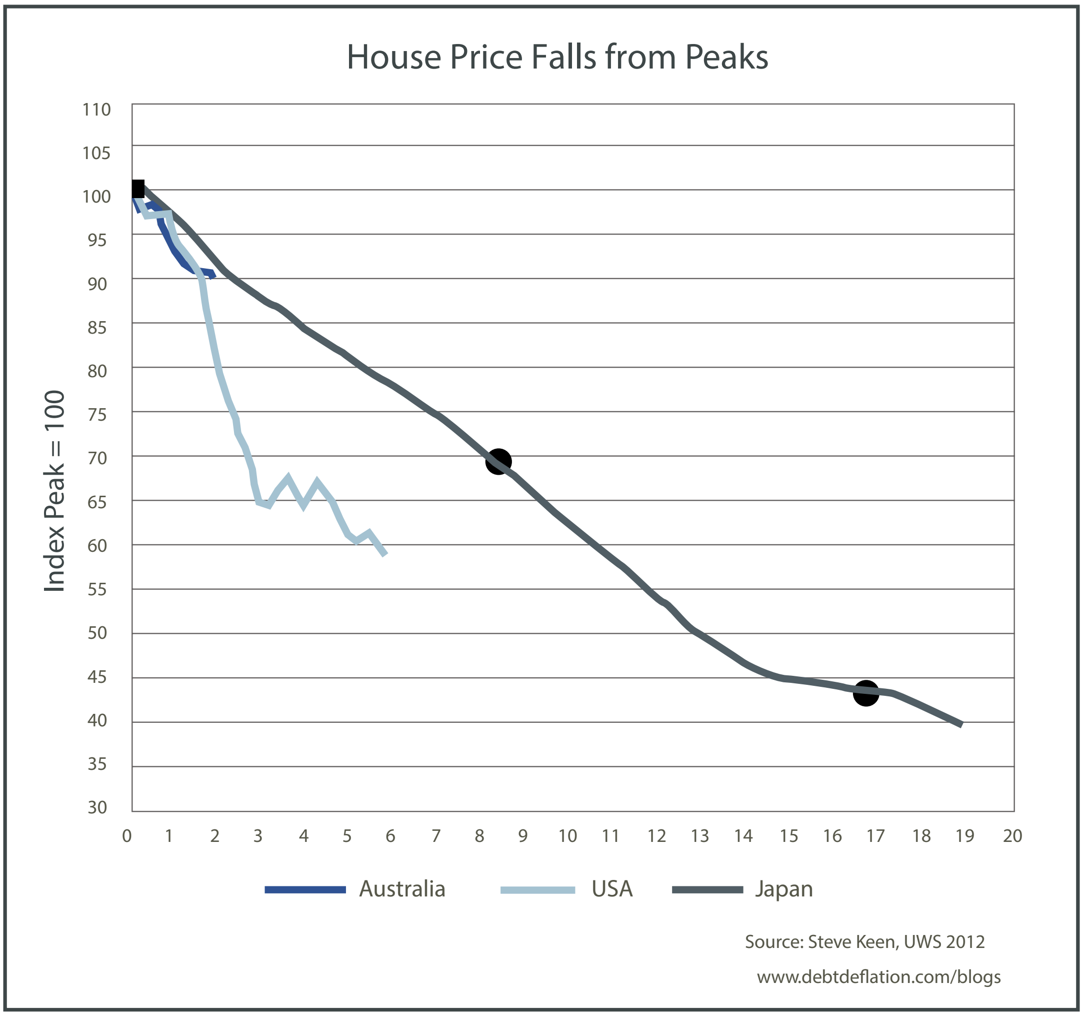

Figure 3

Figure 4 shows New South Wales land prices peaking in 2004. Since then we have seen an orderly fall in land prices similar to what occurred in Japan. Unsurprisingly, the NSW economy has acted as a drag on Australia's economic output in recent times.

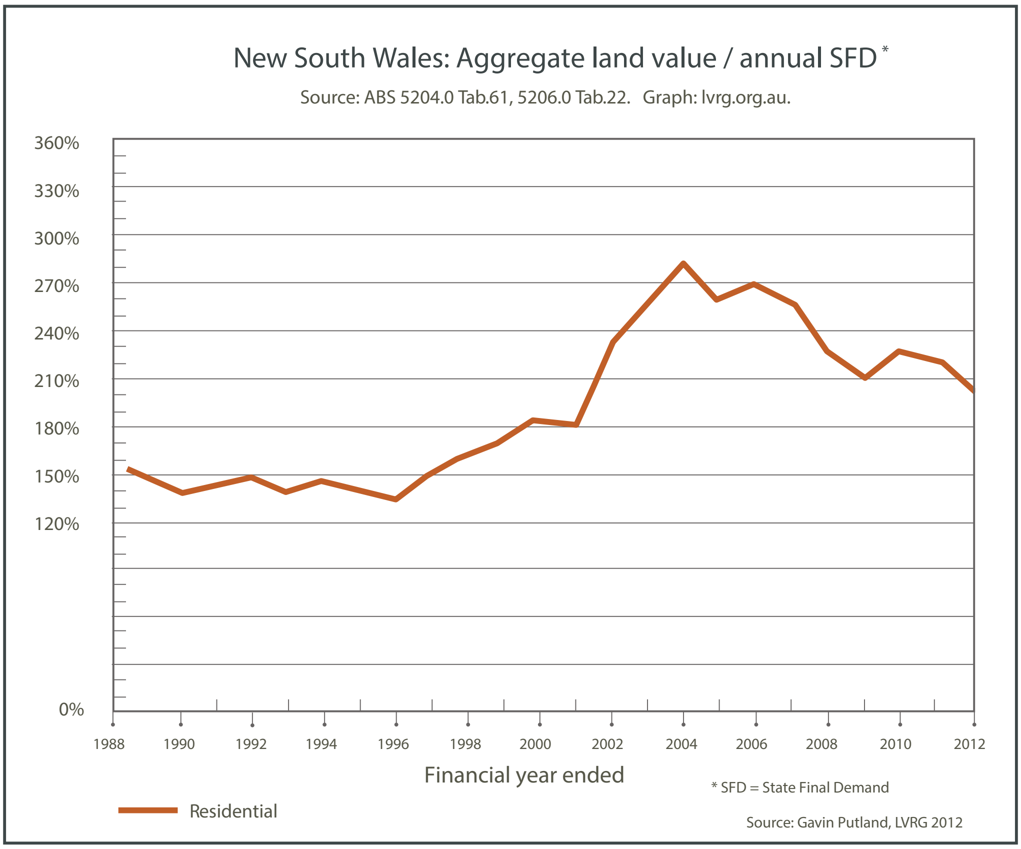

Figure 4

Similar trends can be seen in the US. Figure 5 reflects how land prices began falling in the first quarter of 2006 and fell until mid 2012.[36]

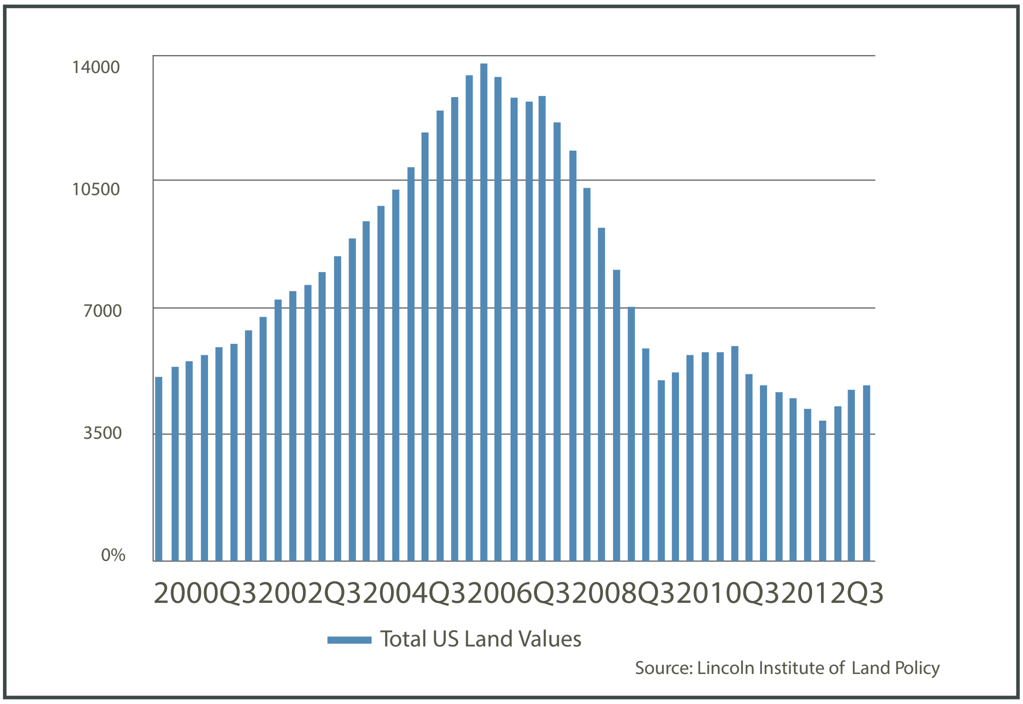

Figure 5

36 http://www.lincolninst.edu/subcenters/land-values/price-and-quantity.asp

The cost to the US economy is immense:

> 'The Flow of Funds report a $13 trillion (15 percent) loss of household wealth between the peak of mid-2007 and March 2009.'[37]

It is the position of this report that the catalyst for the ongoing financial crisis were falling land prices. Figure 5 shows land prices began falling in the first quarter of 2006. For the next two years banks slowly wrote down the value of their loan books, the majority of which are reliant upon 'ever-increasing' land prices. The resultant supply of credit shrank, leading to the Lehman Bros crisis 18 months later.

"It is the position of this report that the catalyst for the ongoing financial crisis were falling land prices."

The total economic impact of the GFC far outweighs the $13 trillion listed above. An appropriate response to government revenue-raising would have been a land tax.

Taxation Trends in the EU states:

> Recurrent taxes on real estate property are considered to be the least detrimental to economic growth given the immobility of the tax base. This reduces the behavioural effects to this type of taxation, which in turn minimises the economic distortions.[38]

However, the global policy response was to increase sales taxes, as demonstrated in the EU. Figure 6 (below) shows a rise in the average standard rate of the Value Added Tax (VAT).

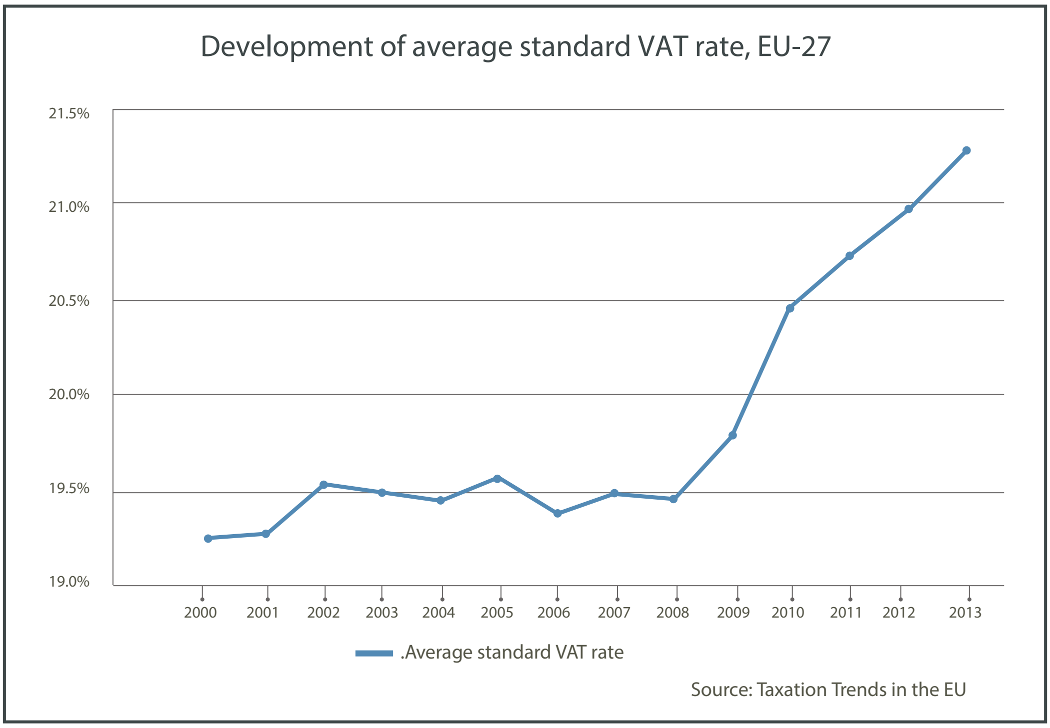

Figure 6

Unfortunately, sales taxes can magnify the injustice of an economic crisis. A 10% sales tax on a $20 shirt is $2. That $2 constitutes more of a low income earner's wage than a high income earner's – yet there are already calls for extension of the Australian Goods and Services Tax (GST).

37 http://www.brookings.edu/research/papers/2009/11/18-wealth-bosworth

38 http://ec.europa.eu/taxation_customs/resources/documents/taxation/gen_info/economic_analysis/tax_structures/2013/report.pdf p46

If EU land rents are similar to Australia's 14.2% of GDP, Figure 7 shows little concern over rent-seeking behaviour. The UK's tax on immovable property at 3.5% is the highest listed in the EU. Taxing only one quarter of the rent still allows easy, lightly taxed capital gains to occur – ensuring the inevitable land bubble returns.

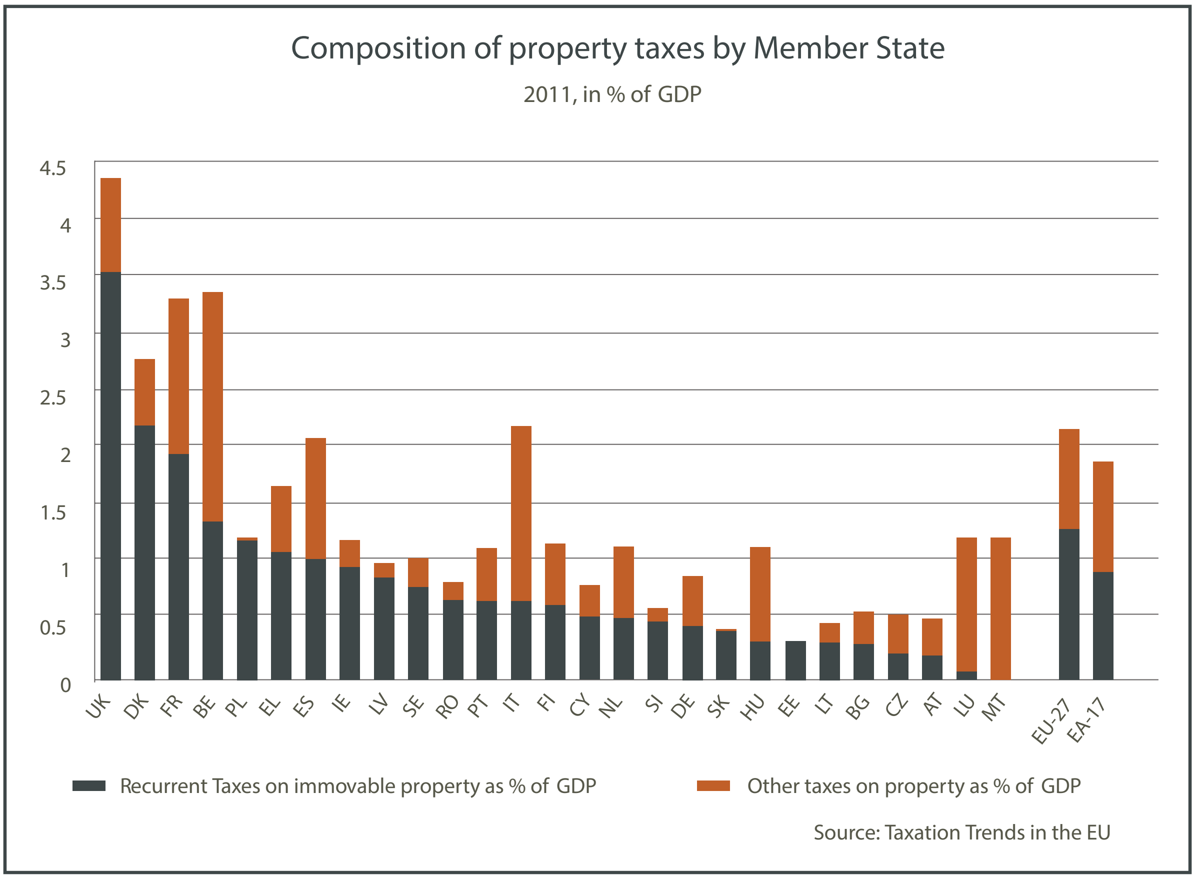

Figure 7

The failure of public policy to address real estate bubbles has seen austerity policies further slow the global economy, undermining stable incomes for renters to 'buy in' confidently at lower prices

Distortionary effect of current taxes

As mentioned, the answer from policy makers following the bursting of the global land bubble in 2007-8 was to increase sales taxes in the UK, France, Portugal, Spain, NZ, Japan and USA amongst others. But sales taxes enforce higher costs and thus lower demand, representing a deadweight loss.

Sales taxes are by no means the only such inefficient tax in the current system. Figure 8 (below), based on analysis by researcher Philip Soos, shows that personal income tax and business income tax have even greater deadweight losses. This is in line with both economic theory and common sense: If business is taxed, there is less business. If labour is taxed, there is a lower desire to work. And if goods and services are taxed, there is less incentive to purchase them.

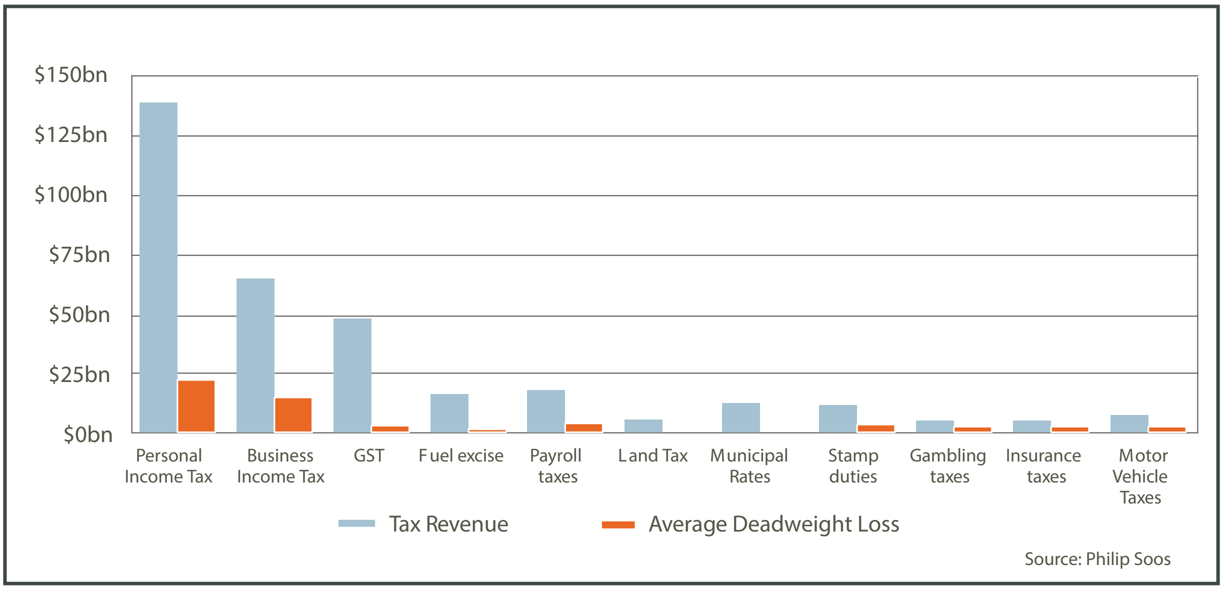

Figure 8

In fact, our analysis finds that 90% of taxation revenue has a distortionary effect, pushing prices 23% higher than need be.[39]

This can be calculated by looking at the 'major components of total taxation revenue'. The components that are not costs of production are:

- taxes on immovable property (6%)
- vehicle taxes (2%)
- gambling taxes (1%)
- 'other' (1%)

That adds up to only 10%, and the remaining 90% of taxation revenue are on components that affect the cost of production, and therefore prices, having a distortionary effect.

In the 2010-11 financial year, taxation accounted for 26% of GDP.[40] Ninety percent of 26% is 23%. Therefore, as a rough estimate, 23% of the economy is distorted by higher prices.

Efficiency gains from resource rents

Harnessing economic rents for the public good offers considerable efficiency gains. Researcher Philip Soos analysed the $390 billion in taxes raised and found an efficiency dividend of some $66.3 billion with such a change. Such efficiency gains would add to GDP, lowering the overall tax burden. These positive benefits, equating to 17% of total taxation, have not been included in our figures.

The reason for these efficiency gains is that, as Figure 8 shows, land tax and council rates have the lowest deadweight losses. Replacing Stamp Duty revenues (a sales tax on housing transactions) with a land tax would deliver an efficiency dividend whilst curbing land speculation. Such a policy switch will assist the movement of labour to more suitable locations according to work and family needs. It will also ensure those who benefit the most from economic rents pay a little more than those who don't.

39 http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/5506.0Main%20Features32010-11
40 ibid

The Australian Housing and Urban Research Institute (AHURI) states:

> Economic theory predicts that a broad based land tax is shifted to landowners who receive lower after-tax rents that are in turn capitalised into lower land values. We find that the average plot with a land value of $335,000 (at 2006 prices) will decline by $24,000, or approximately 5 per cent.[41]

Under such a land tax, potential buyers will reduce how much they are willing to pay for a house by the expected land tax liabilities over a 20-year period, thereby reducing property prices. Instead, decisions are currently distorted by cumbersome taxes, like stamp duty, that are passed on in higher prices.[42]

Why aren't land taxes distortionary? Let's return to the simple example in the previous section: If business is taxed, there is less business. If labour is taxed, there is a lower desire to work. However, if land is taxed it does not shrink, hide or move. There is no distortion in its productive utility.

"If business is taxed, there is less business. If labour is taxed, there is a lower desire to work. However, if land is taxed it does not shrink, hide or move."

Switching away from stamp duties to land taxes is an important first step to a fairer economic system. This would see those living in better locations in Melbourne pay more for the running of government. Figure 9 demonstrates how the wealthier municipalities of Bayside, Boroondara and Stonnington pay more than the poorer Brimbank.

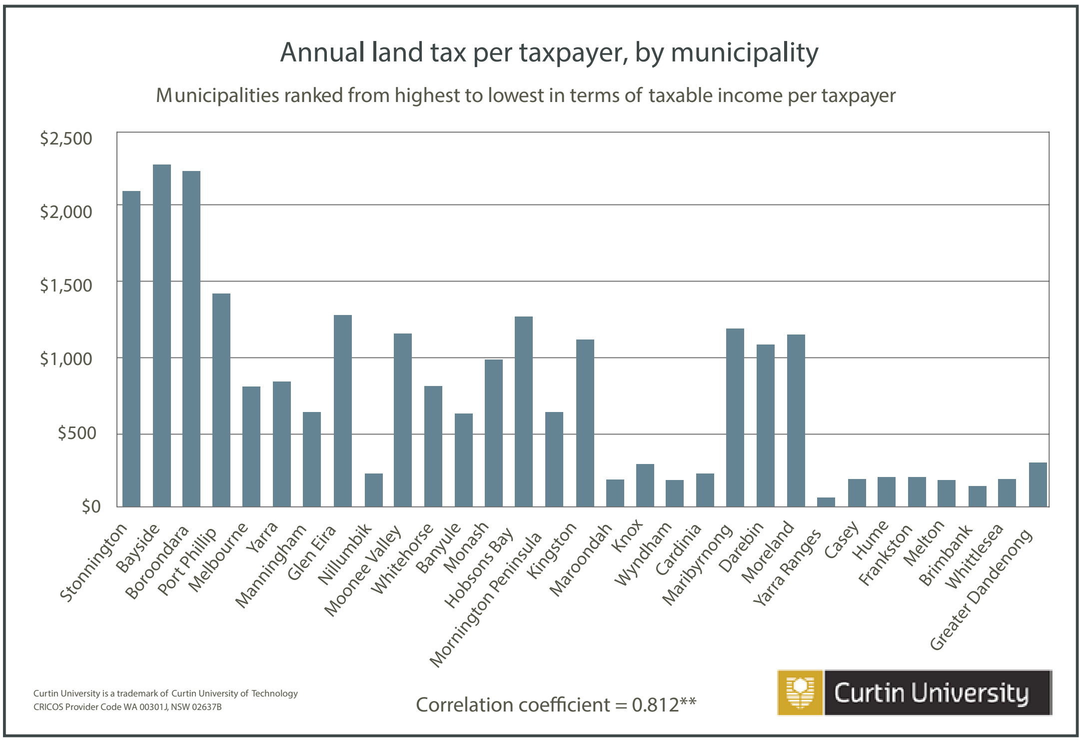

Figure 9

As a revenue-raising mechanism, a resource rent system (of which land tax is the most prominent tool) does not distort market prices. The taxes charged cannot be passed on in prices. Rather, a resource rent harnesses what would have been easy profits – unearned income that had little to do with productive skill or entrepreneurial activity.

This outcome can be most easily demonstrated by looking at the mining sector. Consider the price for iron ore is $120 and a nation implements a 40% resource rent charge. The global price of $120 per tonne ensures that a company will lose market

41 http://tinyurl.com/l4mafuz
42 http://www.macrobusiness.com.au/2013/01/developers-go-completely-mad/

share if they try to pass this tax onto their customers. Customers will simply buy from another supplier. A resource rent harnesses what would have been easy profits – unearned income that had little to do with productive skill or entrepreneurial activity. This is discussed with reference to housing in the next section.

Land rent calculations

The Australian System of National Accounts calculates land values at $3.68 trillion (2011–12). Land tax has been set at 5.5%, just below trend growth terms. The ABS calculated gross land rents at $153.3 billion (2011–12), which equates to our residential figures.[43] As seen in Figure 2, the land component is to raise 52.8% of government revenue. At present valuations, the land tax burden will fall as follows:

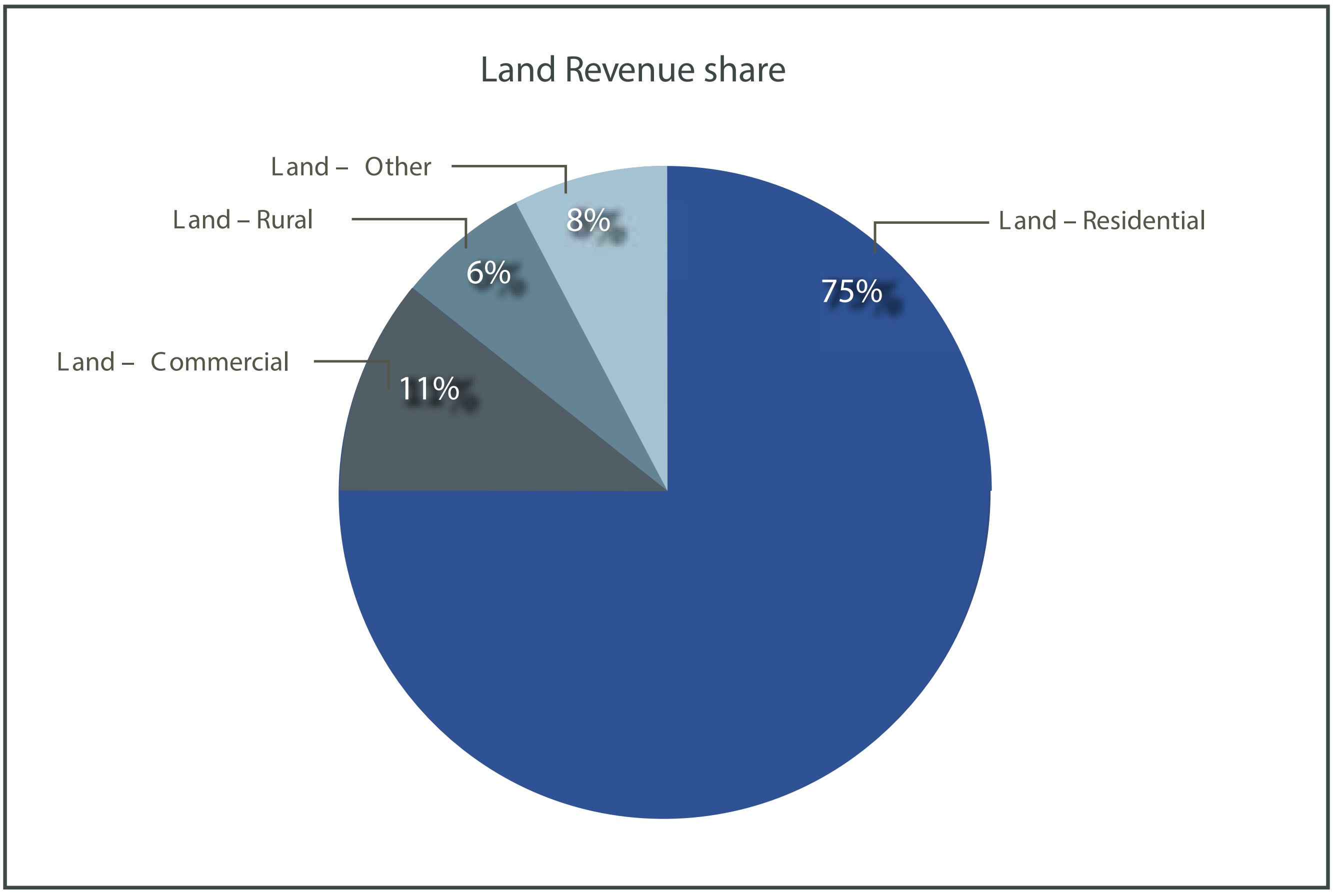

Figure 10

The current land tax exemption on the family home must be removed. This is controversial, but so is the road to multi-generational mortgages now looming on the horizon. Additional reforms include land tax thresholds. In Victoria, land taxes are only charged above the $250,000 threshold. In 2001 the threshold was $85,000. As the threshold has been raised over the last decade, so has the price of land – as economic theory would predict. Queensland has a $600,000 threshold, effectively eradicating land tax as an affordability tool.[44]

Of great interest will be the reaction of property owners holding 'speculative vacancies'. For the last five years Earthsharing Australia has quantified the number of vacant properties in Melbourne with an innovative water consumption proxy for vacancy.[45]

"Not all properties are owned for their rental income – an increasing number are held for the capital gain alone. When capital gains outstrip rental earnings, bubbles occur."

43 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5204.02011-12?OpenDocument, Table 49
44 https://www.osr.qld.gov.au/land-tax/about-land-tax/land-tax-rates.shtml
45 http://www.earthsharing.org.au/campaigns/

The 2011 report found 90,730 residential vacancies in Melbourne.[46] This finding quantifies the utility of all residential properties, expanding on the subset of rental-only properties the media references for vacancy. Not all properties are owned for their rental income – an increasing number are held for the capital gain alone. When capital gains outstrip rental earnings, bubbles occur. Of note to small business was a 24.2% commercial vacancy rate.

Such incentives deter productive activity when one can buy and sell for much greater profit at a lower risk, and with a significantly lower tax burden.

A well-designed land tax will deter the pursuit of capital gains over rental income, pushing the majority of the 90,730 vacant properties onto the market. Competition will see rents fall. Renters will look for cheaper accommodation. The added competition would demonstrate that the land tax cannot be passed on (when set at a rate of significance). Vacant land will be subdivided according to its highest and best use, further adding to supply side pressures. Any landlord who tries to pass on the land tax will see his tenant vacate the premises for cheaper options.

In Victoria, a block of land now valued at, for example, $330,000 pays $435 per annum in land taxes and about $700 in municipal rates. Little behavioural change occurs when annual capital gains of $30,000 per annum (common until recently) outstrip barely $1,100 in revenues paid back to the community for this privilege.

In our analysis, the commercial land tax rate was set at 6.5% to account for the higher annual yield in that sector. Charities and 'other' users of land would also be required to contribute as a quid pro quo for the lower price regime resultant from removing most of Australia's 126 taxes.

We estimate a higher land tax will alter the incidence of the land component as follows:

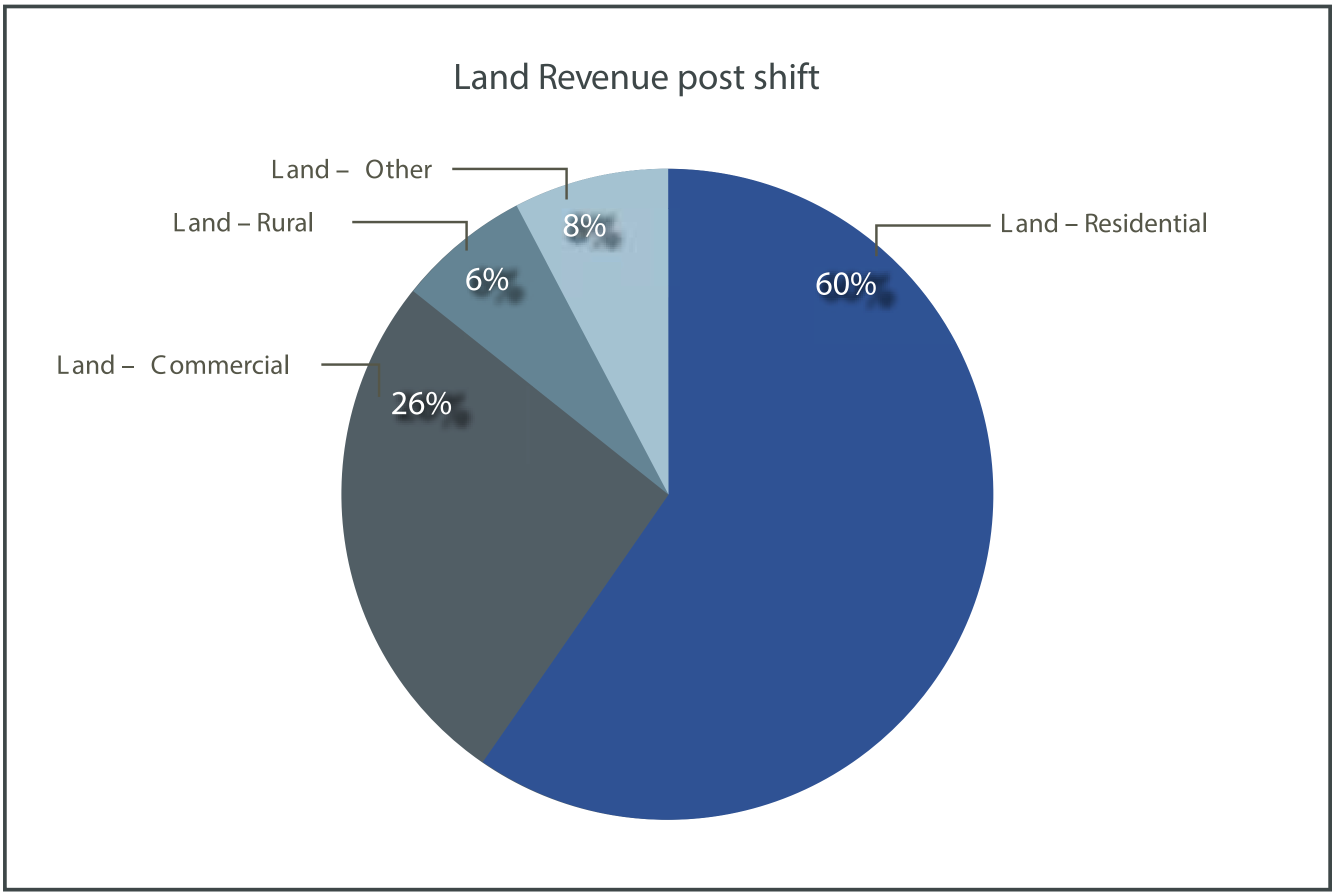

Figure 11

The land tax incidence will change in two ways – a drop in land prices in outer sprawling areas and a price increase in the CBD and well-serviced locations. Once this initial transition has occurred, land rents will provide a stable revenue source for

46 http://www.earthsharing.org.au/2012/07/02/speculative-vacancies-in-melbourne-2012/

government. The commercial property sector will boom with CBD locations hotly pursued due to the added cash flow allowed by the removal of company, sales, payroll and income tax. Land values in these areas will rise, accounting for an estimated 16% increase in the land-based commercial tax take. Similar trends occurred in Denmark in the late 1950s when these reforms were proposed.[47]

Land tax background

Those who own the earth have a natural advantage over those running a business or earning a wage. Classical economists such as Adam Smith and David Ricardo believed the role of the tax system was not only to raise revenue, but to create a level playing field between owners of natural advantages and those without such legal privilege. The by-product was a strong social contract where inequity was minimised and efficiency enhanced. The free movement of capital was encouraged to its best and highest use. Labour and capital were to operate in a low tax jurisdiction. The thinking recognised that high land prices drain a productive economy of its potential.

"Those who own the earth have a natural advantage over those running a business or earning a wage."

A yearly land rent (or land tax) based on the locational value was the mechanism Classical economists hoped to rebalance the advantage land owners have over workers and employers. The current system of land tenure gives an owner permanent property rights for that location via a fee simple contract. It is a 'one-off' deal which locks out future generations from competing (who, by definition cannot attend the sale or auction). The philosophy behind land tax is the titleholder owns the house but leases the land in recognition that the earth is a gift to all. The methodology sees property owners maintain title over the land for as long as they are willing to pay the market-based land rent (a fee annual contract). Property valuers determine land valuations, just as they do for our municipal rates. This infers the sharing of land rent in place of most other taxes.

Land value tax – how does it work?

Land values act as a barometer for the amenities that service a location.

The advantage of living near a train station or library is reflected by higher land values. These publicly funded advantages result in private windfalls. The recent Committee of Melbourne's Moving Melbourne report identified the need for 'value capture policy' to finance the infrastructure deficit.[48] Lucy Turnbull has advocated similar policies in Sydney's Cities Expert Panel.[49]

"Television shows repeatedly promote 'location, location, location' as a vital real estate investment strategy, but the economics profession prefers to ignore such instinctive behaviour."

Consider two identical parcels of neighbouring land. Block A pays existing taxes and interest on a mortgage debt, but no land tax. Block B pays a land tax, but no existing taxes or interest on a mortgage debt. Over twenty years, both landowners pay similar amounts. The choice is whether this payment goes to a bank or funds government in lieu of other taxes.

Land tax is in effect a counterweight to mortgage debt.

Today's system encourages a lifetime of debt for the right to live in a community. The value of living in a community is the economic rent, capitalised into the land price.

Seventy per cent of an Australian mortgage is generally the land component. Under the current system, we allow the banking system to make 25 years of interest-based profit on the land component. There is little to no risk for money lenders in earning 70% of mortgage interest profit on the land component.

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47 http://www.earthrights.net/wg/swot-denmark.html
48 http://www.melbourne.org.au/cms-policy/moving-melbourne
49 http://afr.com/p/national/call_to_tax_infrastructure_windfalls_vVz1GPfG2xzCLtPmuzftPI

Society's development, combined with a naturally rising population, is guaranteed to increase competition for prime locations. Those who own the best sites under today's system have a profound advantage. They can delay selling until their asking price is met. Until then, they have a comparative advantage in that they can borrow against their asset to buy more scarce resources.

Investors, home owners and prices

In 2012, the median Australian home in our capital cities was priced at $478,000.[50] The land portion is estimated at 70%, meaning $334,600. A land tax of 5.5% on $334,600 equals $18,403. Some will be concerned at paying $18,403 towards government revenue each year. It must be remembered:

- Land prices will fall in many areas, reducing land tax payments as the difference between land price and land value is rectified.
- The median income earner of $50,076[51] will take home an extra $7,822[52] via the removal of income tax.
- This is a per landholding charge - the bill is split amongst householders – on average 2.1 per household, inferring an income tax saving of $16,426.
- With less paid for commercial rent in many areas, more will be available for business to pay in wages.
- With company tax removed, business will have headroom for wage increases and expansion.
- With less tax paperwork and cheaper rents, a spur to small business is expected.
- Some 23% of the prices of goods and services are made up of taxes. Removing these distortive taxes will enhance purchasing power, which when combined with a surge in competitive behaviour will see supermarket prices fall.
- Pensions could be doubled by utilising monopoly rents to assist in transitionary issues.
- Renters will not pay extra as a land value tax cannot be shifted by the landholder.
- Those who live in better locations will pay more than the less privileged.

As a cross-referencing measure, the ABS found 8.65 million households exist in Australia (2012).[53] Under our proposal, the household land sector is expected to raise $168.218 billion. This infers that each of the 8.5 million households pay $19,790 on average. This will be lower in regional areas and may be higher in centralised locations.

With the tremendous productive impetus given to business with less tax, less compliance and lower deadweight costs, the economy will be set to grow.

Consumers will enjoy higher purchasing power due to the abolition of income and sales taxes.

The tripling of the carbon tax (moving revenues from fuel excises to the 2012–13 revenue expectations for carbon tax) will direct consumption towards more sustainable industries. By placing the tax at the source, greater efficiency is ensured. This infers the removal of the carbon tax exemption on petrol.

Resource rents and investment

The principle of targeting unearned income should apply to all natural resources, once known as the commons (as in common gifts to all).

The ongoing global mining boom has seen more than a dozen sovereign governments recognise the need for those benefitting from the common wealth to contribute to public services. These nations include Brazil, Zambia, Ecuador, Ghana, Guinea, Zimbabwe, Zambia, South Africa, Peru, Venezuela, Indonesia, Australia and the Democratic Republic of Congo.[54]

Norway charges a 50% resource rent on mineral extractions, plus a 28% corporate income tax. Despite this, their mining companies report reasonable profits. When licences come up for renewal, more companies clamour for these scarce licences than are available.[55] This is despite a combined 78% charge on the rising value of these resources.[56]

50 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6416.0Jun%202013?OpenDocument
51 http://www.abs.gov.au/ausstats/abs@.nsf/mf/6306.0/
52 http://www.ato.gov.au/Rates/Individual-income-tax/
53 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3236.02006%20to%202031?OpenDocument
54 http://www.bloomberg.com/news/2012-07-08/growing-resource-nationalism-deters-mining-investment-e-y- says.html
55 http://www.arcticgas.gov/norway%E2%80%99s-different-approach-to-oil-and-gas- development
56 http://www.statoil.com/annualreport2010/en/ouroperations/regulation/pages/taxationofstatoil.aspx

Israel is contemplating a 50% resource rent on their gas extractions.[57]

The mining industry has recently raised concerns about the cost of production in Australia, blaming the Minerals Resource Rent Tax (MRRT) and the cost of labour. Little is mentioned of the role high land prices have in undermining labour's cost effectiveness.

Bloomberg reports:

> A furnished two-bedroom apartment in Port Hedland, the world's biggest bulk export terminal, on Australia's cyclone-battered north-western coast rents for almost the price of a three-bedroom penthouse in Manhattan.[58]

Resource nationalism – mining risk

Ernst & Young produce an annual Business Risks Facing Mining & Metals report.[59] Over the last few years the report has warned of the dangers posed by economic rent literacy. In 2009, resource nationalism was ranked at number nine in the Ernst & Young report. To minimise the threat of resource nationalism, mining companies were advised to:

> Align with multi-lateral agencies, such as the World Bank, to achieve a 'prominent victim' status in the face of mounting resource nationalism.

The latest report states:

> In 2011, resource nationalism became the number one risk for mining and metals companies as governments globally continue to make demands in order to increase their slice of the profit pie.

Resource nationalism is code for the public receiving a share of the profits of their common wealth, as they discuss:

> Governments are continually assessing the fiscal terms of the economic rent for mining and metals projects in their countries in order to obtain their share of higher mineral prices via taxes or royalties.[60]

The Henry Tax Review championed the efficiency dividends available by switching from company tax towards a system capturing economic rents.

However, the Rudd government's Resource Super Profit Tax was pitched to the community as a tax on wealth rather than an issue of legal privilege over the common wealth. 'Wealth envy' became the catch cry of lobbyists rather than a debate over the undeniable legal and economic advantage scarce resources owners have over other forms of business.

"the Rudd government's Resource Super Profit Tax was pitched to the community as a tax on wealth rather than an issue of legal privilege over the common wealth. 'Wealth envy' became the catch cry of lobbyists"

Private property rights must recognise the role the public plays in their property value. If nobody existed in the city of Melbourne, the value of land would fall dramatically. Citizens, as a whole, create the rising value. The very existence of a community influences resource values and thus creates economic rents. The same is true for all natural resources and licenced monopolies.

57 http://www.ynetnews.com/articles/0,7340,L-4008487,00.html
58 http://www.bloomberg.com/news/2013-04-09/mine-town-rents-beating-manhattan-show-aussie-pain-commodities.html
59 http://www.ey.com/GL/en/Industries/Mining---Metals/Business-risks-facing-mining-and-metals-2012---2013
60 Ibid

Rio Tinto's 2010-11 production schedule reflects this:[61]

Rio Tinto Australian Production (000 tonnes)	2011	2010	Change
Hard coking coal	8,815	8,967	-2%
Semi-soft coking coal	2,859	3,075	-7%
Thermal coal	17,791	18,430	-3%
Uranium (000's pounds)	7,058	11,377	-38%
Gross sales revenue ($ millions)	7,327	5,652	+30%

Table 3

In Table 3, Rio Tinto's production volumes fell in hard coking coal, semi-soft coking coal, thermal coal and uranium. But gross sales revenue rose by 30%. This reflects the scarcity rents associated with these products, where volumes sold can fall but prices rise, delivering easy profits – economic rents.

Dangers of partial resource rent capture

Using this analysis, a global trend is unfolding around the unparalleled flexibility of capital and its pursuit of economic rents. The millionaire formula is to scour the globe looking for developing economies with poor taxation regimes and an abundance of natural resources. Accordingly, Ernst & Young's Global Oil and Tax Guide is a useful predictor of investment activity.[62] The key is forecasting a nation's issuing of mining rights. The entrepreneurial skill is to buy land surrounding the nearest town to the new mining operation.

"Over time the shortage of land and housing due to the boom-time nature of development escalates land values."

Timing is everything. As Will Rogers famously said 'Buy and wait'. Wait for the mine to set up and the well-paid miners to come flocking. Over time the shortage of land and housing due to the boom-time nature of development escalates land values. Nations that capture mining resource rents but leave land rents untouched suffer. The resultant rising value of land will leach away the wage gains miners make for their risky work. Local retailers will suffer from rising rents. Teachers and nurses miss out on the income but face higher housing costs. Such examples exist in resource-wealthy nations such as Venezuela, Russia and Australia.

> In the Pilbara, a major iron-ore producing area, median housing prices posted an average annual growth of 19 percent over the last five years, according to the Real Estate Institute of Western Australia. Compared to that, national house prices rose by an average annual rate of about 8 percent, based on government data.[63]

Australia's record property bubble has generated concern about the nine times median wage required to buy the average house. Mongolia was declared the world's fastest growing economy in 2012, where a similar mining boom is underway.[64] Affordability has plummeted with property doubling in value in just the last five years. Based on the per capita income in Mongolia today, it would take an average Mongolian between 26 and 40 years to purchase an average home.[65]

Governments who adopt a partial resource rents approach are also left exposed to criticisms of a tax grab. Despite some return on non-renewables, the public lose out twice with the resultant land bubble and loss of biodiversity. Sizeable corporate tax cuts

61 http://www.riotinto.com/documents/Media/120209_Rio_Tinto_announces_record_underlying_earnings_of__15_5_billion__net_earnings_reduced_by_impairment_charge.pdf
62 http://www.ey.com/Publication/vwLUAssets/2012-global-oil-and-gas-tax-guide/$FILE/EY_Oil_Gas_Tax_Guide_2012.pdf
63 http://www.land.com.au/booming-australia-mining-towns-draw-capital-for-property/
64 http://amanpour.blogs.cnn.com/2012/09/25/whats-the-fastest-growing-economy-in-the-world/?iref=allsearch
65 http://en.wikipedia.org/wiki/Mongolia

must be offered to enlist the support of the business community before the inevitable lobbying backlash. Significant environmental bonds must be included to ensure that mining is held to account for any damaging consequences.

Calculations for resource rents

There are different systems for capturing resource rents. Royalties are payable on the quantity or value of mineral, even if there is no profit. Under this system, the large miners do pay company taxes but these are payable on profit even if there is not enough profit to justify the investment.

The Minerals Resource Rent Tax system encourages development of marginal mining projects, but currently allows extravagant depreciation allowances.

This report proposes a reformed MRRT to base revenues on a 40% charge on Earnings Before Interest, Tax, Depreciation, Amortisation and Exploration (EBITDAX). The findings were calculated on the EBITDAX (2011-12) earnings of the big three miners – BHP, Rio and Xstrata - totalling $67.359 billion. An additional $14.637 billion was added to EBITDAX totals to incorporate shareholder dividends paid. At a 40% rate, this sees a contribution from the entire mining sector of $32.8 billion.

Of note is BHP's willingness to pay $54 billion to its shareholders over the last ten years.[66] A yearly dividend averaging $5.4 billion is considerable, but investors do deserve a return – even if on depreciating capital. The question is why do shareholders receive such a disproportionate share over the Australian people – the legal owners of the scarce, appreciating, non-renewable resources? This is exemplified by iron ore, which has appreciated 900% over the last decade. This uplift in the value of finite resources was through no effort of the mining industry. It is a unique privilege, for which a greater share is owed to the Australian people.

"The question is why do shareholders receive such a disproportionate share over the Australian people – the legal owners of the scarce, appreciating, non-renewable resources?"

In 2011–12 the Australian government expected to earn just $1.5 billion from the mining and petroleum sector. Shareholders received $14.6 billion from the big three mining companies over this same period. The first year of the MRRT is expected to deliver just $200 million.

Petroleum Resource Rent Tax

Widely respected as an effective measure for capturing the rising value of oil and gas, the PRRT helped to raise just $1.5 billion for government (2011-12).[67] Woodside Petroleum and Santos are two of the many companies in the Australian industry. They made over $5.5 billion in 2011 (EBITDAX). They paid barely $174m to governments in royalties and the PRRT. Due to revenue separation issues, we were unable to decipher how much the multi-national companies Shell, BP, Chevron, Exxon and BHP either made or paid from Australian oil and gas revenues.

"Accounting practices turned the PRRT's 40% into an effective 3.2% rate when comparing resource rent revenues to profits for the two Australian companies"

Accounting practices turned the PRRT's 40% into an effective 3.2% rate when comparing resource rent revenues to profits for the two Australian companies ($174m/$5.5bn). A reformed PRRT is needed to contribute more in return for the reductions in company, sales and payroll taxes.

Calculations

According to the ABS, the oil and gas extractions industry EBITDAX was calculated at $22.229 billion (2010–11).[68] A 40% resource rent was levied to calculate the $8.092 billion contribution to government revenue.

66 http://www.bhpbilliton.com/home/investors/reports/Pages/Roll%20up%20Pages/2012-Annual-Report,-Summary-Review-and-Form-20-F.aspx
67 http://www.budget.gov.au/2012-13/content/bp1/html/bp1_bst5-06.htm
68 http://www.abs.gov.au/ausstats/abs@.nsf/Products/8155.0~2010-11~Chapter~Industry+performance?OpenDocument

Part III – Natural monopolies

The digital dividend

In terms of data sovereignty and understanding the importance of the common wealth, Australia has just engaged in what former Minister for Communications Stephen Conroy called 'the Digital Dividend' – the auctioning of the 700 MHz electromagnetic spectrum. The sale raised $1.96 billion in one-off revenue for the 15-year licence. More than $1 billion of spectrum remains unsold.

Experts have called the 700 MHz the 'waterfront real estate' of the electromagnetic spectrum. Since the advent of smart phones, data transferred across the EMS has become larger than voice-related traffic.[69]

AT&T Inc Chief Executive Randall Stephenson says whereas 10 MHz of spectrum lasted four to five years in the old days, 'Today, we'll burn through that in about 10 months.'[70] If the iPhone 10 is ever released and we can, for example, send holographs of ourselves to the other side of the world, this natural resource, the once 'public airwaves', will blossom in value.

US economist J.H Snider's report The Art of Spectrum Lobbying estimates US spectrum giveaways have ranged between $140 billion and $480 billion between 1993 and 2007.[71] This was largely prior to the advent of smart phones.

Snider has since reported on President Obama's American Jobs Act of 2011, whose headline act was to raise taxes on the wealthiest Americans:

> But the Act includes a spectrum giveaway worth tens of billions of dollars to some of America's wealthiest and most politically powerful individuals and corporations. Of the Act's 155 pages, 30 are devoted to repurposing U.S. spectrum assets (popularly known as the "public airwaves"), which have been estimated to be worth over $1 trillion.[72]

Senator Conroy wisely placed a floor price on the auction. However the one-off nature of the auction process will lock the government out of economic rents delivered by technological improvements in the future. Despite complaints the floor price was above international pricing, a recent US sale of similar spectrum dimensions was revealing. AT&T paid Verizon a 30% premium on Conroy's price, suggesting the government has some knowledge of the resource's present-day value.[73]

"the one-off nature of the auction process will lock the government out of economic rents delivered by technological improvements in the future."

The remaining $1 billion in 700 MHz spectrum could be leased yearly at an annual valuation determined by professional valuers (based on earning capacity). This would take into account over time the potentials enabled by new technologies. The owner would control a 15-year licence for as long as they are willing to pay the yearly EMS lease valuation.

Calculations

In this multimedia age, the $1.96 billion EMS auction price will in years to come be seen as a bargain. The ABS calculates the existing spectrum already allocated at $8.6 billion.[74] A 20% resource rent on the $10.56 billion total will see the multimedia industry (radio, TV, mobile) contribute $2.12 billion per annum, depending on current valuations. Please note, TV licences were given away in the 1950s.

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69 http://www.jhunewsletter.com/2011/11/07/mobile-carriers-will-profit-from-data-usage-64313/
70 http://www.reuters.com/article/2011/01/12/us-usa-spectrum-idUSTRE70B7T320110112
71 http://isolon.net/about/board/j-h-snider/j-h-sniders-books-glossy-reports-on-information-policy/praise-for-the-art-of-spectrum-lobbying/
72 http://www.huffingtonpost.com/jh-snider/spectrum-auction_b_992508.html
73 http://www.businessspectator.com.au/bs.nsf/Article/mobile-spectrum-4G-Telstra-Optus-Conroy-pd20130129-4DR3P
74 Table 59, http://www.abs.gov.au/ausstats/abs@.nsf/mf/5204.0

EMS, privatisation and democracy

Joseph Stiglitz, while Chairman of the Council of Economic Advisers for President Bill Clinton, advocated the leasing of the electromagnetic spectrum.

He is one of a number of economists who recognise campaign contributions undermine freedom of speech:

> The public owns the airwaves that the TV stations use. Rather than giving these away to the TV stations without restriction – a blatant form of corporate welfare – we should sell access to them; and we could sell it with the condition that a certain amount of airtime be made available for campaign advertising. With free advertising politicians would need less money, and we could constrain those accepting the free advertising in the amount and nature of campaign contributions they accepted. But the TV stations that make such money from campaign advertisers – and from their free gifts of the spectrum – vehemently and successfully opposed the reform.[75]

New Zealand goes part way, using public finance to provide free advertising to parties:

> The Electoral Commission allocates time and money to be spent on television and radio advertisements, and on campaign opening and closing speeches. For example in 2008 $3.2 million and 102 minutes of television time was allocated to 14 parties – with 60% of the money going to Labour and National. Political parties are not permitted to use their own money to buy additional broadcast advertising.[76]

Privatising the electromagnetic spectrum undermines democracy – the everyday person has little capacity to compete with corporations and their extensive campaign contributions. This makes the extensive public broadcasting network in Australia all the more important to maintain and improve.

"Privatising the electromagnetic spectrum undermines democracy – the everyday person has little capacity to compete with corporations and their extensive campaign contributions."

The corporate commons

Business will greatly benefit from reduced compliance costs inherent in removing most of Australia's 126 taxes. For these benefits to be realised in a stable society, corporations must contribute for the legal privilege of personhood, limited liability and the maintenance of the legal system. Without well functioning corporate infrastructures, confidence in the fulfilment of private contracts may falter.

Additionally, the stock exchange is a powerful vehicle for immense wealth creation. This trading infrastructure was publicly developed over centuries. Peter Barnes, author of Capitalism 3, writes:

> For those of you who haven't been involved in a public stock offering, investment bankers are like fancy doormen to a free palace. While the public charges almost nothing to use the capital markets, investment bankers exact hefty fees.[77]

Calculations

The market capitalisation of the Australia Stock Exchange was $1.382 trillion (Jan 31, 2013). A 2% corporate commons fee would deliver $27.64 billion to public coffers. This equates to 40% of current company taxation levels, ensuring Australia is investment friendly for those engaged in productive, entrepreneurial activities.[78] Admittedly, most companies will pay some form of land tax, and minor charges like domain name registration fees. However, the overall tax burden will be significantly lower.

75 The Price of Inequality, Joseph Stiglitz, 2012, p.136
76 http://www.teara.govt.nz/en/elections-and-campaigns/5
77 http://capitalism3.com
78 op cit, www.budget.gov.au/

Water

The separation of water title from land title in 1994 by the National Water Commission is delivering positive outcomes for the highest and best use of water. However, public policy must acknowledge that great profit can be made for little effort if there are no public holding charges on entitlements to scarce natural resources. At present, there appears to be little in the form of recompense for the public.

"public policy must acknowledge that great profit can be made for little effort if there are no public holding charges on entitlements to scarce natural resources."

Water can be traded either as a temporary 'allocation' or a permanent 'entitlement'. In 1990, a water licence for a one megalitre (ML) allocation sold for $50 to $100. At the height of the drought in 2007, water licences sold for $2,600/ML, an increase of 26 times.[79]

The Australian water market doubled in size between 2007-08 and 2009-10. $1.5 billion in water licences were traded and the market reached $3 billion.

Arbitrage opportunities with irrigation water

In March 2012, Blue Sky Water (BWSP) released an Australian Water Market update:

> Urban water supply involves recurrent costs of about $2.50 to $3.00 per kilolitre (kL) across Australia. This is the equivalent to $2,500 to $3,000 per mega-litre and it is a recurrent cost which is paid as water is consumed. This compares to the $2,000/ML 'one off' cost for an irrigation water licence.
>
> As well, the cost of urban water is increasing, as Australian governments seek full cost recovery for water. It is expected that potable water will cost Australians about $4.00/kL for every kL of water they use within two to three years.
>
> The movement of irrigation water to industry and mining presents arbitrage opportunities for owners of irrigation water licences, as superior returns are possible. Arbitrage opportunities indicate that irrigation water licences in Australia are undervalued.[80]
>
> Arbitrage opportunities indicate that irrigation water licences in Australia are undervalued.

In March 2012, Blue Sky Water (BWSP) released an Australian Water Market update:

> Current market prices (where settlement and registration will occur over the next 1-2 months) suggests selective opportunities are present to acquire Water Entitlements in the southern MDB at perhaps a further 10% discount to the volume weighted average prices registered in February 2012.[81]

Reflecting the abundant supply available following the breaking of the drought, the price of water allocations (annual water volumes allocated) have fallen to historic lows in the last few years. Since January 2011, water allocations have traded between $10 and $30 per megalitre (ML) across the southern interconnected trading zones (including the Murray, Murrumbidgee and Goulburn rivers). This compares to an average in the range of $80 to $120/ML over the past ten years and a peak between $800 and $1000/ML during the worse drought period in 2007-08.[82]

79 www.australianwaterinvestments.com.au
80 www.australianwaterinvestments.com.au/.../29_water_prices_being_an_asset_bubble.pdf
81 p1, www.dealersgroup.com.au/kb/quarterly-review-austral-1.pdf
82 ibid, p4

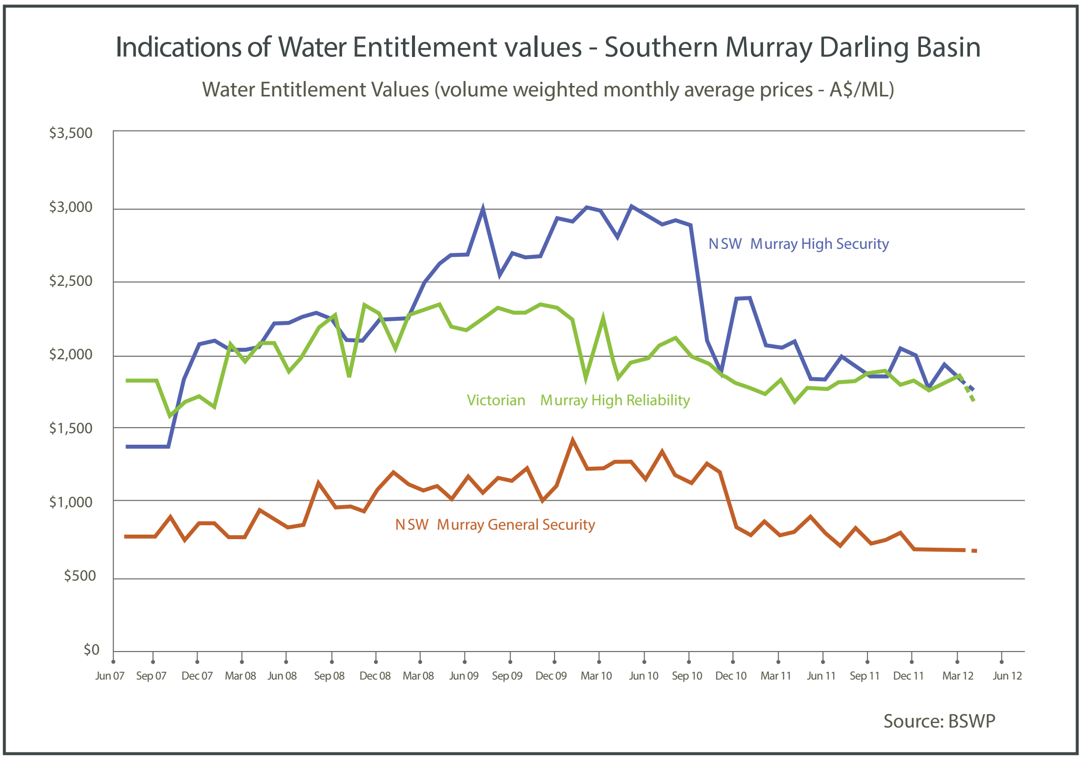

Figure 12

Blue Sky recommended investing in water due to:[83]

- the Federal government's Murray Darling Draft Basin Plan, reducing water for farming in favour of the environment
- farmers repairing their balance sheets by selling Water Entitlements whilst dams are full
- additional farming production due to the current water availability
- a return of drought based climate pressures.

Blue Sky's website states, 'BSWP believes Australian Water Entitlements will experience long term capital growth primarily driven by incremental fresh water scarcity as a key input to food, fibre and energy production required by a growing world population.'[84]

Water Entitlement holders currently pay no resource rents. The ABS does not value the licences in the national accounts. Bob O'Brien has estimated the value of the water market at $50 billion.[85] Additionally, the value of access to underground aquifers has not been included and must be in time.

Calculations

With the value of 2012 Water Entitlements holding up despite regular rainfall, a 2.6% resource rent on this monopoly right is called for. We have taken Bob O'Brien's $50 billion valuation estimate to calculate a $1.3 billion contribution. Due to the lack of quality water valuation data, a lower 2.6 percentage points has been nominated. We look forward to a national valuation by government sources.

83 ibid, p5 - 6
84 http://blueskyfunds.com.au/BlueSky_Water/water_in_australia.html
85 ttp://www.eurekareport.com.au/article/2010/4/19/commodities/ultimate-liquid-asset

Utilities

In October 2012, Infrastructure Australia (IA) spearheaded a move to privatise $220 billion in public assets via the sale of 82 government entities.[86]

The effrontery to promote such a strategy as yet another privatised toll road enters bankruptcy – the Brisbane Airlink M7 toll road – strikes at the need for alternative views.[87]

"the IA board has 16 of 20 directors with a vested interest in the resultant trade from such large-scale privatisation."

It should be noted that the IA board has 16 of 20 directors with a vested interest in the resultant trade from such large-scale privatisation.[88]

In terms of electricity privatisation, Queensland Energy Minister Stephen Robertson said:

> Queensland is still significantly below the electricity prices paid in Victoria so if that is what the Federal Government is hanging their hat on as a compelling argument to privatise energy-generating assets then that's a curious way of going about it.[89]

Utilities are unique monopolies due to:

- large start up investments acting as a barrier to entry
- the scale of investment encouraging concentration in the industry
- the national economic significance of these inputs requiring the lowest utility pricing structures to maintain a competitive economy
- a lack of substitutes, so that demand elasticity to price change is low, allowing price gouging.

There are additional reasons why electricity privatisation is inferior. Firstly, marginal revenues are not sufficient to cover the returns required on multi-billion dollar fixed capital infrastructure. Secondly, directors of privatised utilities are legally bound to prioritise profits for shareholders over customer service. And finally, the climate shift will put downward pressures on sale prices for power generators and upward pressures in the short term on consumer prices.

The Australia Institute's David Richardson writes in Electricity and Privatisation: What Happened to Those Promises?

> The cost of electricity increased by 170 per cent from 1995 to 2012, an increase four times higher than the rise in the consumer price index (CPI) ... productivity across all workers increased by 33.6 per cent, while in the electricity sector it declined by 24.9 per cent ... the number of managers in the (electricity) sector has grown from 6,000 to 19,000 from 1997 to 2012, a rise of 217 per cent.[90]

This again raises questions about the viability of the privatisation agenda – that competitive forces, requiring a larger workforce, are no match for economies of scale.

"the number of managers in the (electricity) sector has grown from 6,000 to 19,000 from 1997 to 2012, a rise of 217 per cent."

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86 http://afr.com/p/national/adviser_seeks_bn_privatisation_to_0LDvT11tw50f1sjJRHZzyH
87 http://www.couriermail.com.au/news/queensland/brisbanes-airportlink-m7-tunnel-hits-milestone-but-traffic-still-below-forecast/story-e6freoof-1226550033199
88 http://www.infrastructure.org.au/content/ourboard.aspx
89 http://www.abc.net.au/news/2011-12-13/government-pushes-states-to-privatise-power/3727966
90 https://www.tai.org.au/index.php?q=node%2F19&pubid=1142&act=display

Dividends

Power utilities paid dividends in their last financial year of:

- NSW $1.43bn[91]
- Qld $1.396bn[92]
- Vic $362m[93]

Thus $3.2 billion was paid in dividends to government by only three of the 82 entities IA proposes to privatise.

Calculations

The $220 billion valuation given by IA does not include privatised utilities. The 10% rate on asset bases is higher than other asset stocks to account for these already privatised utilities. That said, the monopoly rents attributable to utilities in water, power, ports, rail and non-privatised airports allow 10% of the $220 billion in assets to be collected as a resource rent. The resultant $22 billion in payments will help replace public dividends, company tax and indirect taxes etc. As noted above, utilities already pay significant public dividends.

Australian airports

Airports enjoy an unshakable monopoly position: a city usually has only one, and all major air traffic movements are obliged to use its facilities. This funnels airlines and, more importantly, affluent passengers through the gates of airport operators.

The unique monopoly status of airports provides operators abnormal returns not available to other investors. Operators are also heavily reliant on government-funded interventions on their behalf – road and rail links, government-provided air services, planning and zoning restrictions on land under flight paths, etc – which further entrench and enrich monopoly owners.

"The unique monopoly status of airports provides operators abnormal returns not available to other investors."

In its Airport Monitoring Report 2010–11, the Australian Competition and Consumer Commission (ACCC) observed that airports' returns are less volatile than those seen in related markets, such as airlines.[94] Even allowing for the limitations of the monitoring results, these observations are consistent with outcomes that would be expected of firms that can exercise market power.

The scope of the ACCC analysis did not include the effect of steep commercial rents upon consumer goods, where a one litre bottle of water can cost $4.50. Compare this to the public outcry when a litre of petrol costs $1.50 and ask why the price differential is accepted?

The findings on Melbourne Airport car parking were revealing. 'The largest increases occurred at the ten hour price point, which increased by a total of $22 (73.3 per cent). The price for three hours and 24 hours each increased by $10, or 55.6 per cent and 23.8 per cent respectively.'

The ACCC found car parking had a higher operating margin as a percentage of revenue at 75.8% versus the total airport of 64.3%.

Concern over airport monopoly profits saw Clive Domain, travel writer at The Age write:

> Airports are more profitable than banks and the fuel companies, whose operating margin – the percentage of revenue that's gross profit – is 40-60 per cent, a return not available to businesses in competitive industries, where 1-2% is accepted by some (like airlines), 10 per cent is OK and 30 per cent is heroic.

91 NSW Auditor General Volume Four 2012 - Focusing on Electricity
92 QLD audited state-finances-report-2010-11-financial-statements-part-b
93 SP Ausnet annual report 11- 12
94 http://www.accc.gov.au/content/index.phtml/itemId/347781

> The most lucrative of Australia's airports, Sydney, last year made an operating profit of $773 million on $943 million in revenue. That's an operating margin of 82 per cent; the airport had to spend only $170 million to make nearly a billion. Through the miracle of accounting, Sydney airport last year lost $131 million after allowances for depreciation, debt servicing and other devices it is able to use.[95]

These monopoly privileges ought to be separately identified and uniquely taxed as a fairer base for government revenues. For the purposes of this exercise, we set the monopoly charge at 40% of Earnings Before Interest, Depreciation, Taxation and Amortisation (EBITDA).

	Airport Corporation EBITDA	Potential return to government @ 40% of EBITDA
Sydney	789	315
Melbourne & Launceston	482	192
Brisbane	355	142
Perth	191	76
Adelaide	102	40
Totals	1919	765

Table 4

"As there are few opportunities for competition, pricing ought to be tightly regulated if airports are to remain in private hands. Airports are a prime example of a well-regulated public monopoly being superior to privatisation."

As there are few opportunities for competition, pricing ought to be tightly regulated if airports are to remain in private hands. Airports are a prime example of a well-regulated public monopoly being superior to privatisation. Shareholder interests should not trump the need for low-cost overheads for business and the community. Australia and the UK are the only two nations on the planet to have succumbed to rent-seekers lobbying for privatised airports.[96]

Taxi licences

Taxi Licences are a government mandated supply constraint that adds scarcity value to the licence holders. Dr Ken Henry stated in Australia's Future Tax System:

> Quantity restrictions on taxi licences are an implicit tax on taxi users, from which additional revenue flows to existing taxi plate holders and State governments.[97]

The Victorian Taxi Industry Inquiry states:

> Melbourne taxi licences are now worth almost half a million dollars and the vast majority are leased out (or assigned) by licence holders to taxi operators for ever increasing prices. This places great cost pressures on taxi operators who, in turn, offer very little to drivers.[98]

95 http://www.theage.com.au/travel/blogs/travellers-check/the-true-cost-of-our-airports-20110829-1jha7.html
96 ibid
97 p.401 (PDF) http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm
98 http://www.taxiindustryinquiry.vic.gov.au/, p.23

There are 5,181 taxi licences in Victoria. Around 4,000 are privately owned and pay an annual fee of $512 for the privilege. Those licences are extremely valuable. The taxi directorate advises on their website the average sale price of a Melbourne licence last year was $484,250.[99] Brisbane taxi licences are valued (2003-2011 average) at $420,000.[100]

This tradeable asset is the capitalised difference between fares collected and the cost of running a cab – wages, fuel, vehicle, insurance, the network service provider and government charges. The value is created by government limiting licence supply below taxi customer demand. Crimping supply makes passengers wait and lifts prices – funnelling revenue into the hands of licence owners, not the drivers, many who earn just $8 an hour.[101]

“The value is created by government limiting licence supply below taxi customer demand.”

Generating top returns takes a level of skill and judgement to manage staff, rosters and the vehicle. This, however, is a return to labour, not to the asset.

The annual value – the ‘economic rent’ – of licences can be determined from leasing costs. Indeed, 70% of licences are leased to operators for around $30,000 per year.[102]

The Department of Transport’s Victorian Taxi Directorate also leases about 1100 licences to operators each year, making more than $11 million or around $10,000 per licence per year.

The solution is quite simple, as the Victorian Taxi Industry Inquiry led by Professor Alan Fels recommends: raise the annual registration fee for taxi licences to, for example, $25,000 a year, returning some $118 million ($129m less the existing $11m state leases) to the Victorian Treasury to fund tax cuts elsewhere.

In positive news for economic reformers, the Victorian Government has acted upon the Fels Inquiry by opening the supply of new taxi licences to the general public on a leasehold basis of $22,000 p.a.[103] The potential added supply of taxi licences saw the value of conventional taxi licences (who still only pay $512 p.a in licensing fees) fall from $500,000 to $350,000 soon after the reforms were announced.[104]

This must be tough for the licence holders, but they have been free riding on the backs of long-suffering taxi users. Remember, those licences were issued without charge and government is entitled to change the rules around such a gift at any time. The challenge is for other states to now follow suit.

Estimating the privately captured economic rents at a national level is complicated by differing state classifications and economic models. The simple estimate below acknowledges the limitation of the data, while pointing to a fertile field for the capture of economic rents generated by government licences.

99 http://www.taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-transfer-prices

100 http://www.tmr.qld.gov.au/~/media/busind/Taxi%20and%20limousine/Taxi%20strategic%20plan/Pdf_taxi_industry_review_economic_model.pdf

101 http://www.theage.com.au/victoria/taxi-drivers-stage-mock-funeral-20121128-2acy6.html

102 http://www.taxi.vic.gov.au/owners-and-operators/taxi-owners-and-operators/licence-transfer-and-assignment/metropolitan-taxi-licence-assignment-prices

103 http://www.taxi.vic.gov.au/__data/assets/pdf_file/0004/91921/WOVG-Response-Taxi-Inquiry-2013.pdf

104 http://news.smh.com.au/breaking-news-national/new-licences-new-fares-in-vic-cab-changes-20130528-2n8hh.html

State/ City	Taxi licences	Annual value @ $25,000
Sydney, NSW	4,458	111,450,000
All Victoria	5,181	129,525,000
Adelaide, SA	1,000	25,000,000
All Western Australia	1,474	36,850,000
South East Queensland	2,289	57,225,000
National Total	14,402	360,050,000

Table 5

Fishing licences

Over 90% of Australia's most valuable fishing licences – bluefin tuna – are owned by Port Lincoln fishermen. These were freely granted when compulsory licences were introduced in the mid 1990s.

It was reported in the early 1990s that 'one of the richest of today's tuna kings, Tony Santic, reportedly sold 337 tonnes of his quota for $72 million, or $214,000 a tonne, to Melbourne businessman Victor Smorgon'.[105]

Bluefin tuna fishing has been honed into a fine art. Over just a few weeks, schools of fish are tracked by plane. Tug boats then net and haul the catch back to huge fish pens. The tuna then spend the next few months being fattened up. Once prepared, packaged and sent to markets such as Japan, a single fish often sells for $10,000. The record in 2010 was $736,000.[106] Over $1.6 million was paid for a single bluefin tuna in 2012.[107]

Victorian abalone licences were virtually given away in the 1960s for as little as $6. In 2009-10 the industry reported $23 million in production.[108] The 71 licences now cost $30,000-$40,000 to renew.[109]

In 2011-12, Victorian abalone royalties totalled $240,076.[110] This equates to a 1% resource rent.

In the drive towards free market efficiencies, 'developing fishery permits' were made available for jelly fishing in an effort to 'create a market' in Victoria. At a one-off cost of $11,000, the early movers who take up such a permit are first in line to gain a licence and thus attain property rights.[111] While this market has not kicked off as expected, the issue is that jellyfish are gifts of nature. There is no recompense for society over time if the world's fastest carbon-consuming compound is located in the DNA sequence of such a fish. If this were to occur, all jellyfish licences would immediately escalate in value.

Economic rent, the free lunch, would be handed to those privileged licence holders.

"An annual licensing fee based on the market value and volume of the fish caught is 'closed loop' economics."

The Northern Prawn Fishery is another of our most valuable fisheries.[112] Licence holders pay administration fees in just the hundreds of dollars for government management of a multi-million dollar resource. In effect, taxes from blue collar workers in the manufacturing industry pay for National Parks officers to protect these 'private' resources. Additional advantages include the

105 http://www.theage.com.au/news/national/fishy-behaviour-doesnt-worry-the-millionaires-of-port-lincoln/2006/08/18/1155408020865.html?page=fullpage
106 http://www.publicintegrity.org/node/7817/2010/11/07/2335/overview-black-market-bluefin
107 http://www.telegraph.co.uk/news/worldnews/asia/japan/9782074/Bluefin-tuna-sells-for-record-1-million.html
108 http://www.dpi.vic.gov.au/fisheries/commercial-fishing/commercial-fish-production-2011
109 Personal correspondence with Victorian Department of Primary Industries 05/02/2013
110 100 Letter from Minister Walsh 04/02/2013 ref: MW004269
111 Personal correspondence with Victorian Department of Primary Industries 01/02/2013
112 http://www.csiro.au/Portals/Media/Nothern-Prawn-Fishery-Case-Study.aspx

licence owners benefiting from the CSIRO's world best practice management.[113]

An annual licensing fee based on the market value and volume of the fish caught is 'closed loop' economics. Beneficiaries to such private property rights should pay access rights.

An OECD paper in the series Environmental Fiscal Reform for Poverty Reduction, cites Namibia as a case of improved fishery management and rent capture:

> Prior to independence in 1990, access to Namibia's fisheries resources was largely uncontrolled and coastal waters were massively over-fished, primarily by foreign fleets. Quota fees – based on total allowable catch for major species – and licence fees were introduced with fishing rights biased to Namibian vessels. By-catch fees and a Marine Resources Fund levy were imposed, based on tonnage of landed catch to finance fisheries research and training. As a result, the sector contributed about USD 220 million to GDP in 2000 and was valued at USD 354 million in 2001.
>
> The indirect benefits have also been substantial: the fish processing industry has grown rapidly. The number of whitefish-processing plants has grown from zero in 1991 to more than 20 in 2002, and employment in the sector has grown to about 14,000 people. Namibia's rights-based fisheries management system incorporates an effective monitoring and compliance system at a cost that is commensurate with the socio-economic value of the sector. As a result, Namibia enjoys very high levels of compliance by its fishing industry, a situation very different from 1990.[114]

Recently, the Federal government established the world's largest network of Marine Parks.[115] In time this will assist fish stock replenishment. Fishing licence holders will benefit. However, there is little recompense for the public purse under current arrangements. Despite the future windfalls licence holders will enjoy, the government took a battering in the press at the time, largely due to short-term thinking.[116]

Neither the Australian Fisheries Management Agency nor the ABS keeps records of fishing licence values. Thirteen fishing Statutory Fishing Rights licences exist at the federal level. According to the Australian Fisheries Management Authority, just $13.8 million is expected in levy fees this year.[117]

Calculations

The 2009-10 value of production in the fishing industry was $2.18 billion.[118] A 40% resource rent on $2.18 billion is $840 million. The licence value is ultimately what calculations should focus on.

Forestry

Little detail is available for royalty rates set and revenues raised due to the privatised nature of many Australian forests. South Australian Forestry, for example, refused to reveal revenues, claiming the safe haven of 'commercial in confidence'.[119]

A letter from the Victorian Minister for Agriculture and Food Security revealed in 2011-12:[120]

- $524,000 in royalties from Forest Produce licences
- $18,078,093 of combined royalty and haulage fees collected

113 ibid
114 www.oecd.org/tad/fisheries/36371711.pdf
115 http://www.abc.net.au/news/2012-06-14/burke-announces-marine-parks-reserve/4069532
116 http://news.smh.com.au/breaking-news-national/marine-parks-will-hurt-small-businesses-20121116-29fmy.html
117 http://www.afma.gov.au/resource-centre/publications-and-forms/corporate/cost-recovery-impact-statement-2010/
118 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Fishing~182
119 Personal correspondence with South Australian Forestry 05/12/2012
120 op cit, Minister Walsh

These figures were not individually listed in the 2011-12 budget papers.

At the Federal level, the 2012 ABS Yearbook states that 188,000 hectares of forest were in production.[121]

The Department of Agriculture, Fisheries and Forestry (DAFF) collect just five cents per cubic metre of timber.[122] Export woodchip hardwood pays a paltry 3.5 cents per cubic metre. [123]

'In 2010-11, 26.5 million cubic metres of logs were harvested from Australia's production forests for a gross value of around $1.84 billion. Around two-thirds of this log harvest was from plantations with the remainder from native forests,' states the DAFF website. [124]

On these figures, DAFF collected $1.325 million for timber harvested at a value of $1.8 billion. This equates to a royalty payment of 0.007%. Road subsidies and direct government contributions to the industry are many times the revenues collected.

Calculations

Our estimate of $50 million was based on the annual production of $1.8 billion at a very conservative royalty of 2.7%. In years to come these forests will earn carbon credits and significantly increase in value according to their carbon sequestering capacity. The battle over who earns these carbon credits will be a hot issue.

Gambling licences

As early as 1974, West Australia's Royal Commission into Gambling recognised poker machines as a damaging basis for government revenue:

> ...poker machine playing is a mindless, repetitive and insidious form of gambling which has many undesirable features. It requires no thought, no skill or social contact. The odds are never about winning. Watching people playing the machines over long periods of time, the impressionistic evidence at least is that they are addictive to many people. Historically poker machines have been banned from Western Australia and we consider that, in the public interest, they should stay banned.[125]

But as is often the case when monopoly profits are channelled into lobbying, Perth now has over 3,000 poker machines in one location.

Poker machines should be eradicated through regulation. The current addiction of state governments to this subtle form of taxing the poor is lazy social and fiscal policy.

The Henry Tax Review again reiterated the importance of economic rent:

> Gambling taxes should be focused on recouping economic rent generated by government restrictions on the supply of gambling services. If State governments retain gambling taxes, they should increase the focus on capturing rent.[126]

The 2010 Victorian poker machine auction was decried by the Auditor-General as a $3 billion giveaway.[127] Such a one-off auction reflects the dangers of fee simple contracts. Poker machines that pull in annual takings of more than $80,000 were auctioned off for as little as $5,500. In this instance, over $50,000 p.a. could be seen as economic rent – money for hospital beds forgone.

121 http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Forestry~181
122 http://www.daff.gov.au/agriculture-food/levies/other_levies/forest__and__wood_products2/rates
123 http://www.daff.gov.au/agriculture-food/levies/other_levies/forest__and__wood_products/rates
124 http://www.daff.gov.au/forestry/national/industries
125 Report of the Royal Commission into Gambling 1974, p.72
126 op cit, Dr Ken Henry, p.153 (PDF)
127 http://www.audit.vic.gov.au/reports_and_publications/latest_reports/2010-11/20110629_electronic_gaming.aspx

The Age stated:

> The Melbourne Football Club's board allocated $4 million for 92 machines at the Leighoak club, but ended up paying just $370,000.[128]

These were limited returns for the public despite three and a half million dollars spent on consultants for the auction design process.[129]

"The 2010 Victorian poker machine auction was decried by the Auditor-General as a $3 billion giveaway."

A simpler tax system will enable the growth of small business activity, offsetting the short term loss of jobs at casinos. Regular pub and tavern gamblers may well opt to spend the money at the buffet instead, transferring employment within the business from one department to the other.

Calculations

The Queensland Treasury provides the leading data in its Australian Gambling Statistics 28th Edition (Summary Tables). 198,725 poker machines operate nationwide, delivering a net gambling surplus of $18.45 billion (2009-10).[130] A 40% resource rent on the surplus delivers $7.6 billion. Existing gambling revenues brought in $5.1 billion (2010-11).[131]

Public transport providers

The calculations for this industry are an estimate based on Metropolitan Transit Rail's annual report. MTR operates the train network for Hong Kong and now runs Melbourne's trains under a joint venture. With HK's population of just 7 million people, MTR delivered EBITDA profits in excess of $A1.5 billion per annum over the last five years.[132] Government approval of development rights above train stations has played a major role in a profitable public transport system.

"Such new land re-zoning gives MTR the ability to develop and on-sell (or rent out) a shopping centre with apartments above certain stations."

Such new land re-zoning gives MTR the ability to develop and on-sell (or rent out) a shopping centre with apartments above certain stations. The public transport system benefits when such land rents can be used to finance fixed costs (new railway stations, lines etc). Ticket sales are used only to cover the smaller marginal costs. In urban planning this is known as 'land value capture'.[133] Revenue from such new development rights will constitute the majority of the public transport's contribution to government. A number of nations throughout East Asia utilise land value capture for profitable rail outcomes.[134]

Calculations

The eight major city public transport systems are expected to contribute $2.4 billion to Australian governments. No company, sales or payroll tax is paid in return. Sydney's RailCorp paid $74 million in payroll taxes and fringe benefits in 2010-11.[135]

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128 http://www.theage.com.au/afl/afl-news/pokies-deal-sparks-afl-clubs-feud-20100512-uy3z.html
129 op cit, Victorian Auditor General, p.59
130 http://www.oesr.qld.gov.au/products/publications/aus-gambling-stats/aus-gambling-stats-28th-edn-summary-tables.pdf (Table D)
131 ABS 5506, table 18 (2010-11)
132 http://www.mtr.com.hk/eng/investrelation/financialinfo.php
133 www.prosper.org.au/wp-content/uploads/2012/12/LVC_Primer_final.pdf
134 http://www.osmose-os.org/cgi-bin/index.pl?mode=1&ID=39&type=1
135 RailCorp Annual report 2010-11

Part IV – The frontiers of monopoly

Cyber squatting

The term 'cyber squatting' refers to purchasing a domain name which a related business will one day see value in. This practice has seen domains such as fridges.com.au sell for $20,000, sextoys.com.au for $25,500 and investmentproperty.com.au for $125,000.[136]

On July 1 2007, it was reported that Apple paid at least US$1 million to Michael Kovatch for the transfer of the iPhone.com domain name. Kovatch registered the domain in 1995.[137]

No economic value is added by the middleman acquiring the domain. For a registration price of as little as A$1, any selling price above this is a pure economic rent.

A recent controversy saw the MirandaKerr.com.au domain name taken by cyber squatter James Wester. He claims ownership of 6500 domains in his portfolio worth an estimated $16 million, averaging $2,462 each.[138]

According to Deloitte Access Economics, in August 2011 total domain names registered in Australia reached 2.18 million (Figure 13). Over the year to August 2012, they have grown by 13.8%, now totalling over 3 million.[139]

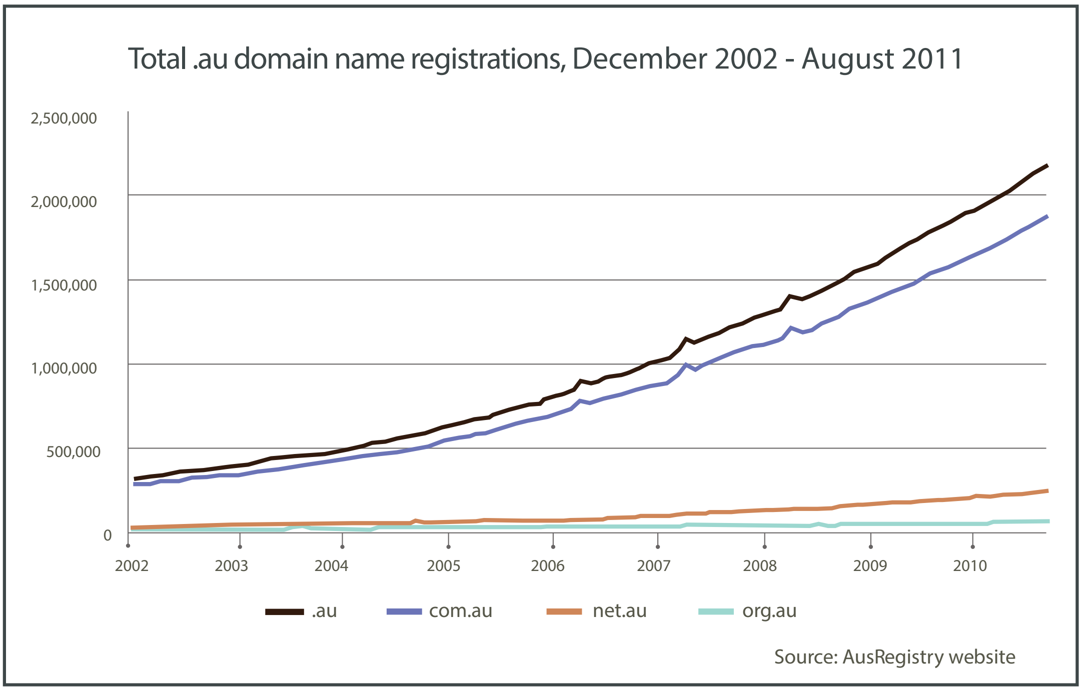

Figure 13

Reflecting investor interest, Mark Lye, the CEO of NetFleet (a leading Australian domain sales portal) glanced around an informal gathering of cyber squatters at a pub, and claimed those present owned 150,000 domains.[140]

Another monopolist of note in the fast moving internet marketplace is VeriSign, the US company that verifies .com, .net, and .name generic top-level domains. As far as known, this immense monopoly power was handed to the company by the US government for free in the cottage stage of internet development.

"The general public must understand that such a legalised monopoly is bound to deliver economic rent to those with 'gatekeeper' powers."

In positive signs for IT economics, the initial price to apply for the newly released generic top-level domains (gTLD) will be $185,000, with an annual fee of $25,000.[141] The $25,000 fee acts as a holding charge, deterring would-be cyber squatters.

136 http://www.netfleet.com.au/research/
137 http://blog.domaintools.com/2007/07/iphone-now-owned-by-apple/
138 Read more: http://www.smh.com.au/technology/technology-news/saga-of-miranda-and-the-altruist-accused-of-cyber-squatting-20110914-1k8ql.html#ixzz2Bz7qcPVB
139 http://www.auda.org.au/news-archive/auda-17012012/
140 http://www.technologyspectator.com.au/virtual-australian-property-boom
141 http://en.wikipedia.org/wiki/Generic_top-level_domain

Calculations

A domain name registration licence levied at an average $100 per domain name would be a starting point for deterring this behaviour. Similar to other resource rent charges, the licence fee acts as a holding charge, penalising hoarding. Higher rates would be levied on '.com.au' than '.net.au' as the dot coms represent premium Australian web locations. Such a charge will see the price of squatting domains drop as the longer they are held, the more charged. It becomes uneconomic to hold a dormant domain unless revenues are earned, encouraging productive economic use. Taxes on economic rent are unique in that they take away scarcity rents, rather than pushing up prices.

On 3 million domains, we have calculated the domain industry will deliver $300 million to the government.

In pursuit of simplicity, rather than taxing bona fide users, cyber squatting could be eradicated by requiring domain names not based on a registered business name to be vacated in favour of the registered company or business name owner. The voluntary complaints system at present is reactionary rather than preventative.[142]

Patents on life

Dr. James Watson, co-discoverer of the double helix structure of DNA, has stated:

> ...DNA's importance flows from its ability to encode and transmit the instructions for creating humans. Life's instructions ought not be controlled by legal monopolies created at the whim of Congress or the courts.[143]

As biotechnology blooms, a legal debate is underway around the world as companies rush to privatise genome sequences. The ethical considerations of monopolising the building blocks of life for profit must be debated.

MP Malcolm Turnbull wrote:

> Companies holding these patents are able to charge very high fees to anyone who wants to test to see if the gene exists within their own body. They have, in effect, taken out a patent of part of ourselves. A company holding such a patent is also able to prevent any other person from conducting research on that isolated gene sequence.[144]

In Australia, Genetic Technologies Ltd used their licence over gene's BRAC1 and BRAC2 to challenge the legitimacy of breast cancer research at the Peter MacCallum Hospital.[145]

The company has so far earned $73 million in contracted revenue from similar licences in 24 countries.[146]

Australian courts have accepted the 'manner of manufacture' test to support Genetic Technologies' development rights.[147]

If at all allowed, the legal privilege for such a monopoly right must require a fee paid back to the community for this encircling of the commons. That levy must be based on the annual earning capacity of the monopoly right.

"As biotechnology blooms, a legal debate is underway around the world as companies rush to privatise genome sequences."

The same principles apply to patents of plant, animal life and nanotechnology. The rising threat patent thickets play in creating barriers to competition must be considered in a genuine free market.[148]

142 http://www.auda.org.au/news-archive/12092011/
143 http://www.reuters.com/article/2012/08/16/us-myriad-patent-idUSBRE87F12K20120816
144 http://www.smh.com.au/opinion/society-and-culture/humanity-fights-for-ownership-of-its-soul-20101102-17c9d.html#ixzz2CSoGwNbc
145 http://www.abc.net.au/7.30/content/2009/s2561751.htm
146 http://www.lifescientist.com.au/article/416132/gene_patents_challenged_court/
147 http://www.alrc.gov.au/publications/6-patentability-genetic-materials-and-technologies/patentable-subject-matter
148 http://faculty.haas.berkeley.edu/shapiro/thicket.pdf

In recent developments that declare a victory for the public interest, the US Supreme Court overturned DNA privatisation. Justice Clarence Thomas stated 'We hold that a naturally occurring DNA segment is a product of nature and not patent eligible merely because it has been isolated'.[149] The rulings have not yet been tested in Australia.

The ABS calculates private Research and Development, a proxy for patent values, at $12.98 billion (2007-08). It states:

> Patent lives do not necessarily represent the lives of all R&D products and, in principle, an adjustment should be made to account for the fact that not all R&D is patented.[150]

Calculations

As R&D depreciates and includes non-patented development, a minimal 0.005% charge on R&D (a proxy for patent) values was placed on the 2007-08 ABS valuation of $12.98 billion. This delivers $64.9 million, with annual valuations of this legal privilege to be provided in the future.

Satellite orbits

Another example of the commons being given away for free is the right to operate satellite orbits over Australian airspace. As Professor Barney Wharf writes in his paper 'Geopolitics of the Satellite Industry':

> A key issue in international regulation concerns orbital 'parking spots', particularly the coveted 'geostationary gold', which are allocated by the International Telegraph Union. The ITU confronts a dilemma between states already occupying slots and newer entrants, typically developing countries, which argue early users enjoy an unfair advantage and call for abolition of the currently existing 'first come, first served' policy (Martinez 1985).[151]
>
> Intelsat's 433 earth stations, comprising 79 per cent of those capable of transmitting international traffic, give it a near monopoly status... It owns and operates a fleet of 25 high-powered spacecraft in geosynchronous orbit, far more than any other network; indeed, Intelsat boasts of being virtually the only truly global satellite system. Most international telephone calls (which generate two thirds of its revenues) are routed through Intelsat's satellites, each of which carries tens of thousands of voice circuits.[152]

The Space Foundation estimated in its Space Report (2009) the industry generated revenues worth approximately $257 billion in 2008, from public and private sources.[153]

Calculations

The Australian economy is widely quoted as producing 2% of global GDP. Australia's 2% of the satellite industry's $257 billion is $5.1 billion. A 10% resource rent sees a $510 million contribution. This contribution is conservative when considering the immense growth in data traffic since the calculation of these 2009 figures.

149 http://www.abc.net.au/news/2013-06-14/us-supreme-court-human-genes/4753106
150 http://www.abs.gov.au/ausstats/abs@.nsf/Products/5310.0.55.002~September+2009~Main+Features~Chapter+6%20Research+&+Development?OpenDocument
151 Geopolitics of the Satellite Industry, Barney Wharf, 2006
152 ibid
153 Space Economy in the UK, BIS Economics Paper No3, Feb 2010

Internet infrastructure

The ability to communicate online at least cost should be seen as a fundamental element to our freedom of speech. That public policy has allowed private interests to control this essential instrument of communication will be closely questioned in future.

"The ability to communicate online at least cost should be seen as a fundamental element to our freedom of speech."

The cost of installing Australia's National Broadband Network (NBN) is expected to be $43 billion. Existing internet infrastructure is estimated at half that value.

Calculations

A $64.5 billion asset base at a 10% resource rent sees a $6.45 billion contribution from the industry, including NBN and internet service providers such as Bigpond, Optus and iiNet.

Banking licences

This section could well have its own report, as the publicly granted privilege to create money out of thin air is priceless. Under the current system, as Professor Michael Hudson has stated, 'a property is worth whatever a bank will lend, because that is the price that new buyers will be able to pay for it.'[154] Our proposed reforms would curtail banks' ability to profit from capitalised land rents. As property makes up a major proportion of their loan book, a reduction in property prices will affect their asset base.

"as Professor Michael Hudson has stated, 'a property is worth whatever a bank will lend, because that is the price that new buyers will be able to pay for it."

In positives for the banking industry, a surge in commercial activity will occur as the removal of company taxes and council rates on improvements delivers discretionary income to both consumers and companies. Capital freed from the mortgage market will reduce pressure on interest rates, assisting small business. Export and manufacturing will benefit from lower tax and compliance burdens, stimulating international competitiveness. Banks will return to their traditional role of judging risk and return on productive activities. Property development of idle locations will see a boom in construction activity. Banking shareholders will appreciate a more stable economic system with less speculative booms and busts.

Calculations

Profits for the big four banks totalled $27 billion (cash basis, 2011-12). Dividends paid equalled $16 billion. A 40% resource rent on these earnings (cash profits plus dividends) delivers $17.317 billion as a return on the priceless value of a banking licence. With the inclusion of the rest of the banking industry, the burden on the big four banks will fall. Millions in savings will be delivered to the banks with a simpler tax system requiring less accounting resources.

154 http://michael-hudson.com/2012/12/americas-deceptive-2012-fiscal-cliff/

Part V – Existing government revenue

While in our proposal the vast majority of Australia's 126 existing taxes are to be removed, some revenues will remain. The vehicle and drivers licence contributions of $5.2 billion are based on current budget earnings. Dr Ken Henry rightly pointed out in Australia's Future Tax System that vehicle licences were highly regressive. In time economic rents could be channelled to fund the accident insurance component, helping to reduce the registration cost.

The sin taxes on alcohol and tobacco are conservatively listed at 2011–12 revenues. Liquor licences deliver $4 billion according to the same standards.[155]

Carbon Taxes have increased from $4 billion to $18.2 billion by moving the petrol and diesel excise taxes at source, meeting efficiency outcomes. The revenue should be raised by a carbon tax based on the heat content burnt as measured by the BTU – the British Thermal Unit.[156] The influence of lobbyists on the EU Emissions Trading System (grandfathering) will undermine its effectiveness for years to come. A carbon tax gives greater pricing certainty.[157]

Non-government taxation receipts were $20.323 billion in 2011–12. This was discounted by 50% as a conservative measure to deliver $10.162 billion, further underpinning the ability of the tax system to meet our revenue objective.

Parking fees

The Melbourne City Council received $39 million in parking fees last financial year.[158] A $250 million national contribution to government revenues is fiscally conservative when considering all capital cities, suburbs and regional cities. More data is needed in this area. An improved infrastructure financing system will reduce car reliance as train scheduling increases and walking proximity improves.

Government expenditure savings

Tony O'Brien wrote in his landmark Total Resource Rents of Australia (1999) report:

> Potential savings from the introduction of a Site and Resource Rent system and the removal of all other taxes could be extremely large, approaching one third of total current government outlays.
>
> Many of the following expenses would be greatly reduced or in some cases eliminated:
>
> - the cost of assessing, collecting and endeavouring to prevent the evasion of existing taxes
> - the cost of relieving involuntary unemployment and poverty which will decline and disappear as employment revives
> - the use by governments of tax concession and other privileges as "sweeteners" to solicit or hold large corporations
> - the cost of land acquisition for public purposes.[159]

In 2001–2, revenue required for all three levels of Australian government was $217.909 billion.[160] By 2011–12 this had increased to $390.067 billion, an increase of 34.3% in real terms. [161]

"We are taxing the wrong things, causing more problems than we are solving."

To give just one example, the immense Pharmaceutical Benefits Scheme of $9 billion could shave billions from the government budget if economic rents were discouraged in the industry. The pharmaceutical industry is well known for its secretive behaviour. If greater accounting transparency were required as part of their mandated licence, governments could act to ensure only a reasonable return was achieved.[162]

155 op cit, http://www.budget.gov.au/2012-13/content/bp1/html/bp1_bst5-06.htm
156 http://www.carbontax.org/introduction/#what
157 http://www.carbontax.org/issues/carbon-taxes-vs-cap-and-trade/
158 http://www.melbourne.vic.gov.au/AboutCouncil/PlansandPublications/Documents/Annual_Plan_Budget_2011_2012.pdf p.62
159 op cit, O'Brien
160 http://www.abs.gov.au/ausstats/abs@.nsf/mf/5506.0
161 ibid
162 https://theconversation.edu.au/patent-controversy-its-time-big-pharma-took-its-medicine-2697

"That is another way of saying Australia needs to remove the economic rents pharmaceutical companies are claiming."

The Grattan Institute writes that $1.3 billion could be saved by pushing for generic brands to be priced at closer to international benchmarks.[163] That is another way of saying Australia needs to remove the economic rents pharmaceutical companies are claiming. With the health sector such a growing share of our economy, this is an important qualification. These possible savings have not been included in our calculations.

Welfare

Welfare payments are another area where government expenditure is expected to fall. With lower land prices amidst a low taxation regime, small business will flourish. With less paid for rent as vacant commercial premises are coerced into use by holding charges (land tax), there will be room for wage increases. As a counter to the economies of scale big business enjoys, large big box stores will soon find themselves under pressure with large landholdings (car parks) inferring higher land tax payments than a traditional suburban shopping strip hardware store. With such a spur to small business, demand for labour will rise, shrinking the pool of the under-worked and unemployed. The natural consequence of all this will be less need for welfare. Our $89 billion welfare budget could be expected to shrink (although it must be noted that barely $6.1 billion is used for Newstart).[164] We expect at least a 10% drop in these welfare payments. As we cannot model this, we have not included this possible saving in our calculations.

"As a counter to the economies of scale big business enjoys, large big box stores will soon find themselves under pressure with large landholdings (car parks) inferring higher land tax payments than a traditional suburban shopping strip hardware store."

163 https://theconversation.com/fixing-australias-bad-drug-deal-could-save-1-3-billion-a-year-12707
164 ABS 1301 2012 Yearbook

Part VI – Conclusion

Importance of land to the economy

Businesses listed on the Australian Stock Exchange are capitalised at some $1.38 trillion. According to the system of national accounts, Australia's land is worth some $3.7 trillion – nearly three times the value of the stock exchange.

"Land is a major factor in our economy, yet we talk about 'house' prices."

Land is a major factor in our economy, yet we talk about 'house' prices. Houses depreciate. It is land's locational advantage that delivers the rise in property values.

But land has been removed from our CPI:

> In 1997 the RBA argued strongly to remove the price of land from the CPI in its submission to the 13th Series CPI review. The RBA argued that including a mortgage interest component in the CPI would result in an inflation measure that is amplified by monetary policy responses to inflation itself.[165]

Land prices have also been enlisted to undermine our perception of productivity. Economist Cameron Murray writes:

> The ABS believes that the exclusion of non-agricultural land biased the measure of MFP (multifactor productivity) downwards in the past. But this only applies to the situation where the value of land assets grows with inflation. When land values significantly exceed inflation, which has especially been the case since 2001, the capital stock component in the denominator of the MFP calculation increases, for no particular reason.[166]

Land is a central element in economic activity. Without it we cannot work and live. Our economic framework must explicitly acknowledge and measure the contribution it makes.

Local community factors

Over the last year, the average first home loan was a staggering $290,000.[167] First home owners in Australia in the 1990s had mortgage debt closer to $100,000 than the $200,000 in the 2000s.[168] The difference in repayments is money lost to local communities. The multiplier effect of high land prices sees less money spent in local communities. This filters through to less dining out and thus lower local employment and investment.

However, banks can use higher land-based mortgage revenues to speculate in the carry trade, buying and selling foreign currencies or investing in real estate itself. This is a leakage from local communities into centralised corridors of wealth and power.

"In effect, CIV rating sees the family home paying approximately 30% more than a neighbouring land banker."

An element suppressing economic development is the role played by council rates. State by state there is pressure on councils to raise revenues by Capital Improved Valuation (similar to Net Annual Valuation). This sees a charge on the land and improvements (the building). In effect, CIV rating sees the family home paying approximately 30% more than a neighbouring land banker.[169] This tax on housing impinges development, lowers employment, retail investment and local economic activity. Sprawl is encouraged with the accompanying leakages. Site Value Rating (on the land only) is fairer in that both the family and land speculator contribute at the same rate in the dollar. This report advocates such a shift to SVR. The banking system will further benefit from the removal of this deadweight, with vacant inner city locations prompted to redevelop more quickly and comprehensively. This leads to higher employment in Site Value-Rated municipalities.[170]

165 http://www.macrobusiness.com.au/2011/09/how-the-cpi-hid-the-housing-bubble-2/
166 http://ckmurray.blogspot.com.au/2012/06/land-boom-ruins-productivity-measure.html
167 http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Mar%202013?OpenDocument
168 http://www.abs.gov.au/ausstats/abs@.nsf/mf/5609.0
169 http://www.prosper.org.au/rates/
170 http://www.prosper.org.au/wp-content/uploads/2008/08/electedrepfinal08.pdf p8

Farm land

The principle of leasing natural resources can be applied to farming land. Farmers live furthest from the major activity centres, so in most cases will face a lower land valuation (and a lower tax burden) than those in the CBD.

Land values oscillate with the health of the economy and the environment. Reflecting reality, farmers would pay slightly more land tax in good years. A drought will see less paid as the land has lower productivity. Yearly assessments will assist this process, aiding the flexibility needed for a carbon-challenged future.

More study is needed on the higher capital gains enjoyed by urban land owners. Rural tax payers understand there are inequalities between themselves and city dwellers. Few are aware how significant this is. Public infrastructure expenditures on roads, hospitals and communications technology are often pointed out as a source of disparity in terms of service alone.

The effect on land values is more significant. Author of Ricardo's Law, Fred Harrison argues that in just a few years of a property boom, urban landlords recapture a lifetime of taxes through the capital gains on just one property.[171]

"in just a few years of a property boom, urban landlords recapture a lifetime of taxes through the capital gains on just one property"

The nominal value of such capital gains is much lower in rural areas. Despite paying the same income, company and sales taxes, urban property owners benefit to a greater extent than rural owners from the naturally rising value of their location - a subtle form of subsidy.

Under a resource rent system, lower land values in rural areas will re-balance this equation. Significant incentives to decentralise out of cities and back to the countryside will exist due to lower land rents. In urban locations, there will be a concentration of activity closer to productive sectors as land taxes deter speculation and thus the need for sprawl.

171 http://www.youtube.com/watch?v=6ZkfmY1PMng

Conclusion

The failure of the economics profession to recognise the importance of economic rent has undermined its relationship with common sense and simplicity. The debilitating influence of monopoly capitalism on democracy has enabled vested interests to avoid tax whilst pushing costly methods of finance upon the people. The discord between hard work for most and easy profit for others has ensconced a form of cognitive dissonance where euphemisms such as 'tax minimisation' are practised by those who advocate the need for a more efficient society. It is as if we are living in an age of entitlement to the free lunch for the lucky few.

Economic rents have largely been ignored because economists deem them politically sensitive and insignificant. This report sheds light on 23.6% of the economy that delivers (virtually) tax free profit for little risk or effort. If rising inequality is a threat to our democratic foundations, then this is the source of that discontent.

"It is as if we are living in an age of entitlement to the free lunch for the lucky few."

In time, more will recognise that by focusing the tax base on assets that naturally rise in value due to society's own existence, property bubbles can be moderated to channel the desire for somewhere to live into something useful – the financing of government in a just and equitable manner.

This can deliver a three for one outcome:

- higher wages
- lower land and housing costs (less debt)
- cheaper cost of goods

The first economy to raise public finance in this manner will enjoy a considerable export advantage due to the lower overall cost structure of doing business.

The global land bubble has locked many into a lifetime of debt. The economic foundations that fostered such bubbles then proceeded to undermine economic growth with ineffective austerity. It is time the people looked at a genuine alternative – harnessing the powers of monopoly to fund a land of opportunity.

For more information visit Prosper Australia online:
www.prosper.org.au/evidence
www.prosper.org.au/join/

Glossary

Classical economists: The era defined by the work of the 18th century Physiocrats, through to Adam Smith, Ricardo, John Stuart Mill, Karl Marx and Henry George. They defined output as reliant upon three factors of production - land, labor and capital. Neo-classical economics defined the factors of production as labor and capital, with land (representing the earth) as a subset of capital.

Economic rent: Originally explained by economist David Ricardo (Ricardian rent) as the excess return to some agricultural land- due to its favourable characteristics such as soil fertility, rainfall, access to markets, etc.- from the same effort compared to the output of the least productive land. John Stuart Mill called the excess return from the same effort the 'unearned increment'. The term economic rent has been expanded to include all unearned income from ownership of a resource, from a monopoly, from scarcity, or any other reason resulting in unearned excess profits not due to work, risk, or enterprise. It is also defined as the excess revenue over and above what it takes for a business to reap normal profits. This is the origin of the derogative term 'rent-seeking', referring to people who reap where they did not sow. A simple example of economic rent is the recent run-up in oil prices. It has been estimated that oil from the most expensive wells in deep ocean water costs about $60 per barrel to extract including all other costs and normal profit. Easier-to-extract oil costs much less. At the 2008 price of $147 per barrel, oil companies received economic rent of at least $87 per barrel on deep water wells. The source of their 'windfall profits' is economic rent.

Resource rents: Economic rent in relationship to natural resources. Identifying and measuring (or collecting) resource rent depends on the availability of information, market conditions, technology and the system of property rights used to govern access to and management of resources.

Super profits: Essentially another name for economic rents. Most business set rates of return at 8% on capital invested. Returns above 8% (representing Average Total Cost, which incorporates a rate of return) are seen as super normal profits. In competitive markets, added competition pushes returns down in the short term. In monopoly markets, regulation is needed to correct this market failure.

Land tax: An annual charge based on a set percentage of the valuation of land. With land naturally rising in value according to population and technology developments, many economists see it as a natural source of government revenue. Land must be valued annually.

Land value tax: Similar to land tax, it merely recognises that land prices will fall back to what can actually be earned from a location, reflecting its value. Land price includes bubble-like pressures on price. Land values are calculated by property valuers for municipal rates. Generally speaking, they are more conservative in valuations than surrounding property sales evidence may indicate, due to their preference for land values over prices.

Monopoly: The market dominance of an industry by a single entity. In this report, the term is used widely, sometimes in place of the more cumbersome 'oligopoly'. Oligopoly infers the market control of an industry by a small number of firms.

Deadweight loss: The loss to society caused by market distortions that see less product supplied to market at a higher cost. Usually due to taxes that can be passed on.

Compliance costs: The burden of filling out tax paperwork and complying with regulation.

Sales tax: A percentage charge on the cost of goods purchased. Known as the GST (Australia) or VAT (EU).

Stamp Duty: A form of sales tax at the point of a housing transaction, paid by the buyer.

Common wealth: Monetary and non-monetary value of the commons in supporting life and well being. Like stockholders' equity in a corporation, it may increase or decrease from year to year depending on how well the commons is managed.