

Prosper Australia's submission to the
Productivity Commission
5 yearly productivity review

Increasing Australia's future prosperity

8 December 2016

Prepared by David Collyer - Policy Director

david.collyer@prosper.org.au 0413 248 193



Key Points:

Australia has a rich bounty of arable land and natural resources. The benefit of these natural endowments accrue to private interests. They have come to consider themselves entitled to exploit or ration or underuse these assets as they please.

Australia has become a nation of land speculators and monopolist, ironically bloated from post GFC monetary “stimulus” or spawned from botched “reforms” of public utilities. Privatization or corporatization of natural monopolies such as toll roads, telecoms, water, gas and electricity networks with corrupted regulation is imposing pervasive cascading private tolls on production. We are all poorer for it.

Australia an introduce a new dynamism into national economic activity by obliging landholders and monopolists to put these assets to use and cease charging unnecessary monopoly rents.

This means to:

- Attack rent seeking at its source by taxing land rents through a land value tax
- Unwind monopoly abuse wherever it is found
- Reframe the current narrative asserting the private entitlement to gifts of nature
- Lift the tax burden from labour, which sulks, fails to replenish itself or leaves
- Lift the tax burden from capital, which must pass it on or wear out
- Fund infrastructure investment from land rates and charge for it at short run marginal costs
- Democratize the profits of mineral extraction

Suggested policy actions:

Remove Stamp Duties, Payroll Tax and reduce Income Tax by raising the threshold

Introduce a Federal Land Value Tax, earmarked for tax relief and infrastructure funding

Remove non-charitable exemptions from State Land Taxes and reset the schedules

Switch council rates to Site Value, untaxing buildings

Reinstall a Resource Super Profits Tax

Refine the Petroleum Resource Profits Tax

Dissolve monopoly power of infrastructure monopolies by setting charges at short run marginal cost and vesting infrastructure assets in statutory trusts for users with fixed costs funded by rates

Cost, scope and argue the alternative of a Modern Debt Jubilee to bank bail-outs - before they become necessary

How can we lift living standards, so more may fulfil their potential?

Last month, the Productivity Commission delivered a damning assessment of Australia's productivity performance over the last 12 years in the discussion paper *Increasing Australia's future prosperity*.

The reasons why Multi Factor Productivity growth remains poor are simple:

- massive capital investment in non-productive rent-seeking,
- inflated land prices, and
- over-consolidation in every sector destroying innovation and good management.

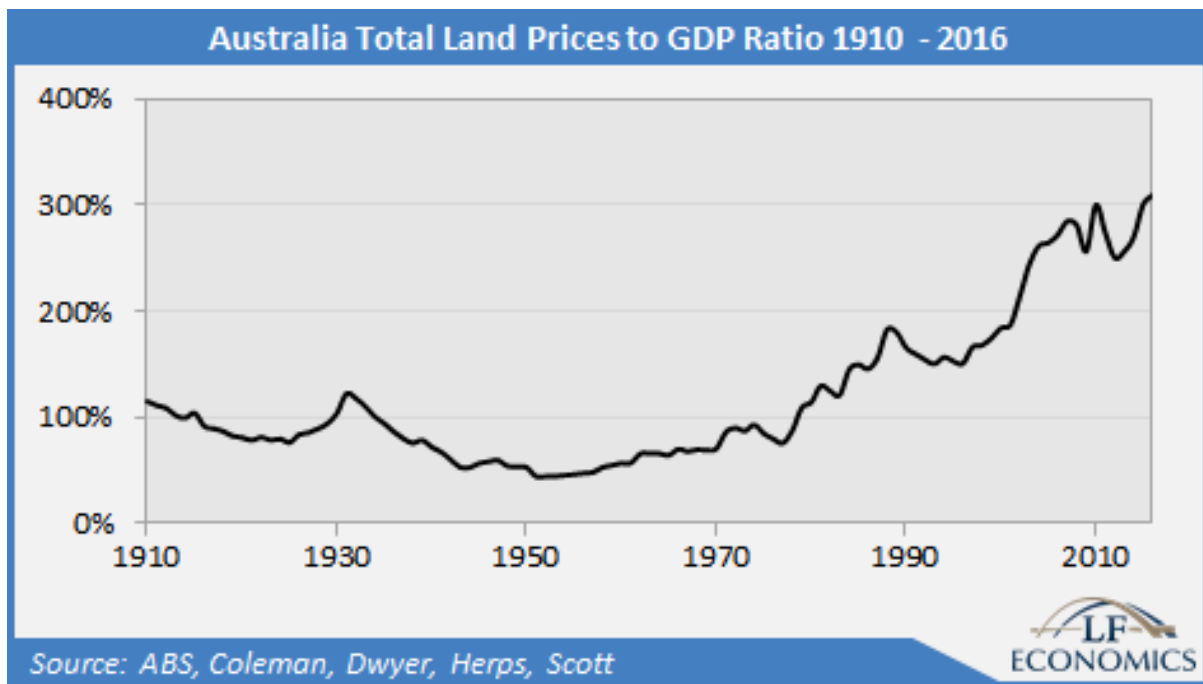
In short, poor economic structure.

Investor attention has swung to rent-seeking in land, network infrastructure and patent law as productive activity like manufacturing exits due to bad taxes.

Adam Smith said it first, and well:

As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of gathering them, come, even to him, to have an additional price fixed upon them. He must then pay for the licence to gather them, and must give up to the landlord a portion of what his labour either collects or produces. This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities, makes a third component partⁱ.

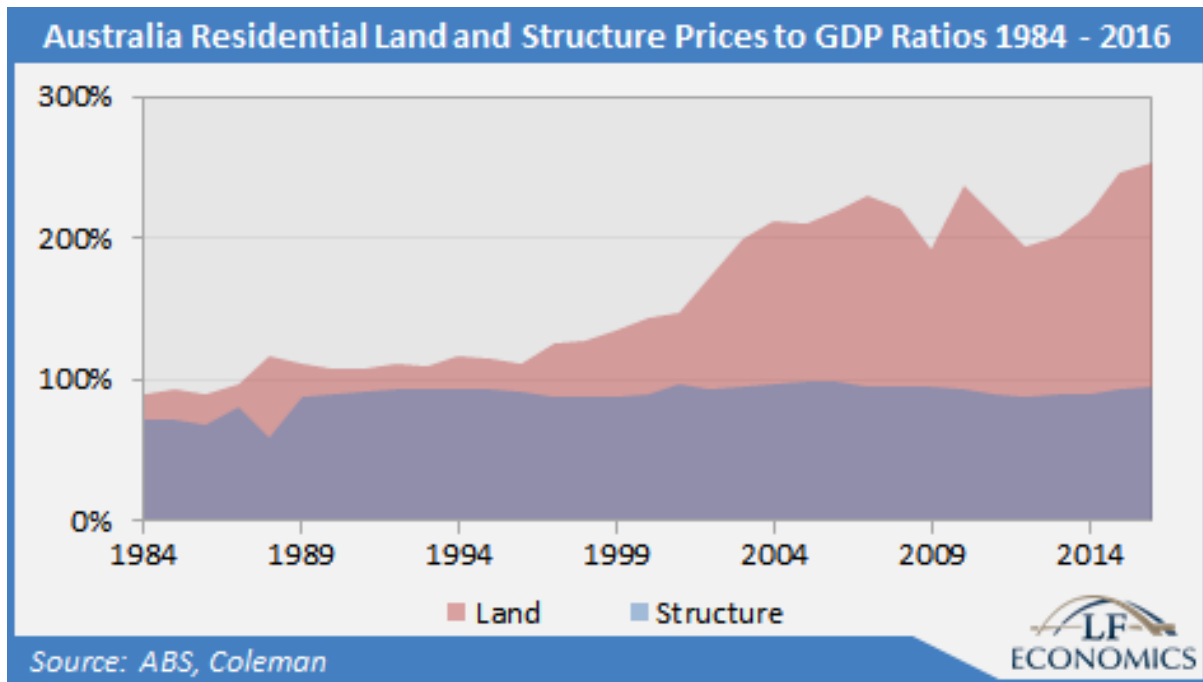
Australia is endowed with by far the most arable land per person in the worldⁱⁱ, yet land costs - commercial, residential and rural - are ruinously expensiveⁱⁱⁱ.



Many land holder commentators speak of land ‘values’ or ‘capital values’. This self-serving framing is an error that must not be tolerated. Land is not a true cost of production and we paralyse ourselves by failing to understand its enduring economic role. Land rent ration valuable sites but does not create them - their value is due to nature and the community, not to anything done by the current landholder or his predecessors.

For anyone who would buy land and invest in the future by building an enterprise or a home, very high land costs divert their capital and energy to existing landholders. Those who would put land to its best and highest use are stymied. So is the great project of national development - the core question this Productivity Commission inquiry seeks to address.

“Economic growth would be higher if governments raised more revenue from land and less revenue from other tax bases.” - Australia’s Future Tax System, 2008



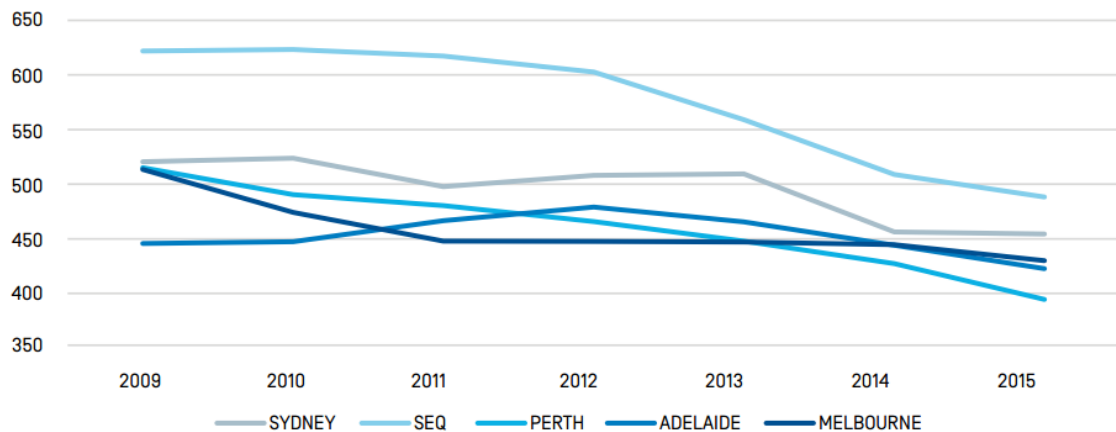
Australia departed from the social and economic bliss of inexpensive residential land and the ability to build quality in the late 1990's.

This chart demonstrates:

- Construction costs - mostly labour - have not budged in thirty years. None of the benefits of the property bubble accrued to the hands that built this miracle.
- The major uplift in national incomes due to the mining construction boom boiled off in land price inflation. We may as well not have bothered.

The residential infrastructure standards we set for ourselves - kerb and channel, water reticulation, sewerage, underground power, school catchments, planning, etc - are unchanged since that time. So, the higher land costs were not driven by higher civic amenity either.

LOT SIZE (M²)



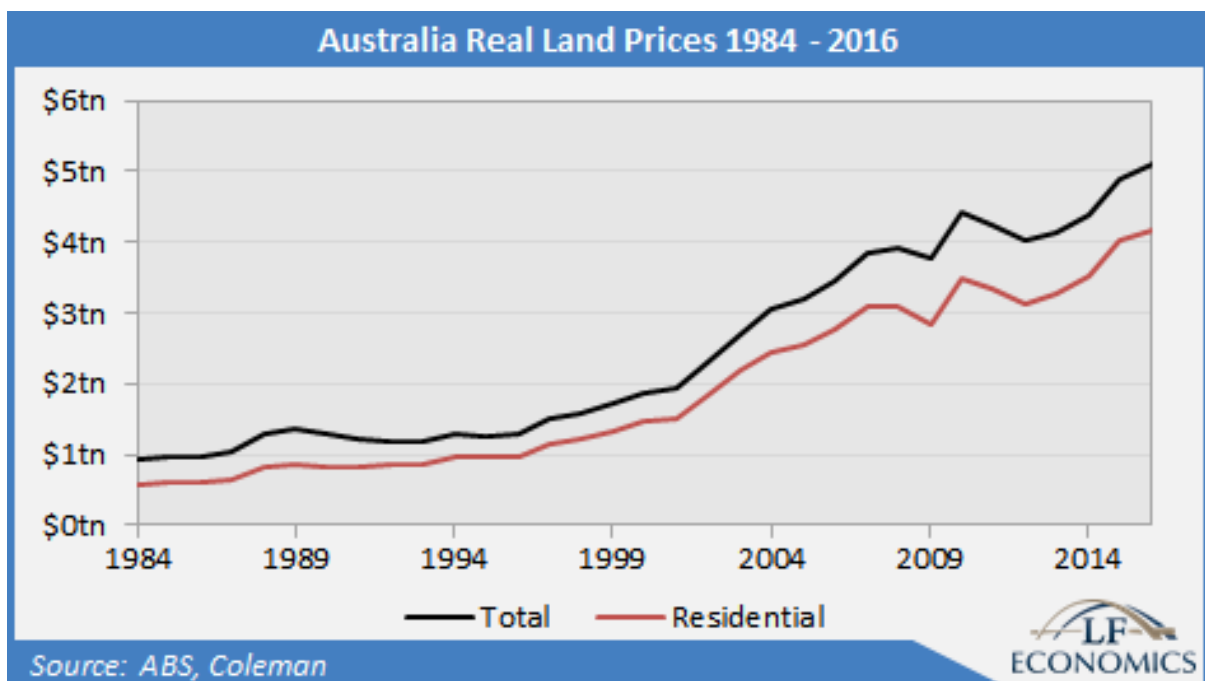
Source: UDIA State of the Land Report 2016

Nor are towering residential land costs due to urban-edge land buyers luxuriating in excess space. Lot sizes have been steadily chiselled away as new home buyers, skewered by high land costs, choose smaller and smaller lots to build on. Developers observed this behaviour and responded accordingly.

Savings spent buying land and incomes pledged to debt repayments are an out-and-out loss when they exceed the rents - imputed or real - otherwise payable. Grossly inflated land costs, such as Australia is currently burdened with, mean vendors and financiers can capture significant proportions of buyers' lifetime incomes.

Taxing land while untaxing labour and enterprise would help the market redress this imbalance and deflect investor attention from vapid rent-seeking to capital deepening and broadening - lifting incomes, activity and Australia's global standing.

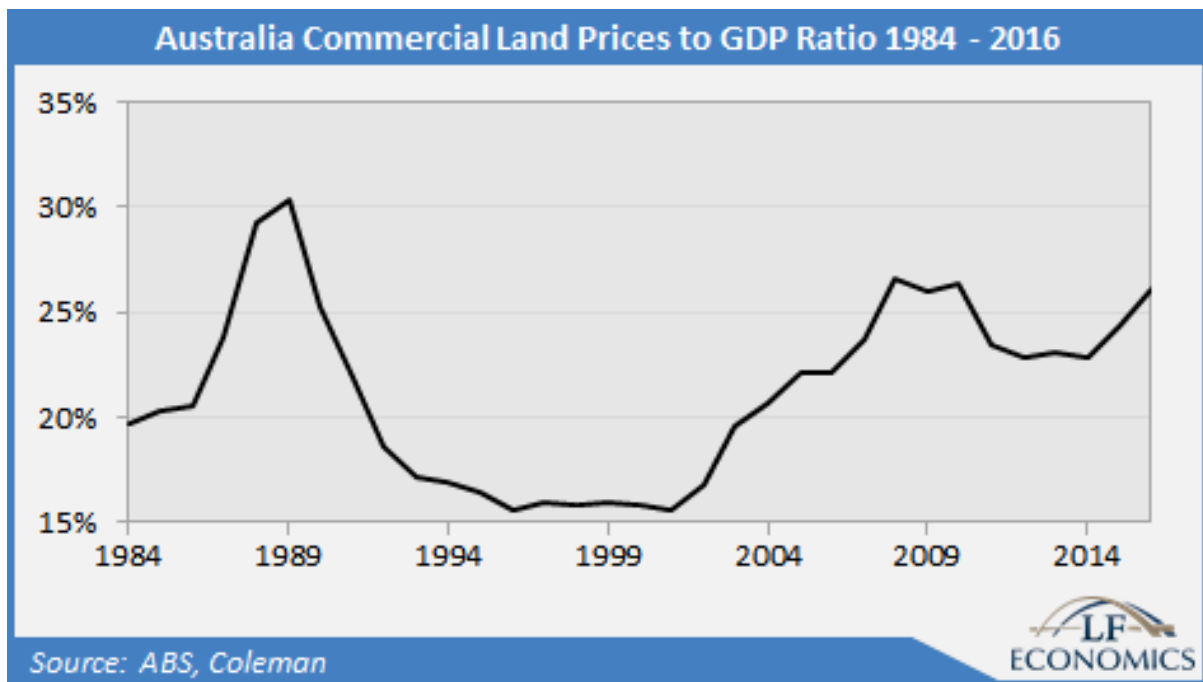
The implications of such rebasing are profound.



The finance and speculator-driven price increases being experienced are largely in residential land.

High land costs are a major burden to labour. It is obliged to bitter fights for wages and maximum employment hours or risk losing this lifetime security and key retirement asset. While many commentators regard labour-whipping as a virtue, the logical consequence of misery and estrangement is simply ignored as an externality.

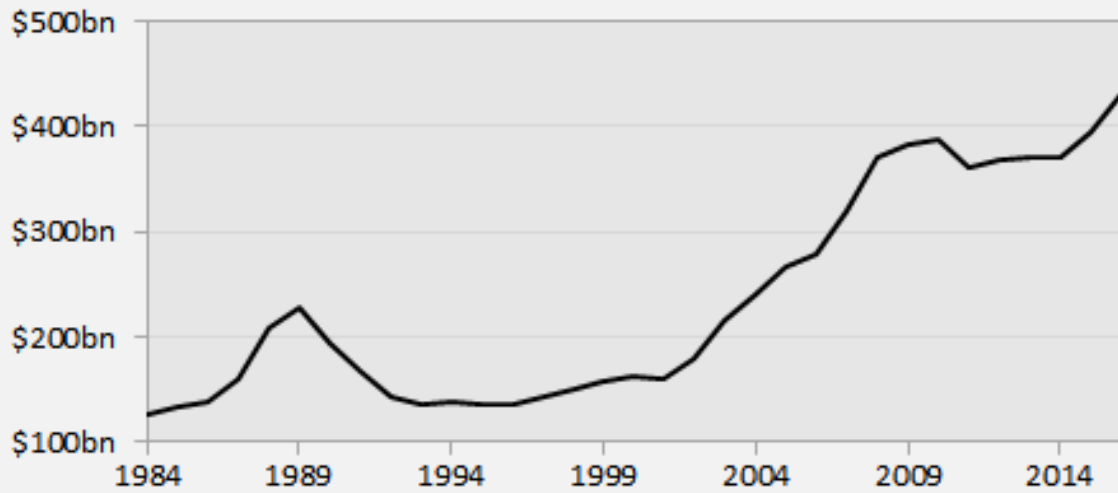
Material plenty is irrelevant if it is achieved by atomizing national identity and individual purpose.



Parallel themes are evident in commercial land prices. These are a cost of doing business and become embedded in everything we produce - markedly reducing Australia's competitiveness.

This is despite strenuous efforts, for example, to intensify office space use through Activity Based Working that reduced workspace allocation per employee from approximately 25 square metres in the 1980's to 12 square metres or less under AWB today^{iv}.

Australia Real Commercial Land Prices 1984 - 2016



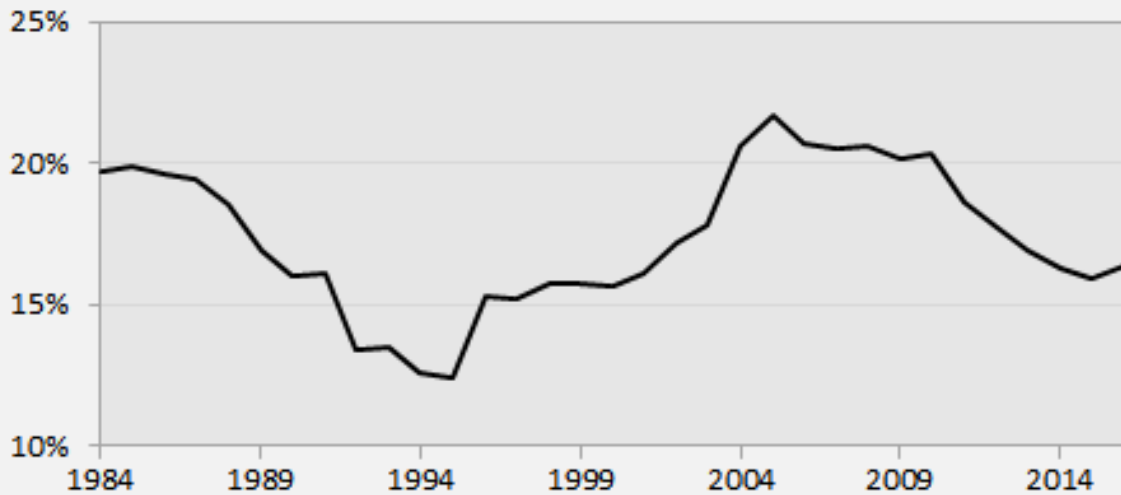
Source: ABS, Coleman



Real, after inflation, commercial land costs - a key input to business - have risen strongly.

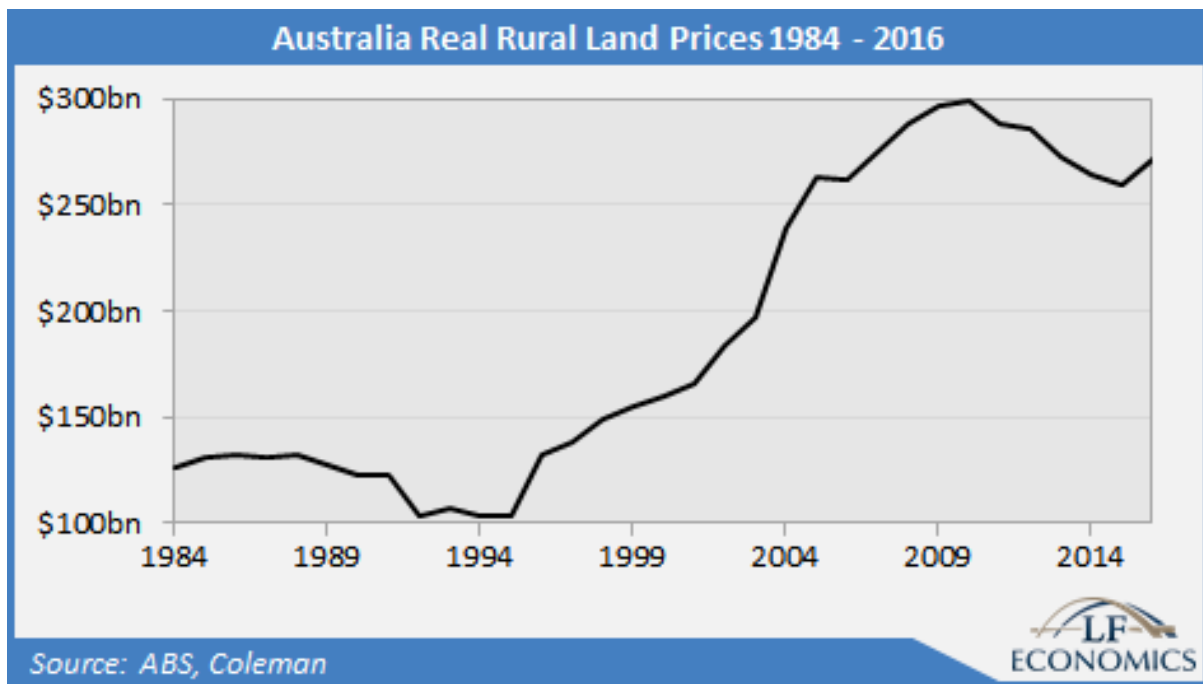
The 1989-91 commercial land bubble that destroyed Mainline, the State Bank of Victoria, the State Bank of South Australia, Pyramid Building Society and nearly brought down Westpac, is a mere blip by comparison to current market prices.

Australia Rural Land Prices to GDP Ratio 1984 - 2016



Source: ABS, Coleman





Australia may glory in and plunder its rich bounty of arable land, but if lazy landholder behavior denies emerging agricultural enterprises access to land, phrases like our becoming 'Asia's Food Bowl' will remain empty slogans.

Policy makers should be intensely monitoring all these land cost trends and evaluating policy responses - even if they are inhibited from ringing the alarm bells for fear of frightening the children.

Resource Super Profits Tax

Petroleum Resource Rents Tax

Australia's Future Tax System recommended a Resource Super Profits Tax, carefully designed to maintain incentives and reward risk. It was one of five recommendations - out of 130 - taken up by the government.

The miners responded with an apoplectic campaign of deliberate misinformation that destroyed the reform and continues to this day.

We were told existing mines will be mothballed, billions of dollars of fresh investment was at risk and that miners will go prospecting in Africa where it is more ... politically stable.

Australia remains one of the most favored places on earth for mining. We operate under the rule of law, corruption is moderate, no civil wars and host many large, high quality orebodies with more yet to be found.

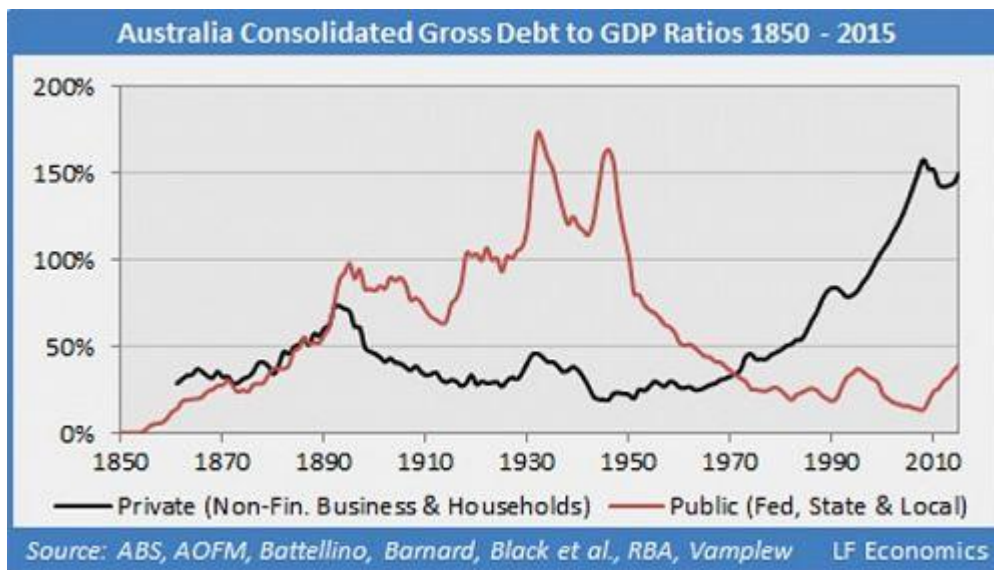
Exploration for ore-bodies is not done by grizzled prospectors following a hunch, chasing an elusive dream. Advanced technology and big licks of capital now find bankable deposits. With the RSPT, forty per cent of that risk was to be underwritten by the Australian people, *whether something is found or not*.

Under Australia's Constitution, minerals are owned by the government. Landowners may own the surface, but what lies below belongs to us all. So miners have an obligation to pay *us* - the owners. The shortfall in government revenues from the lack of resource taxation is made up from taxes on work and business, to our great cost.

Mining is a form of economic rent-taking. And high principle says economic rents belong to the people. All of us.

A Modern Debt Jubilee

Along with Australia's crippling land costs comes big private debt - an alarming proportion borrowed offshore. This indulgence means we rely on the kindness of strangers to fund our borrowings.



For the last 20 years, private debt in Australia has been growing at an exponential rate, which has mostly fuelled speculative asset bubbles in real estate and financial markets. We have reached a point where the ratio of private debt to incomes is unsustainable, with the most indebted household sector in the world at over 150% of GDP (depending upon the measure).

When consumers are awash with debt, repayments divert a significant portion of disposable income from consumption. Real incomes are needed to support these debts. Right now most are sustained in a Ponzi-like fashion, hoping for capital growth to generate profit and repay the loans.

“Debts that can’t be paid, won’t be paid.” Michael Hudson

What happens when land prices fall and people are left with a mountain of debt depends on the government's policy response.

We have seen peer countries make whole their bust banks through massive transfers from Consolidated Revenue, while citizen-taxpayer debts remain. There may well be a better way.

Professor Steve Keen of Kingston University advocates a Modern Debt Jubilee; a mechanism for the instantaneous repayment of private sector debts. Its implementation is as simple as the currency issuer “writing a cheque” to every citizen (or permanent resident), on the condition it must be used to repay any outstanding debts first.

If we are to end “The Great Malaise”, we must recognise that the overwhelming majority of private sector debts came about because the ‘common wisdom’ of a malfunctioning system unfairly incentivised people to borrow beyond their means. We must be willing to consider solutions which are today considered unorthodox to address systemically-induced debt. There is little to lose and much to gain from a Modern Debt Jubilee, with the capacity to achieve in a year what would otherwise take decades.

Such a program would for the RBA, APRA and Treasury to implement. What is missing, however, is authoritative impartial economic analysis of its implementation and foreseeable consequences.

Prosper recommends the Productivity Commission conduct such a study so government has the widest range of tools available to it when the inevitable credit crunch occurs.

Conclusion

The Productivity Commission is seeking fresh ideas to advance Australia. Prosper believes the reforms it proposes would achieve just that.

ⁱ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (Book I, Chapter 6, Of the Component Parts of the Price of Commodities)

ⁱⁱ <http://data.worldbank.org/indicator/AG.LND.ARBL.HA.PC>

ⁱⁱⁱ <http://www.economist.com/blogs/dailychart/2011/11/global-house-prices>

^{iv} <http://www.jll.com.au/australia/en-au/news/1122/workplace-strategies-like-abw-impacting-on-australias-stock-of-commercial-buildings>