



A TAX SHIFT FOR OUR FUTURE ▶

From taxes harming workers and industry, to taxes on unearned income and monopolies. For economic justice, prosperity, and the environment.

**We all deserve a fair share of nature's gifts, and fair reward for our work.
We all seek a better future for ourselves, our family, and our society.**

Over the last decade we've watched our economy stagnate, with wages flatlining. Rising inequality within and between generations is challenging our ethos of a fair go and equal opportunity for all.

And we're continuing to exploit the foundation of our economy and society: nature.

It can be difficult to see how we might build that better future.

The power of the tax system to reshape our economy, society and environment is under-appreciated. Tax is not just about revenue, burdens, and 'winners and losers'. It's about collective provision, productivity, and justice.

It's time to talk about a new basis for tax, to help Australia thrive.

We need a tax shift – from taxes on effort, entrepreneurship and earnings to taxes on resources, rents and riches.

Hard-working Australians should keep more of the fruits of their labour, with capital income more equitably taxed. Business should be free to invest, employ and trade, but with monopolistic 'super' profits captured and shared.

We should tackle the housing divide by socialising the unearned rents from land, instead of granting them as reward for speculation and corruption.

We should protect our environment by pricing pollution and extraction, so that none of us are taking away from the birthright of all.

There's no single solution. We need a system change – one that realigns our taxes with our values.

A bold tax shift will allow us all to prosper. We can reboot our economy and enjoy a fairer, more resilient future.

It's time to talk about the tax shift we need for Australia.

A TAX SHIFT FOR OUR FUTURE



<p>FIX INCOME TAX</p> <p>Working people should be rewarded for their effort</p>	<p>ABOLISH PAYROLL TAX</p> <p>Allow businesses to employ more people</p>
<p>FIX COMPANY TAX</p> <p>Encourage healthy business practice and become more internationally competitive</p>	<p>REPLACE STAMP DUTY</p> <p>We should be free to move when we need to without a massive bill</p>

<p>EXPAND LAND TAX</p> <p>Tackle the housing divide by socialising the unearned rents from land</p>	<p>CHARGE POLLUTERS</p> <p>Price carbon and other pollutants to encourage a fast transition to a clean economy</p>
<p>TAX EXTRACTION</p> <p>Tax minerals and other natural resources to ensure we all share in our common wealth</p>	<p>TAX WINDFALL GAINS</p> <p>Capture unearned land value deriving from urban development</p>

THE TAX SHIFT: AN OVERVIEW

► PURPOSE OF THIS PAPER

We outline here a tax reform agenda for a fairer, more prosperous and more sustainable future. The tax shift is a vision we can all understand and embrace – one that crosses political lines.

This paper is the product of a project of narrative development for tax policy research institute Prosper Australia. We hope it proves useful for other organisations across the entire policy space and political spectrum as they pursue reforms we know are rational and necessary.

The Henry Tax Review in 2010 set forth a comprehensive tax agenda for the following decade. The principles and vision behind it were widely accepted. But key reforms, including the resource superprofits tax, were undermined by opposition from powerful interest groups.

Australia has moved on – changes in the federal parliament speak to that. Once again we have a window of opportunity to work across political lines and reset our tax system for the future.

Tax reform is difficult. Everyone appreciates that tax matters, but most of us feel we know too little to take a stand. Talk of change provokes fear, and triggers strongly held views of justice.

The tax shift offers a narrative, a communication tool, which respects this challenge. It is a vision of a future towards which we can move, and a lens through which to examine specific ideas. It's not a detailed blueprint, but a reasoned direction, grounded in an ethical view we can all support.

Lasting reform takes vision, persuasion and agreement. We think the tax shift, and the Georgist view of economic justice on which it is based, is the basis for the bipartisan change we need.

► THE GEORGIST VISION OF ECONOMIC JUSTICE

Prosper's tax philosophy is grounded in the Georgist worldview.

Over a century ago, American economist and social reformer Henry George asked the question: *why do we see growing poverty despite the technological progress of the industrial revolution?*

His answer came in the classic text *Progress and Poverty*, which became a bestseller across the world, speaking to economists and ordinary citizens alike.

For Henry George, the answer was land. The problem was exclusive private ownership of the inherent monopoly upon which all human activity takes place. Following in the footsteps of Adam Smith and John Stuart Mill, George argued that as long as landholders profit from the need of the community to access land, there can be no guarantee that economic growth will improve the condition of the poorest. A rising tide may simply lift all rents.

The crippling housing costs and stark contrast between “monstrous wealth and debasing want” that shocked George in the 19th century remain with us 150 years later. Today's housing crisis is as old as land itself.

In modern terms George was both an economic scientist and a policy advocate. His remedy for poverty amid progress was land tax. Not common ownership of land, but a tax paid to the community which, by its own development, produced the land value in the first place.

The 1880's 'single tax' movement saw this idea spread across the globe. In Australia the movement was particularly strong. The citizens of the federating colonies were eager to shape their new nation, and Georgist ideals paved the way for a federal land tax introduced in 1910, state land taxes, and the leasehold model of land ownership in the ACT.

The Georgist position on tax justice is that citizens should be entitled to the product of their own labour effort, disciplined savings, and entrepreneurship, as well as an equal share of the value of our common resource – the earth, and in particular, locations made valuable by the actions of society at large (e.g. urban land).

The Georgist vision is neither libertarian nor socialist. It recognises that 'first in – first served' for land is not a sound moral basis for an equitable capitalism. But it also recognises that socialising control of resources stifles freedom, innovation and growth. The Georgist philosophy sits entirely outside the ideological faultlines of the 20th century.

► WHY WE NEED A TAX SHIFT

Our tax system rewards rent-seeking and punishes effort, lets some of us profit from the birthright of all, drives inequality within and between generations, and is underused as a tool for protecting the environment.

The root of the problem is that the system heavily taxes earned income from work, investment and innovation while under-taxing unearned income (economic rent) from land, resources and monopolistic advantages.

A tax shift would remove barriers to commerce, improving economic prosperity and making it easier for Australians to earn an honest living. The current system discourages productive activity and encourages rent-seeking, making us all poorer. What we tax we get less of; untaxing the productive economy would grow our collective wealth.

Lightening the load on earnings would also move us towards a more just approach to taxation, and would level the field between rich and poor, sharing prosperity more widely.

And a tax shift could help in the transition to a clean economy, addressing concerns amongst Australians young and old about the need to tackle climate change.

Ultimately we may have little choice but to pursue this. Taxing globally 'mobile' resources (workers and business capital) is becoming more economically costly as trade and investment markets become ever more global in scope. Minimising economic self-harm means turning to taxes on 'immobile' factors (land, resources and monopolies). To remain globally competitive without lower taxes, we need smarter taxes.

► WHAT ARE ECONOMIC RENTS OR SUPERPROFITS?

Economic rent, supernormal profit (for a business) and unearned income (for a person) are all similar concepts. But there's a critical difference between these forms of income, on the one hand, and normal profit (for a business) or earned income (for a person) on the other.

Earned incomes and normal profits mean getting back as good as you put in. Unearned incomes and supernormal profits reflect special, monopolisable advantages that let some people extract more from society than they contribute.

A normal return rewards the investor for delaying consumption (for saving instead of spending) and for the risk in producing something new. An economic rent or supernormal profit (superprofit for short) delivers in excess of this. (We use the terms economic rent and superprofit interchangeably; they're the same thing.)

In competitive markets, economic rents don't last – although temporary rents to reward innovation are an important driver of productivity growth. Rents can only be sustained when there exists some monopolisable advantage, a barrier to others accessing the same opportunity. Rents are synonymous with monopoly.

The tax shift is essentially about down-taxing earned incomes – and up-taxing monopolists of all stripes.

The litmus test is this: was your income the product of hard work, disciplined savings, innovation, or risk-taking? Or the product of owning something others can't copy? When the answer is the latter, your income is a fit subject for tax.

Of course the distinction between earned and unearned isn't always black and white, especially in the case of personal effort mingled with an individual's unique skills. But precisely where the boundary lies needn't concern us: the tax shift agenda focuses on clearly unearned gains, such as from land.

Let's illustrate normal profit and earned income using the example of a manufacturing business. Profit in this business is created from capital (machines), labour (employees), and inputs (from suppliers). The owner takes a risk putting these together. Their investment, their sacrifice of present consumption, grows our future economy. Their production creates social value: jobs, sales for suppliers, consumer products, new ideas, and more. But competition means the firm's profit will ultimately be little more than necessary to stay afloat. The owner's income will be a fair return on what they put in, but no more.

Let's illustrate unearned income using the example of profit gained from buying then selling land. No cost, risk or sacrifice went into the making of that profit – the value of the land would have risen regardless of who owned it. The profit was not created by any action of the land speculator. It was entirely unearned.

Why is the manufacturer's income taxed heavily and the land speculator's profit taxed lightly, if at all?

One misleading suggestion is that the financial risk in land ownership justifies the profit. Land ownership is certainly a risky bet.

EARNED VALUE



GOODS • SERVICES • LABOUR • INNOVATION

UNEARNED VALUE



LAND • MINERALS • OIL & GAS • NATIVE FORESTS • POLLUTION

But so is crossing a highway to pick up a \$20 note. Unlike entrepreneurial risk, which creates something new, the risk in land speculation does not create the value of land, any more than crossing the highway creates the \$20 note.

The return to land was the original, first identified economic rent – that’s why the word ‘rent’ is in the name – but there are other types too.

Rents or superprofits can be derived from natural resources, such as coal, minerals, oil, gas, water, timber, and fisheries. We discover rather than create these resources, and we typically grant monopoly rights to a single owner. These rights often produce revenue far in excess of the cost of exploiting them.

Superprofits can also arise under licensing regimes, such as for gambling, taxis, pharmacies, banking, and skilled professions. Such licences are valuable beyond the contribution of the licence holder due to their artificial scarcity, which limits competition. Superprofits for firms monopolising ideas or technologies under the protection of intellectual property law are similar.

Finally, monopolistic superprofits can occur even without such legal protections, whenever high fixed costs create barriers to entry and competition.

▶ A BIPARTISAN FRAMEWORK FOR REFORM

The tax shift framework bridges the familiar political-economic divide between those calling for freer markets and those calling for more regulation and spending.

The tax shift we want is not revenue-neutral – it’s ‘revenue agnostic’. We take no stance on the overall size of government. Some will argue for a larger tax slice of the economic pie, others for a smaller one. The tax shift is compatible with both positions. It’s a reform agenda not about the size of the slice, but how the pie is cut.

The essence is that production and job creation should be relieved of tax, while economic rents should be captured for society at large.

This is inherently attractive for those prioritising economic outcomes by way of lower company, payroll and income tax. It is pro-individual and pro-business.

But it is also attractive to those seeking a fairer distribution of opportunity and more careful management of the natural world.

It’s a win-win – a bipartisan agenda for tax reform.

The only losers are those who currently profit by way of land value windfalls, resource extraction, monopoly rights, and environmental damage. The battle here is not between the left and right of politics, but between our community at large and the lobbying power of rent-seekers and those claiming an unfair share of our common wealth.

▶ A WEALTHIER, FAIRER AND CLEANER FUTURE

Shifting tax onto unearned incomes means freeing up and growing productive economic activity wherever taxes are reduced.

Income, payroll and company taxes cause us to invest less, employ less, work less, and produce less. That means we earn less. We are collectively poorer for using taxes which impose economic costs as a byproduct of gathering revenue.

Taxes on economic rents don’t impose economic costs. Windfall gains, mining superprofits, monopoly profits – well-designed taxes can transfer all of these to public hands *without* discouraging development and use of land, extraction of minerals, or industrial investment and production. Rents are the golden egg we can take while leaving the goose unharmed.

A tax shift would make us collectively wealthier by spurring on work, production, and economic growth. Using different taxes would result in *more* economic activity, not just different activity. Such is the power of tax as a lever for growth.

A tax shift would also move us towards a more just distribution of taxation and income.

We don't refer here to closing the gap between rich and poor, though it would do that. We refer to the Georgist view of justice in taxation, the idea we should each reap the reward from our individual effort while sharing equally in what rightfully belongs to all. Georgist tax justice is about the process of distribution, not the outcome. It's about what type of income you receive, not how much. It's about the source of your wealth, not the amount.

Though it isn't central to the vision, the tax shift would also equalise income and wealth. Land is increasingly a dividing factor in society. We are ever more a society split between those with inherited wealth and those without, our prospects for stable housing and a comfortable retirement determined not by how hard we work, but by the wealth of our parents.

Land inheritance perpetuates privilege, making life harder for the poor. The good news is that tax reform can reverse this, should we choose it. Taxing land is a central part of the vision, one which would break the cycle of inherited privilege and of inequality that grows inexorably from one generation to the next.

Consistent with the tax shift vision is the polluter pays principle, which is the equivalent for the natural environment of the principle that landowners should compensate society for what their exclusive use of particular locations prevents others from enjoying. There's a deep symmetry between land taxation and pollution pricing.

The power of resource and pollution taxation to better share our natural wealth and better protect our environment is under-appreciated. There are many ways to raise revenue, carbon pricing included, that we could use to diversify our tax base, nudge production in cleaner directions, and ensure those exploiting the environmental commons pay the rest of us for that privilege.

THE TAX SHIFT: A BREAKDOWN

► FIX INCOME TAX

People should be rewarded for effort, hard work, savings and entrepreneurship – but the way we tax income and deliver benefits fails that test.

Personal income tax and benefit withdrawal in combination creates a disincentive for many people to work additional hours, invest in education, or grow a small business. Because benefits are based on family income, secondary earners – usually women – can often lose the majority of each additional dollar of income in tax and foregone benefits. Their effective tax rates are often far higher than those faced by society's richest individuals.

How do we justify leaving only a tiny fraction of the social value of working harder in the pocket of the worker? It's unfair and counterproductive – it discourages the very thing we want more of. We need tax for revenue, but is this perverse arrangement the best we can do?

Another problem is that capital income – personal income from savings and investment – is often

taxed preferentially, at lower rates than labour income. Tax-free capital gains on the family home and the concessional treatment of investor capital gains are prime examples. Superannuation tax concessions are another.

These problems mean our income tax and transfer system is a long way from treating all income equally, let alone from prioritising income from work over income from wealth. The system grossly favours people with accumulated wealth, including inherited wealth, over people with only their bodies and minds to earn from. This system may be familiar, and normalised, but in its fundamental design it is irrational and immoral.

We need a closer look at how we tax income from work and income from wealth. We need to reorient tax settings to reward effort and savings – not to further enrich those who chose their parents and tax advisor wisely. This would grow our economy, let us all earn a dignified income, empower women who choose to work, and sever the cycle of inherited privilege.

▶ ABOLISH PAYROLL TAX

Why tax businesses for creating jobs? Why tax workers for filling them? Payroll tax is a regressive tax on wages and jobs. It's a handbrake on the activity central to economic prosperity and human dignity: meaningful work.

The more an employer pays their staff, the more they pay in tax. That drives up the cost of workers and drives down the wage they receive. Workers suffer lower incomes, higher unemployment, and underemployment.

Payroll tax costs society some \$0.25 to \$0.33 in lost income (foregone production) for each dollar in revenue collected.¹ That means by discouraging hiring and work state governments are effectively destroying up to a third of the revenue they collect.

This is unfair, counterproductive, economically destructive – and barely remarked upon.

We say payroll tax must be abolished. There are many better alternatives. As long as landowners are rewarded for mere ownership of land, such as via untaxed windfall gains, there is no place in civilised society for a tax on hiring and work.

▶ FIX COMPANY TAX

When firms invest in innovation and productivity it improves our living standards, provides jobs, and creates goods and services. Why do we discourage this through taxation?

We currently tax all company profits on a like basis.

A better approach would tax companies more heavily on superprofits – the rents extracted from land, resource rights, natural monopoly positions, or other exclusive advantages that yield outsized profits relative to the investment or risk taken on. It would tax companies less on the normal return to equity – the return that compensates the owners for deferring consumption and risking their own capital on an uncertain bet.

Taxing superprofits and untaxing normal profits will encourage more productive activity, making us wealthier. To appreciate how, consider two firms: one engaged in productive activity and the other extracting economic rents.

The first is a digital design company providing services to clients around the world. The firm's employees, which account for most of its production costs, are talented designers creating

new ideas, designs, systems and technologies. Unless this firm has some special advantage, competition from similar firms will reduce the owners' profit down to a normal return to capital. Taxing this profit, which is barely enough to induce investment and production, discourages those activities. That has flow-on effects on the number of employees hired, the wages offered, and the extent of innovation and productivity growth in the firm and elsewhere (via spillovers). Ultimately, it may lead to the firm's operations moving abroad.

The second firm is a mining company generating profits by extracting a natural resource. The company didn't produce this resource. Some part of its profit recoups the investment in extraction, but since the firm has exclusive rights to the mining lease, and the overall resource is limited, competition from similar firms will not necessarily limit the firm's profit to this amount. The firm may gain a superprofit or economic rent – a profit in excess of that necessary to induce investment. We describe that part as 'unearned'. Taxing it means shifting money from the shareholders to the public, without discouraging investment. It's a pure transfer.

Currently, both firms pay tax on profits at the same rate. Under a better system, the first firm would pay less tax, stimulating further investment and production, and the second would pay more tax, yet without discouraging investment or production. This would create economic benefits without imposing economic costs.

There are various ways of recalibrating company tax to achieve this, such as by converting it to a cash flow tax along the lines of the Henry Review recommendation or the proposals advanced by Ross Garnaut and others. Such a system would reward companies that profit from investing in our living standards, without enriching those in monopoly positions.

▶ REPLACE STAMP DUTY

Stamp duty on property transfers is unfair: it places a higher burden on those who move house or business premises more often. This is arbitrary, because the act of transacting land is generally unrelated to any cost incurred by the state or any special benefit derived by the seller.

And land transfers are socially valuable: they improve productivity by better matching

1. Murphy (2016), *Efficiency of the tax system: a marginal excess burden analysis*, ANU TTPI, page 11, https://taxpolicy.crawford.anu.edu.au/sites/default/files/publication/taxstudies_crawford_anu_edu_au/2016-06/complete_final_chris_murphy_efficiency_tax_system.pdf

households to houses and businesses to premises. Stamp duty stands in the way of this. Stamp duty likely affects worker commute times, business distances to suppliers, customers, and employees, and traffic congestion, as well as misallocating housing, which results in overcrowding in some houses, empty bedrooms in others, too many costly renovations, and not enough efficient new builds.

Although stamp duty is a de facto tax on land income – it eats into the vendor’s sale proceeds – it is a crudely targeted one. It doesn’t distinguish between sellers who bought long ago and are making large capital gains and sellers who bought recently and may be making capital losses. And because it applies to the total property value, not the land component, it discourages investment in improvements.

There are better (fairer) ways to tap the land income base. We don’t want to *abolish* stamp duty, because that would create large (and largely untaxed) capital gains for the current owners. We want to *replace* it with a fairer, more efficient tax on land.

One option is a new land value tax. But switching from a transaction tax to a recurrent tax has pitfalls. Another option might be to convert stamp duty into a ‘value capture’ tax paid on sale, with the tax calculated as a share of the uplift in land value since the previous sale.

Replacing stamp duty will let us make the most of our land, housing and transport networks, through smarter patterns of occupation and land use. More importantly, it will replace an arbitrary penalty on moving with a fairer sharing of unearned income from passive ownership of land.

► BROADEN LAND TAX

Unlike wages and the normal profit of business, income from land is unearned.

That means no effort or sacrifice created it. The landowner received this income simply by virtue of owning a resource in limited supply: land, or more precisely, valuable locations. A fixed supply of land in desirable locations is the essential feature distinguishing land from capital (i.e. buildings and machines). It is key to the economic and ethical case for land tax. Mark Twain’s quip – “buy land, they’re not making any more of it” – truly hits the point.

Land income takes several forms. One is a portion of the cash rent landlords get when leasing their premises. Some part of this recoups the cost of investment in structures, but the portion above this is pure economic rent, reflecting location value alone.

Location value can’t be competed away: land can’t be ‘imported’ from elsewhere to drive down the price of housing to the construction cost. Each site is a tiny monopoly, and is priced accordingly.

Another type of land income is the land portion of the ‘imputed’ rent homeowners get from their own house, referring to what they could receive were they to lease it out instead of occupying it. Another is the so-called ‘capital’ gain (actually a land value gain) when a property grows in value. (Paper gains are income too; whether it’s smart to tax them before they’re converted to cash is another matter.) We often don’t see land income directly – it’s bundled with returns to capital, or it isn’t received in cash. But it’s a distinct type of income, and can be taxed distinctly.

Land has value because it generates this income. But land income, and land value, doesn’t emerge from any action of the landowners. It is created by the rest of us.

The value of land measures the benefit society at large provides to each location by virtue of what is collectively provided through the state, i.e. infrastructure, services, and regulation, and what that lets us access, i.e. markets, opportunity, amenity, culture, community – all the things we value.

Land value sums up what we, the collective, contributed to making a place desirable. The value of land has nothing to do with how the owner uses it.

In the Georgist tax ethic (and that of earlier thinkers) that makes land the proper object of taxation. What could be more intuitive than society socialising and sharing that which society created, while letting individuals keep the fruits of their own efforts? The principle is inarguable.

This ethic is one reason for land tax. The other is efficiency. Land can be taxed at no economic cost, with no discouragement to investment or production. Landowners can improve their *capital* value, but they must take their land value as given. And if nothing you do changes the value of your land, why change how you use it? This is why economists describe a tax on land value as a perfectly efficient tax.

In an ideal system, land rent would be heavily taxed, allowing for the abolition of taxes on wages and profits and distribution of any excess as a citizen’s dividend (i.e. a universal basic income).

That’s the light on the hill. Of course, we can’t move there quickly. Land is a legitimate vehicle for savings under our current economic system. For many people the land under their house is their most

valuable asset, the reward for a lifetime of work and saving. Fairness demands we not punish through rapid change those who bought property rather than shares, cash, bonds, or other assets. To some extent, those land rents are bought and paid for.

So how can we fairly transition to a better system? It must be at the point where land inheritance perpetuates privilege. We have the right to the fruits of our work and saving in this life, but do our own children have the right to benefit from that? Should our effort, luck or cunning in acquiring legal claim to a limited and valuable piece of our earth let us privilege our own family at the expense of others?

We already use land taxes – but not nearly enough. Council rates fall partly or entirely on land value, depending on the rating base, but capture only a small share of land income. State land taxes are levied on a narrow base of commercial and industrial property, and fail to prevent landowners acquiring large windfall gains from rezoning decisions and new infrastructure.

Land has become a great dividing factor. Many of us earning a wage struggle with the rent and bills, while those who inherited land or bought it long ago now, in the words of John Stuart Mill, “grow richer, as it were in their sleep, without working, risking or economising”.

Broadening land tax, along with other ways of capturing land income, would move us closer to an ethical and efficient tax system in which economic reward is proportionate to effort. This would grow our economy, and more: it could encourage faster housing supply, reduce incentives for corruption, stabilise housing markets by curtailing speculation, and restrict one channel by which wealth inequality grows within and between the generations.

► TAX EXTRACTION

Our system of rights over natural resources – minerals, oil and gas, forests, water and more – is often an elaborate version of ‘finders keepers’.

Some 60 years ago Lang Hancock ‘staked his claim’ to the world’s largest iron ore deposit, in the Pilbara. Wrangling legal rules, state politics, and media narratives, he finally secured exclusive ownership rights, recognising and speculating on the prospect that rising demand and falling costs might one day make the claim highly profitable. Today those rights are worth billions, and remain in private hands, their value tempered only by royalties introduced in the meantime.

Just as for land, the principle of first-in first-served for natural resources – referred to in mineral prospecting as the “first finder’s right” – is a fundamentally unfair basis for determining who benefits from the riches of the earth.

Why should Lang Hancock’s daughter be the richest person in Australia, largely by virtue of inheriting a chunk of the earth? Why should a taxi driver in Melbourne be living on the breadline? Both are Australians. We can (charitably) assume both work hard. Why does one live in luxury and the other in poverty?

The answer, which is not a justification, is the unfair way we allocate resource rights and share their value. Exclusive rights to our shared natural endowment without fair payment to society enriches some at the expense of the rest of us, an expense we bear through higher taxes and a lower quality of life.

There’s a simple principle we should not back away from: our natural resources are *ours*, collectively, and should be sold for no less than what they’re worth. That means we should capture the economic rents that extraction rights provide. If we do that, we can untax the taxi driver, every other worker, and indeed every productive business contributing to our economy.

Resources are an outsized share of Australia’s exports, but a far less significant contributor to job creation and demand for inputs from suppliers. With only a relatively minor benefit to our economy along the way, our resources are shipped offshore, with the vast profits that generates following shortly after. We can and should demand that the industries exploiting our common wealth give more back to our economy.

The way to do that is with better taxes. Designing better superprofit taxes, possibly as a replacement for crudely-calculated royalties which make resource investment a riskier bet than it need be, can do that.

And in the interim, royalties can simply be lifted and tweaked. Queensland in 2022 introduced three new tiers for coal royalties, with higher rates applying when coal prices are higher – a rough-and-ready proxy for superprofit taxation. This measure raised an extra \$6 billion in 2022–23 as coal prices rose, which is over \$1,000 per Queenslander, and is more than was raised by either payroll tax or stamp duty in that year.²

2. *Queensland Budget 2023–24, Strategy and Outlook*, Revenue https://budget.qld.gov.au/files/Budget_2023-24_BP2_Revenue.pdf

► CHARGE POLLUTERS

Much economic activity degrades our natural world as a by-product of production or consumption, such impacts being described as 'negative externalities'.

A fairer economy would price negative externalities so that these social costs are internalised into business and individual decisions. Otherwise the community at large bears the burden, and polluters have inadequate incentive to clean up their processes. Environmental pricing can also raise revenue to replace other taxes.

This approach is underused. Numerous polluting activities could be priced in addition to or instead of being regulated in quantity (a common approach in state environmental regulation). Pricing can be more economically efficient than prescriptive regulation (sometimes described as 'command and control' regulation) because it allows firms to find the cheapest path to cleaning up their act.

Waste, air pollution, water pollution – the potential applications of this go beyond carbon pricing. Even congestion charging is based on the same approach.

The principle we're pushing is the 'polluter pays principle'. Those who take from the rest of us by degrading our natural world must compensate us for our collective loss. It is consistent with the philosophy behind land taxation: if you monopolise part of the earth we all have equal entitlement to, you should pay us for the privilege.

Where does pollution pricing sit within the tax system? There is another broad principle for a system that best supports economic growth and collective welfare: the principle of taxing "bads, neutrals, then goods". That means we should raise revenue first by pricing the undesirables (pollution), turn next to non-distortionary taxes (such as on land and superprofits), and only then, if necessary, resort to taxing activities we want more of, such as work, investment, and production.

Our current tax system gets this entirely back-to-front.

► CAPTURE WINDFALL GAINS

Savvy property owners know how to extract unearned income from land. They listen closely to (and often influence) government planning and investment decisions. These owners – land speculators – know to buy low, wait, then sell high. Their profits are windfalls, unearned incomes they did nothing to produce.

The largest windfalls come from rezoning and new infrastructure.

Land is no more than a location with a bundle of rights attached. Laws and regulations determine that bundle. When additional use rights are added to the bundle, by way of rezoning or planning approval, its value rises in consequence. The simplest example is when farmland is rezoned to allow for residential development, boosting its value enormously. The same occurs when existing residential land is 'upzoned' to allow higher density, or when commercial land is upzoned for higher-value uses. By way of example, we estimated that the uncaptured uplift from the 2012 upzoning of Melbourne's Fisherman's Bend, a brownfields precinct adjacent to the CBD, was around \$4 billion. Had that been captured it could likely have funded all necessary investment for the area.³

Infrastructure provision has the same effect on land values. When the government announces a new train station or train line, hundreds of thousands of dollars can be added to the value of an ordinary residential property overnight. And since new infrastructure is usually paired with rezoning for more intensive use, property owners gain a double dividend.

Such windfall gains are a 'honeypot' for corruption, an irresistible temptation for politicians and their backers.

It's always been this way. Melbourne's extensive railway system is in part a product of speculation, as 19th century parliamentarians judiciously bought land at the same time as voting for public investment in new train lines running through it.⁴

3. Prosper Australia (2021), *The Rezoning 'Honeypot': Evidence from Fishermans Bend*, https://www.prosper.org.au/wp-content/uploads/2021/06/The-Rezoning-Honeypot_ProspersAustralia.pdf

4. Mares (2012), *Can we afford to get our cities back on the rails?* Grattan Institute https://grattan.edu.au/wp-content/uploads/2014/04/180_mares_urban_rail_essay_cities.pdf

Rezoning favours and trading on inside information remain the norm today, with only the most egregious instances making it to the category of 'scandal'. One study found that 60% of the value uplift from rezoning decisions in Queensland went to politically-connected property owners, for example.⁵ This grey-gift corruption is so entrenched in our economic and social structures that we see it as normal.

Taxing rezoning and infrastructure windfalls would allow us to cut taxes on work, investment and production, and would lead to valuable infrastructure effectively paying for itself. This approach – referred to as value capture – would not deter any valuable economic activity. But it would reduce the incentives for corruption and the distortion to public decision-making that results from it.

Capturing value is fundamentally fairer than giving it away. When the state builds a train line with taxpayer dollars, it should be taxpayers that benefit, not lucky or well-connected individuals. When the state grants additional land use rights, the recipients should be charged for the privilege; there should be no upzoning without value capture. To give these rights away for free instead of selling them is to privatise public assets without the public getting a cent.

There are many ways to enact value capture taxation: windfall gains taxation triggered upon rezoning, developer charges payable upon development, land value uplift taxes levied at the point of sale, and auctions for land use rights, amongst others. There are working models for many of these here and abroad.

5. Pascoe (2015), *In the zone: Insider trading rife in land rezoning racket*, SMH, 29 September <https://www.smh.com.au/business/the-economy/in-the-zone-insider-trading-rife-in-land-rezoning-racket-20150929-gjx8nh.html>

HOW TO TALK ABOUT THE CHANGE WE NEED

Tax is a complex and often opaque topic. It can be hard to engage the public. Changes can be easily misconstrued, and fears weaponised by those with interest in the status quo.

Public education and civil society engagement at the level of principles and values, as well as information, is critical. This is what the tax shift framing aims to address.

People are motivated by values, and predisposed to retaining existing beliefs over new information. When pursuing tax reform, facts alone won't cut it – values-based communication is key. But little effort has been made to apply this approach to tax policy thus far.

Henry George's *Progress and Poverty* was rich in metaphor and argument that spoke powerfully to the people of his time. We see the tax shift as the right framing for our own.

We hope it works for you and your organisation too. Whether you represent a political party, an industry or employer group, or social change or environmental NGO, or you are simply a concerned citizen, we hope that the tax shift provides a language with which you can advocate for change.

We think it's time to talk about a tax shift for our future.

SUPPORT OUR CAMPAIGN FOR A TAX SHIFT

Subscribe to our newsletter

prosper.org.au/subscribe

Become a member of Prosper Australia

prosper.org.au/join


Donate to Prosper Australia Research Institute

prosper.org.au/donate

Follow us on social media

 @prosper_aust

 prosperaustralia

 prosper-australia



Prosper Australia
Level 1, 64 Harcourt Street
North Melbourne
+61 3 9328 4792
www.prosper.org.au
office@prosper.org.au