

and capital value of their land holdings is increased and maintained by the provision and continued availability of that service. This benefit in appreciated land value goes to land owners irrespective of whether they themselves use the railway service or not.

18. The magnitude of the land value benefit to them varies with the location of their holdings. It is greatest in the metropolitan area where most railway lines converge and hauls are short. Here the value of land in Melbourne City per acre averaged approximately 13,000 times the averaged unimproved value per acre over the six Mallee Shires.

19. The current unimproved values for municipal rating purposes of Victorian lands at present total \$6,328,174,000. This is the extent of the cash benefit given to land owners arising from development works undertaken by public bodies of which the railway services are the most important single component. If they let these holdings to tenants the land owners could collect site rentals from them to about \$316,000,000 annually. This immense sum is the 'unearned increment' or benefit given to the owners in their capacity as land owners only — not as users of the rail and other developmental services.

20. Some public administrators of other developmental works are allowed to finance their operations wholly or partly by levying on these land values which their operations help to create and sustain. The Victorian Railways Department is not yet allowed to do so, though its rightful share of those site-rentals is at least equal to the annual costs of keeping the railway lines and rolling stock maintained in a condition ready for use and of the interest and sinking fund charges on capital outlay in the railways system.

21. **We submit that justice and commonsense requires that the Victorian Railways should be allowed to draw part of its revenue from a levy on these land values which its operations substantially help to create and sustain. Unless this is done we can see no hope of putting their finances on a sound basis. Moreover, it is in the interests of landowners themselves to contribute as such to its costs because the collapse of their potential earnings, which would follow cessation of the railway service, would make them lose far more than their prospective contributions to the railways revenue through a levy based on land values.**

B. Railway users as such.

22. Under the present railway finance practice the Government expects railway users collectively to pay in freights and fares the whole capital costs of providing the railway ready to work **plus** the actual cost of operation. In fact they have not done so and the deficiency is shown as a loss by the railways and regarded as a measure of inefficiency.

23. Railway users as such are thus called on to pay far more than their fair share of the railway costs. This regressive method of finance contains the seeds of self-destruction. As capital and operating costs increase so also will the freight and fare charges borne by users of the system be raised. A point is reached where the law of diminishing returns operates. The increased charges then cause customers to reduce the extent of their use of the railway service. Further rises in freights and fares then accelerate the decline in usage, with the progressively reducing numbers of users being faced with ever-increasing charges until the whole system breaks down.

24. This is only a simple statement of what has been happening for many years now. Recent railway experience shows that the point of diminishing returns with freight and fare increases has already been passed and the process of decline is well under way. The evil result of expecting the users of the service to bear all railway costs while landowners absorbing the 'unearned increment' pay nothing as landowners, is unmistakably reflected in the figures of railway business.

25. Over the 20 years from 1949/50 to 1969/70 the population of Victoria increased from 2.231 millions to 3.437 millions. This was a growth of 54 per cent in the potential users of public transport. Allowing for the increasing use of private motor cars with growing affluence, it could have been confidently expected that the Victorian Railways would have gained a proportionately less but still very large share in the transport business linked with this extra 1.206 million customers. **But so far as passenger transport is concerned not only has there been no increase but there has been a staggering reduction in the number of passenger journeys made.**

26. Over this 20 year period the number of passenger journeys made progressively fell from the peak of 182,101,351 in 1949/50 down to 144,308,549 in 1969/70. The decrease of

37,792,000 is a decline of 21 per cent in users of the railway passenger services over the period. Apart from the progressive decline over the whole period there have been substantial falls immediately following the increases in freights or fares. For the year 1950/51 the decrease in passenger journeys was 40,789,000, a reduction of 22 per cent over the previous years total following increases in fares and the traffic never recovered. Despite the increases in fares passenger revenue in the year following actually declined by 11 per cent.

27. More recently, in January, 1969, increases in passenger fares were announced for both country and suburban rail travellers. For country users the return fares were increased on average by 5 per cent. For suburban journeys the rise for weekly tickets averaged 9 per cent. In the case of the latter, passenger journeys in 1969/70 fell by 1,888,987 compared with the total of 142,197,660 in 1967/68, the last full year at the old rates. The net increase to rail revenue of \$1,542,748 was an increase of 6.8 per cent, which is substantially less than the percentage increase in the fares.

28. Increases in freight charges too have resulted in relative decreases in revenue compared to the percentage rise in the charges, though the effect is less immediate than with passenger fares. The suburban passenger has more options open to him on alternative transport than has the user of the goods and live stock service. The suburban passenger can solve his immediate problem by becoming a motor car driver as so many thousands of past rail customers have done. The country freight service user for goods or live stock has not this flexibility. He is in business and increases in rail freights must be absorbed temporarily however seriously they affect him. But such rises will turn marginal operators into un-economic ones and ultimately cause them to go out of production or business. They may struggle on for a while before this happens but when it does there may be a permanent loss of transport business from their district so far as their properties are concerned. Rail freight charges will become a vital factor to the solvency of rural producers when the imminent entry of Britain to the European Economic Community becomes effective.

29. It is in country areas, where freight charges are a substantial proportion of their total costs, that marginal producers are most likely to be driven out of business by increases

in freights and fares. As the criterion of profitability is applied in the railways to individual stations and lines the stage is reached where railway service is withdrawn and the lines closed down completely. This has happened progressively, with 54 lines of total length 612.55 miles having been closed or actually dismantled, between 1st July, 1937, and 30th June, 1970. The total mileage of railway lines remaining open for traffic at this date was 4,165.74 so the 612.55 miles closed or dismantled (more than one-seventh of the total mileage in service) is a most substantial reduction in railway service.

30. **What is vitally needed here is that railway freights and fares be reduced to users of the service and supplemented by charges based on the unimproved land value of the State. This would provide increased revenue from sources which do not make use of the services, while reducing the burdens on those now using them. Where landowners are also producers they will generally be users of the railway service. Their contributions as users will be reduced though offset by the charge based on land values.** Where such landowner users of the railway service are located in districts remote from the metropolitan area their saving with the lower freights and fares will substantially exceed the charge on land values. Residents of rural areas generally will gain by the switch which will aid decentralisation and make rural industry more economic.

31. It needs to be borne in mind that these rural areas far from Melbourne are doubly penalised by the present Railways practice of charges for freights and fares. They must pay those charges to get their primary products to the metropolitan markets. **They must also pay the freight charges in higher prices on the return goods that pass from the metropolitan producers to their local area. With reduced freight charges the present drift from rural areas to the city could be slowed or even reversed.**

Summary

32. The Victorian Railways Department shows substantial and rapidly growing losses on its operations, simply because its charter does not give it a share in the land values maintained by the continued availability of developmental public utilities of which its own service is the most important single component.

It is entitled to an adequate share in these land values in accordance with the principle of payment towards costs in accordance with benefit received, which is supposed to be the basis of its charging structure.

33. The Railways Department is now left to make charges on the user of the service alone as its almost exclusive revenue source. These charges are regressive and have long passed the point of diminishing returns where increases in charges cause further decline in the use of the service. Moreover, these charges contain no component to counter continued inflation due to debasement of currency and inflationary taxation policies either of the State or Federal Governments. Much of the recent increase in the magnitude of the Railways expenditure (and hence of deficits) is the direct result of such policies.

34. By contrast, if the Railways Department is given an adequate share of the proceeds of

a development rate or tax based on the unimproved value of all land within the State, this would in itself provide an expanding revenue which would be self-compensating against inflation. This would be so since with continued inflation there is a shifting of investment funds from goods and services into land purchase, because this is regarded as a safer investment. Thus land prices will rise and so will the revenue from the rate rise also to compensate.

35. The land rate or tax would be deductible for income tax purposes whereas freights and fares are not generally deductible. In this way part of the Victorian railway costs would be recouped to landowners from the Federal Government. The proportion returned to landowners would vary with income but generally be between one quarter and one half of the rate payment made.

(4) CONCLUSIONS ON CHANGES NEEDED IN THE VICTORIAN RAILWAYS FINANCE STRUCTURE

36. Our general conclusion from the previous section is that the Railways Department can become a fully viable and profitable undertaking instead of a drain on State Government Finances — if legislation is enacted to allow it to recoup a substantial part of its annual costs by a levy upon the unimproved rental or capital value of the land, this being increased and sustained by the continued availability of the railway services. What is required is the adoption of a two-part charging structure comprising:

- (a) Annual costs connected with the capital outlay needed to provide the railway service ready for operation when required, being commitments that must be covered whether trains run or not, are to be recouped by a rate-charge based on the unimproved value of all lands whether the owner personally uses the service or not;
- (b) Annual costs of actual operation, being directly related to the extent of use

made of the service, are to be recouped as at present by fare and freight charges borne by the customers according to the extent of their usage of the service.

37. To the extent that the annual railway costs are recouped by the land-rate charge under (a) the freights and fares charged under (b) to actual users of the service should be correspondingly reduced.

38. (In a later section of this submission we give more detailed proposals for application of the principles above as a package deal. We then show how it would apply to re-allocate cost sharing within the Statistical Divisions of the State and the Local Government units within them. We particularly examine the impact of the changes on primary producers in the rural areas and the extent to which they can offset expected difficulties arising from Britain's entry into the European Economic Community).

(5) RAILWAYS AND OTHER DEPARTMENTAL ENDORSEMENTS OF THE DIAGNOSIS AND PROPOSED REMEDY

39. The above stated conclusions on what needs to be done have not been developed by our own thinking alone. They are really a

crystallisation and tying together into a concise statement of views evolved and expressed over the last half-century by the Victorian

Railways Administration, the Victorian Railways Union, Arbitration Court judges, State Under-Secretaries, and political parties whose members have been brought to consider the problems of the railway system. They are also those of other public authorities concerned with developmental public works who face the same general problem as the railways though in lesser degree. That problem is seen by them as how to plough back into the finances of the public authority an adequate share of the publicly-created land values linked with its works. Some of these endorsements are cited below:

40. Victorian Railways Administration

From the end of World War I the Victorian Railways Department has strongly endorsed the principle that it should be given a direct share in the land values linked with its services. As result of their representations, minor recognition of the principle was given with the railways being given power to levy betterment rates to cover expected losses on some of the later extensions of the railway service, particularly the Darling-Glen Waverley line in 1928. The practical significance of this on railways finance was negligible as the depression retarded development and the betterment rates were abandoned.

41. What was really needed was not merely power to levy on small new extensions but over the whole area of the State which already had railway service available. This was recognised by the Railways Administration and clearly expressed in the following extract with which Mr E. H. Brownbill, Chairman of Commissioners, Victorian Railways, concluded an address given on 30th April, 1960, to the Economic Society of Australia and New Zealand on "The Economic Problems Facing Australian Rail Transport in the next decade."

"The conclusion to be drawn is, I think, that the whole question of financing suburban railway systems has to be approached from a new standpoint. The community appears to be willing enough to spend revenue, which is derived from general rates, on motor expressways without any thought of demanding a profit and loss account or of ensuring that only those ratepayers who actually make use of the facilities are called upon to pay for them. Why should not the same line of reasoning be applicable to the fixed plant involved in providing a new railway extension? After all, any such extension adds enormously to property values in the area concerned. The fares fixed by the operating authority would then need to cover only the cost of providing, main-

taining and operating the trains. This would make them much more competitive with private car travel and would thus be an important influence in diverting passengers from cars to trains — a diversion which, as I have already pointed out, has a dual effect in lowering total transport costs.

This would, I think, be a suitable note on which to close. I trust I have contributed something towards a better appreciation of railway problems — both those of management and those broader problems which must be resolved at the community level."

42. Judge A. W. Foster, Arbitration Court.

In the Arbitration Court proceedings (21.5.47, page 7480), Judge A. W. Foster said

"It is of very great significance in some respects, it seems to me, because we are told regularly that our Railways are a losing proposition. I have always asserted that the Railways was the most profitably run institution this country has ever had, and, far from being a losing proposition, it is making very handsome returns indeed. No adequate balance sheet ever took into consideration the accretion of land values in this State as a result of it. If you put the land value increase on the credit side of your balance sheet, instead of owing \$60,000,000 worth of capital you will have a credit of perhaps \$200,000,000."

43. Mr. H. A. Pitt, Under-Treasurer for Victoria.

Giving evidence before the Royal Commission which recently inquired into railway matters, Mr. H. A. Pitt, Under Treasurer for Victoria declared:

"It is anomalous that railways could be regarded as being run at a loss when in reality they show a handsome profit to the community. Apparently, when the State originally undertook the construction and control of railways, in Victoria, consideration was not given to the general effect of railway construction upon land values. It is impossible to assess accurately the added values of land due to the provision of railway transport, but it must be at least equal to the cost of construction. The cost of construction and equipment of Victorian railway lines to June 30, 1928 is, say, \$118,000,000. As the average rate of interest is 4.7 per cent an annual charge against railway users is being made of \$5,500,000, which should be provided for by the taxation of unimproved land values. Relief should be given to the extent of interest on the cost of construction etc. That is on the immovable assets of the Railways, which ensure the maintenance of land values."

From "Progress," July, 1929

"Giving evidence before the Full Arbitration Court today on the application of the Railways Commissioners of Victoria, New South Wales, South Australia and Tasmania for the setting

aside of railway awards on the ground of financial stringency the Victorian Under-Treasurer (Mr H. A. Pitt) outlined his plan for a tax on unimproved land values to meet the railways interest bill.

He estimated that the tax would probably have to be about 1½ cents in the dollar of unimproved land values.

Mr Pitt said that in his opinion if the tax he suggested were imposed there would be a great development of primary industries, and it would be of great assistance to the railways generally. Freights would be lower and the producer would benefit."

"The Herald," Melbourne, 19.9.1930.

44. Australian Railways Union

The views of the Australian Railways Union were set out in an article in the Victorian Railways Union Gazette of 10.9.30 from which quotations are cited in Appendix "C" attached. The views expressed in this article strongly support the proposals made in our present submissions. They are significant not only because they state the attitude of an important industrial body but because they express views held by the railways administration also.

45. Australian Labor Party

The Victorian State Platform of the Australian Labor Party is that the whole proceeds of State Land Values Taxation be used for payment of interest on the railways indebtedness;

with freights and fares to be reduced by the amount so used. An extensive quotation from its pamphlet advocating a railway rate on land values is given in Appendix "D" to our submissions.

46. United Country Party (Victoria)

This Party has repeatedly adopted motions at Annual Conferences adopting in its Platform the proposals for meeting railway and water supply capital costs from rates on land values.

47. Liberal Party (Victoria)

While this Party makes no special provision in its platform for financing the railways costs by levies on land values, it has already endorsed the principles in its legislation. Both the State Land Tax and the Unimproved Land Values Rating Acts used in the local government field were initiated by this Party or its equivalents. Perhaps more significant, as indicative of recent thinking, the Bill which provided for an underground railway for Melbourne was initiated by the Liberal Party Government and provided for two-fifths of the cost to be recovered by a rate on the unimproved value of land benefited in Melbourne City. This recognised the soundness of the principle even though political pressure from interested parties later led to its adulteration.

(6) THE RAILWAYS TRANSPORT RATE PROPOSAL IN MORE DETAIL

48. The proportion of the total railways revenue which it is proposed to finance by freight charges and fares as at present; by the rate on the unimproved value of lands; the rate in the dollar required; and the magnitude of the resultant reduction in the freight and fare charges have been found from analysis of the statistics in the Report of the Victorian Railways Commissioners for the year ended 30th June, 1970, and the statistical appendices to it.

49. The results for these items are summarised following and applied to show the incidence and effects of the changed basis of charges on railway users in the rural and metropolitan statistical divisions of Victoria and the Riverina. The detailed computations are set out in the Appendix "A" and its explanatory notes forming part of these submissions.

50. The total railway revenue for the year 1969/70 was \$105,053,584. Of this \$8,080,041

came from miscellaneous sources including refreshments services and rentals for railway properties, which would be unaffected by the changed basis of charges, leaving \$96,973,543 contributed from passenger, goods, livestock, parcels and mail services. Of this the revenue from interstate traffic to and from other States contributed \$20,102,062, which would continue as interstate charges would remain unaltered. This leaves the balance of \$76,871,481 as the passenger, goods and livestock revenue for traffic within the Victorian railway system (including the Riverina). It is this portion which would be subject to the two-part charging system with the land rate offset by reduced charges for freights and fares.

51. Magnitude of land value rate charge.

The amount to be raised by the rate charge on land values for the 1969/70 year would have been \$48,041,921. The rate charge needed to return this revenue would be three quarters of one cent (0.76) per dollar of the