From the House of Commons

This research from the House of Commons 1928 applies to us in 2009

Britain's industries in the 1920s were in crisis — mining, transport (rail and canals), ship building, heavy manufacturing and agriculture. Both sides of the House recognised there was a problem, how to fix it, is what was in contention.

Mr Churchill had no proprietary rights over the principle he espoused *"that the instruments of production ought not be taxed but only the profits resulting from their use"* was universally accepted practise up until WWII. The President of the Institute of Chartered Accountants of Australia Sir George Allard KB remarked on hearing the Curtin Government's introduction of payroll tax, "That it was a tax on production and therefore, bad".
Mr Churchill's criterion for assessing depressed or flourishing industry, still holds good.

As it was then for British manufacturing and agriculture, so it is for Australian manufacturing and agriculture now. The fact that Australian manufacturers in recent years have resorted to going off shore is confirmation. Rural and remote local government are strange bedfellows with agriculture, not because their capital is taxed but because, they cannot tax the consumers of their services that are beyond their jurisdiction.

There is no measure for just how depressed an industry or local government body is, with only subjective measurements on the level of possible employment, markets taken by imports, number of farms in debt, extent of debt, and FAGs per capita, as a guide.

When agriculture becomes depressed in Australia, whole districts or regions lose populations, people's health declines etc and even political representation declines. The propensity for natural disasters to be a regular feature, (disregarded when imposing rates, water infrastructure charges etc.) with the only countervailing adjustment being drought aide or declaration of natural disaster, the final user not paying, because there is no system to facilitate payment: shows the goose that lays our golden eggs is dying of starvation.

Comparing the information from the debate with then and now, highlights the differences along with the effects of new institutions such as the concept of free trade, globalisation, RBA interest rate control over inflationary pressures in our modern economy, and a proposed Emissions Trading Scheme, requiring that these concepts too, are not above scrutiny.

This research is based on the second reading of the Finance Bill, House of Commons 5th June 1928 to explain;

> Why the UK Government changed their centuries old practice of rating land in 1930 to end up with a much fairer local government system than Australia and New Zealand by the end of the 20th century; at a time when they were

acknowledging Australia and other Dominions had a better system

However in reading this debate there were then other factors influencing the necessity for change in the UK.

There are 30 pages of small print recording this debate. The endeavour here is to avoid the party politics, to give a dispassionate coverage of the facts and arguments that may have contributed to the final change in their rating system and note any other circumstance that may have relevance to our current economic situation. In quotations where irrelevancies occur, are indicate thus ----, or if it is the same speech with no application to our present situation, thus —.

There were a number of enabling Bills necessary to make such a change, one of which was the Rating and Valuation (Apportionment) Bill, read for the second time 6th June 1928. As indicated in the second reading, the whole field of rating reform had received good coverage in the debate on the Finance Bill.

The following quote from the Minister of Health (Mr Chamberlin) who moved the motion gives a partial over view.

"The difficulty in which agriculture and industry find themselves to-day is that there is not sufficient margin between prices and costs. It would not be possible for us to solve that difficulty by increasing prices, even if it were desirable-----.It might, perhaps, be possible to reduce costs, either with or without a decrease in wages, by means of reorganisation of industry, but a process of that kind is bound to be long, bound to be slow, and bound to be accompanied by a great deal of suffering and hardship. There are, however, certain ways in which , I think, the Government can give some assistance to agriculture and to industry, in order to enable them to reduce their costs, and those ways are by a reduction in the dead-weight burden of local rates, and a further reduction in the cost of transport, whether by rail or by water. These are ways which have been indicated by industrialists and agriculturists themselves as those which would be most helpful to them, and these are the ways which the Government have adopted in the scheme which is now before the House."

One aspect of the debate was about the necessity to bring in a Petrol Tax to raise money to pay for abandoning rate taxes on agriculture, rail transport, ship building, coal mines and heavy industry. Ship building had long delays in designing and building but a constant drain on their finances due to the rates.
Part of the discussion was about collecting the petrol tax immediately and saving it for distribution after the commencement of the new scheme. Who should be a beneficiary and to what extent was a large part of the debate. Revealed in the debate was that industry was not only being taxed on land but also any capital fixtures attached to the land, thus compounding the negative effect created by taxing capital and not the profits from capital.

In the UK up until that time there was a wide spread belief that all wealth creation was based on land ownership. However as Mr Churchill pointed out: " It was apparent that there were hundreds of different ways of creating and possessing and gaining wealth which had no relation to the ownership of land or an utterly disproportionate or indirect relation. Where there were 100 cases 20 years ago there are 10,000 cases now, and that is why radical democracy, looking at this proposition of the single tax-----has turned unhesitatingly towards the graduated taxation of the profits of wealth rather than to this discrimination in the sources from which it is derived, and that is what we have done." A little further on in his speech he said "There is a very great deal to be said for concentrating the whole of the relief upon the basic industries, and we have done so in regard to the railway part of our proposals. We have been guided in the main policy by a fundamental principle .It is this, that the instruments of production ought not be taxed but only the profits resulting from their use."

"There is no actual definition of a flourishing or of a depressed industry. Any decision on that point must necessarily be arbitrary, Therefore, I select four main tests by which to tell what is a depressed industry or an industry which is not flourishing. Here they are. The first is that unemployment is normal; the second, that the ratio of rates to profits is excessive; the third that the profits are subnormal and the fourth that the profits have been decreasing in recent years. These are, I think, four very fair guides of a depressed or not flourishing industry, but there are three other factors which ought to be taken into consideration. The first is whether the industry provides wages for very large masses of manual labour, the second, is whether it is unsheltered, and the third is whether it is markedly concerned in the export trade. If all these seven qualifications are present, it will be agreed that the industries helped are the ones which we ought to help."

Lord H Cecil talking on the value of land "The right hon. Gentleman the Member for Colne Valley said a very surprising thing when he stated that every increase of population and every increase in transport facilities causes the value of land to go up. What happened to agricultural land 50 years ago as the result of greatly improved transport was to bring cheaper corn to this country from the ends of the earth which competed with our home produce, and enormously reduced its value. As a matter of fact, the owners of agricultural land are very much poorer to-day than their ancestors were 50 years ago."

However what the Member for Colne Valley the Rt Hon Philip Snowden did point out was that in the UK at that time the site values were unknown. "What is the value of the sites of this country? I do not know—no one knows. We have not even an approximate estimate, but at any rate, we can form some idea from those countries where they have accurate estimates of site values. Take New Zealand. In the last 47 years, the site value in New Zealand has increased from £62,000,000 to £339,000,000.——All the local rates raised by the Corporation of Sydney are raised by a tax on site values"

Sir R Horne on rate differences

"It is a bad thing which has grown up in our country of recent times that in many cases businesses are not put in those parts of the country which are most suitable for them , but in parts which are selected because the rates in the district are lower. I am of the view that , so far as businesses are concerned, no consideration of that kind ought to come into the picture at all, but that businesses ought to be planted in places where they can be most effectively worked, and that there should be no temptation to them to shift from one part of the country to another because it happens that in another part of the country the rates are lower than in that in which they thought fit to establish themselves. As the House knows, there is a very embarrassing movement going on at the present time, which is costing this country vast sums of money, and it is taking place for no other reason than the great establishments are moving from places in which they are heavily rated to places where the rates are lower."—"instead of remitting rates in all these various districts to the extent of three-fourths, an attempt should be made to have an equal rate for industries throughout the country."—— "Two main arguments have been put in the country against the scheme of the Chancellor of the Exchequer. For example, my right hon. Friend the Member for Carnarvon Boroughs (Mr Lloyd George) is constantly appealing to the cottager on the ground that, next door to him is going to get relief in rates to the extent of three-fourths of the amount it pays, he poor cottager, is going to have no relief at all; and for the purposes of these illustrations we always find on these Saturday afternoons that the establishment next door to the cottager is Courtaulds or some other lucrative firm earning enormous profits. That argument however, does not appeal to me at all for the reason that the industry which is near the cottager is in most cases an industry which is in a condition of depression, and is the industry upon which his employment depends, so the relief given to the industry is a provision for him of his livelihood. It is no attack on these proposals to say to him that the industrial establishment being relieved while he is being left in the lurch, because in fact his position is being sustained and bolstered up in order that he may live a life of peace and contentment."

Mr Montague

"But this relief is not going into the pockets of the depressed industries. There are scores upon scores of firms in the North of England and Scotland, and other parts of the country, whose debentures are largely owned by big American companies, international financiers, who have the big industries of this country in their pockets. They are the people who have financed these industries in the bad times, and now they are to get the taxpayers of this country to recoup them. An Hon Member opposite has said that money is cheap in America, that you can get money at 3.5 per cent. Yes, to be lent to British industry at about twice that percentage, and now in order to prevent these industries going under, they have come to the House of Commons for legislation in order to tax the nation so that these foreign financiers, who are more and more controlling British industry, may have the advantage.

That is the position we are fighting. Not because we do not realise the difficulties of British industry: we do; not because we do not realise the importance of the question of rating: we do. But we say that we should proceed from a national point of view, that the interests of the nation should be first in our minds, and not the interests of international financiers."

The House divided: Ayes, 322; Noes, 135

Not revealed in the debate was how rates were assessed in the UK but it can be seen that transport costs in Australia did not contain a component of rates because the land on which our rail system was established was Crown land. Other differences were our forested areas and some large parcels of agricultural land were on Crown land with considerable benefits arising out of raw material cost with no rate component in wood products. Royalties on logs covered the admin of running state forestry commissions and departments. They were a service not a profit entity. Rural lands and forestry areas were leased to graziers who followed Aboriginal practice as a matter of good husbandry.

Mr Churchill reminded the House of the principle "that the instruments of production ought not to be taxed but only the profits resulting from their use.", was a widely accepted practice and remained so up until WWII. WWII brought some big changes out of the necessity of funding it. In Australia one of the worst changes that has endured, is pay role tax , but because income tax became the sole preserve of the Commonwealth, States were given this tool to finance their expenditure and the ever increasing demands of a population that has grown by a factor of 7.

Other changes have grown out of this practice due to the supposed benefits of corporatising parts of what was normal government services or creating new entities and authorities that impose charges for their services.

The unpalatable truth about this practise, is that populations here and abroad were mislead into thinking that taxes could be reduced and services would still flow from government.
This practise was introduced by politicians trained at university business schools, proves the theory does not line up with the practise. Economic theory for the Northern Hemisphere has its limitations in Australia.

What has been overlooked , is that those being charged in agriculture have no ability to recoup the charge and is compounded further when no delivery of service is provided, but the charge remains due and payable. The ultimate user; the community does eventually benefit handsomely at the farmers' expense.

Whereas in 1928 site values could be assessed with rural road maintenance to farms and Crown land grazing leases being a legitimate responsibility of the farms benefiting, those same roads now are used by metropolitan based industries to deliver their produce to rural areas and the expanded National Parks demanded by metropolitan communities, plus the tourist industry. All of whom contribute nothing because there is no mechanism by which they can do so.

The contrast between the UK and Australian system now for agriculture shows that the UK system moved away from the initial petrol tax to a tiered system based on dwellings, their size and location and a partnership with the tourist industry. Agricultural commodity prices are stabilised by taking land out of production and limiting plantings of certain crops.

Their agricultural land is for agricultural use only including forestry and wood lots to keep the English country scene, so important to the tourist industry and maintaining an independent source of food for the populace.

Australia has regressed into taxing the instruments of production, while not taking into consideration our physical (drought, natural disaster), geographical (population disparity, land types) and sociological (wealth disparity) conditions.
In addition our agriculture has imposed on it for the benefit of the population at large, various rules and conditions that cost time and money and reduction on use of capital for which there is no compensation.
When new industries are established in rural areas they benefit the nation as well as the local area and are dependent on good roads but cannot operate at optimum efficiency when those roads become sub standard for the new uses required.

The remarks of Mr Montague, re low interest rates in America and high interest rates in Britain, whether right or wrong, has little to do with rates and taxing capital, but with our own interest rates going up then down due to the financial crisis and now projected to rise again, ushers in a new factor in cost competitiveness for Australian exporting industries, not just agriculture.

The remarks of Lord H Cecil, re agriculture competitiveness is as applicable now for Australia as it was for Britain 80 years ago. It may have been corn (wheat) then, but now in Australia we bring in every edible commodity in competition with our farmers and with no regard for disease or pestilence. Improved transport and better technology in storage has facilitated the change.

The Noble Lord in criticising the Member for Colne Valley may have been right then re, "every increase in population and every increase in transport facilities causes the value of land to go up", but very wrong here in present day Australia, to the point that taxing that capital to such an extent through UCV, the land cannot create the wealth to sustain its original wealth creating capacity. The rural land that was around Sydney is swallowed in urban development requiring billions of dollars now to provide the rail transport services. By European standards the land has been squandered and therefore underutilised.

The taxing of agriculture's capital is bad enough but with that extra competition there is a hidden wages competition too, because Australia compared with South American and Chinese wages, or the subsidies paid by Northern Hemisphere competitors can not compete.

Mr Churchill remarks about "It was apparent that there were hundreds of different ways of creating wealth and possessing wealth and gaining wealth which had either no relation to the ownership of land or an utterly disproportionate or indirect relation." is just as true now as it was then, in fact more so.
Where there is unlimited supply from cheap labour sources merchants do make substantial profits, but those modern day cottagers cannot all make a living from the merchant's coat tail or rely on mining: wealth must be created for society to be sustainable.

The vital question is; At what point does the economic balance have to get to, when our own self generated effort is not equal to our capacity to pay for imports, be that goods and/or money?

To keep going the way we are it wont be only rural reconstruction to be considered. Mr Churchill's seven qualifications of a depressed industry hold good for Australian agriculture and a majority are applicable to manufacturing where employment would crash without government support and some tariff protection.

Adding to farmers and all exporters woes is the floating dollar and its companion, interest rates. Perhaps there is a hint from Mr Montague in that other nations are making money at our expense if we have to borrow.

From a layman's point of view; increasing RBA interest rates to curb inflation has a lot of counter productive side effects, such as making it harder to compete on export markets, increasing farm costs on any borrowings. When the duration of drought is longer than normal, interest rates only hasten the decline of farm businesses.
The action does not always address the causes of inflation such as high oil prices ratcheted up by hedge funds and speculators, a chronic shortage of houses and rising food prices, due to a Trade Practices Act in need of review.
On the positive side from a consumers view, is that a higher dollar helps keep the price of imports lower but if more is earned and produced by exports the need for imports declines.
The mentality of the average consumer is that the cheapest price is the best, regardless of the fact his livelihood may become stressed. Also not known or recognised is that cheaper prices aid turnover, so the merchant has a greater incentive to depress buying prices too.
An examination of competition left to govern itself through market forces has demonstrated through the global financial crisis that it is in need of regulation. The mantra that "The customer is always right" is a fallacy.
Unbridled competition to give immediate benefit to consumers can be contrary to their long term benefit.

Because of our unique geographical and social condition in this country we cannot always do what the rest of the world does and to improve our systems of governance to fit in with our condition, adaptation and improvisation should at least be looked at.

On that basis, if we adapted the UK system of local government to achieve partnerships with agriculture, tourism and environment, what is to stop the RBA having an anti-inflationary pro infrastructure control mechanism in partnership with local government? Let it be designed to keep the usefulness of interest rates, but be able to dampen spending excess while using money so raised for productivity orientated infrastructure.

Sir R Horne's observations on rate differences hold good for Australian agriculture, with farm enterprises either closing down, as around Sydney, or relocating dairies from the North Coast and Illawarra to less desirable locations inland where water is less abundant, does not make for the long term viability of food security for the country. The vegetables that used to be grown at Sydney's doorstep are replaced with unknown quantities of imports.

In conclusion; drought summits, exceptional circumstances etc, while necessary are equivalent to closing the stable door after the horse has bolted. Droughts and natural disasters are the normal fare for this country, it is the self imposed financial drought that must be addressed because it grips not only farms and rural communities, but equally industry and local government.
The irony is that EC interest rate support has a component to cover payments already made to state government instrumentalities through the rate structure inappropriately taxing capital.

Jim Beale

5 Oct 2009