April - June 2012

# PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

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And other musings from Gavin Putland

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An essay by David Smiley

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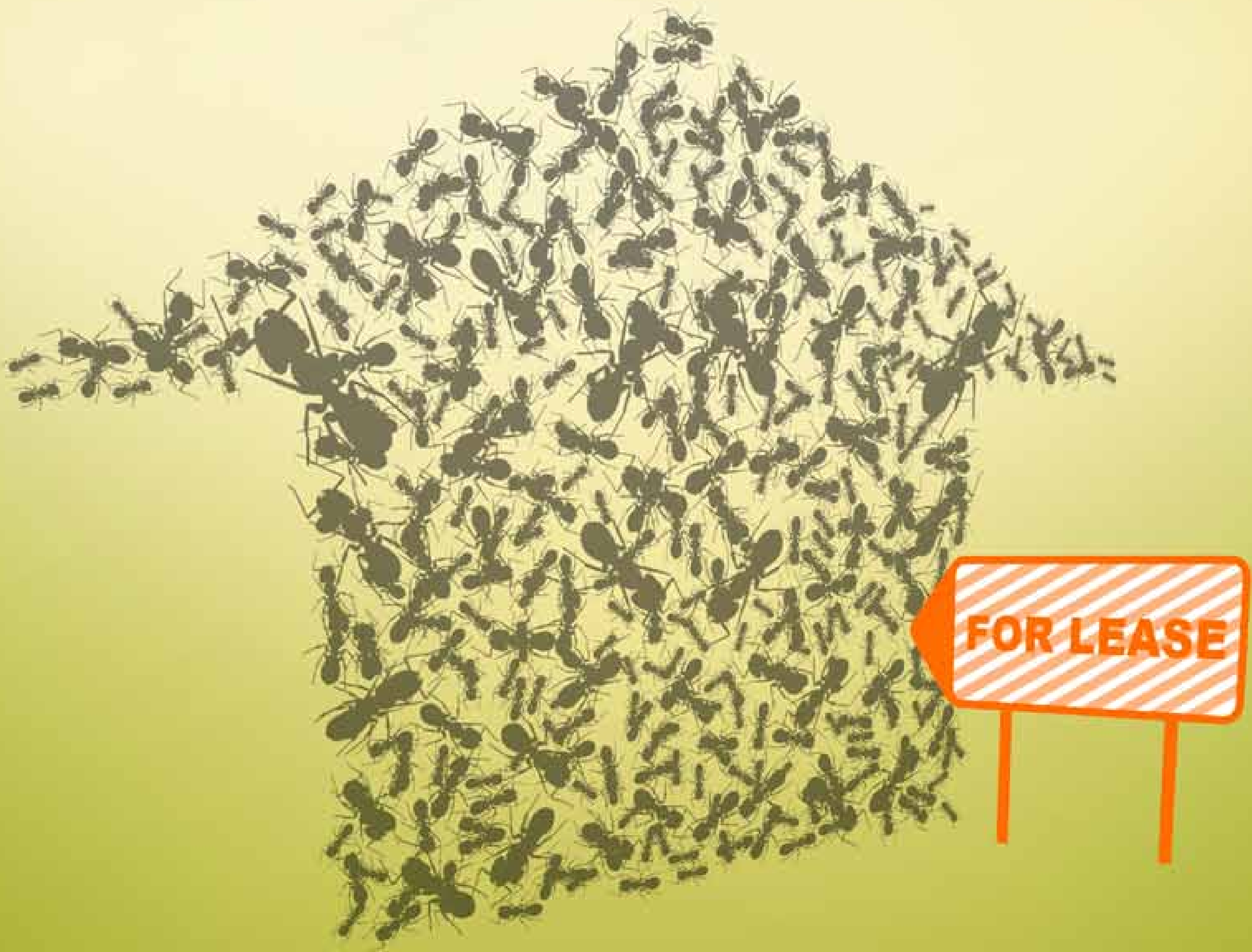
## Housing Industry Ploy

Why the HIA wants to increase the GST




Ride for Free or Pay the Fine - Economics in One Lesson - The Stewardship Economy

# Renegade Economists Radio Show

## Wednesdays 5.30 - 6pm

Economics influences every aspect of our lives. It also influences our abilities to be activists and understand why businessmen do what they do. Did an 'invisible hand' tell them they have to make money at all costs? What are the primary motivations to these behaviours? Is it just greed or is there something systematically askew? It's time for the Renegade Economists to delve into this murky world and help clarify these factors. Solutions are a key to this innovative program. Karl and guests will keep the show as diverse as the game of life.

*Presented by Karl Fitzgerald.*

Tune into 3CR, 855 on your AM dial, listen online or get the podcast later...

Download the podcasts from: iTunes

# Members Discussion Nights

### Hosted by Lloyd Churches

Prosper Australia has introduced new regular monthly meetings for members only. The main purpose of the night is discussion. We are united by a passion for economic justice and the principles of good government. You are encouraged to come and access the library and bookshop, meet with others and hear our news. Refreshments are provided.

### First Thursday of Every Month

Start Time: 7pm


# End Stamp Duty on Property Conveyance and Introduce a Land Tax

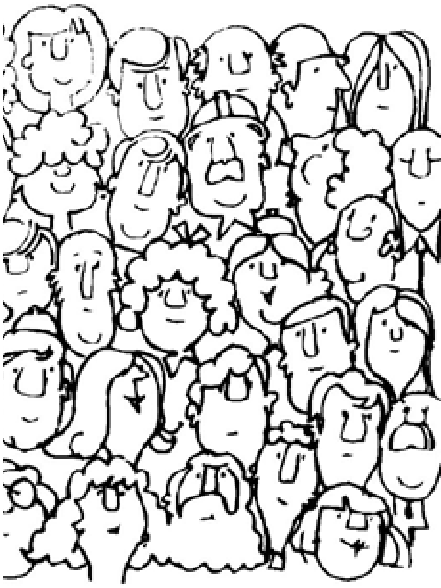
Go online and sign the following petition addressed to: Government of Victoria.
http://www.change.org/petitions/the-president-and-members-of-the-legislative-council-stamp-out-stamp-duty

**The Honourable the President and Members of the Legislative Council, Parliament of Victoria, this Petition of the people brings to the attention of the House certain shortcomings in the State of Victoria's taxation arrangements:**

1. Stamp duty on the sale of property is an unfair and poorly targeted tax that imposes a disproportionate burden on first home buyers, decreases housing affordability and makes it harder to transfer property to maximise economic productivity
2. Stamp duty also discriminates against those forced to sell property due to the death of a family member, illness, unemployment, family breakdown or other change in circumstances.
3. The revenues from stamp duty are highly volatile and unpredictable, which hinders good financial forecasting and planning by Government.
4. Removing both Stamp Duty and the homeowners' exemption from State Land Tax would lift productivity, make land more accessible and be revenue neutral.
5. We ask the house to act on this petition by repealing Stamp Duty and the State Land Tax exemption for residential properties with appropriate safeguards for community housing and homeowners who have recently paid stamp duty.

# "What is Community and Why Does Economics Matter?"

## Tuesday July 24th, 6:30pm



Countless studies have shown that a sense of community is one of the most important factors leading to happiness, fulfillment and the sense of a life well lived, no matter what the culture.

But what do we mean by community? It seems that we've completely lost its meaning, for nowadays we're constantly hearing of absurdities such as the banking community, the sporting community and the international community?!!

Karl Williams, our presenter, thinks he knows quite a bit about fostering community – he's downshifted years ago from chartered accounting to humble but satisfying work in local community and neighbourhood houses. He's also stayed and worked on around 30 "intentional communities" around the world.

Strange as it may appear, there's a strong connection between the type of economic system in place and our personal sense of community. Karl is also a past president of Prosper Australia and former editor of Progress.

Tuesday July 24th from 6:30 to 8:30 pm. at 1/27 Hardware Lane. All welcome, gold coin donation, light supper provided.

# PROGRESS

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## JOIN US

If you like the ideas you read here please join our organization, Prosper Australia. Membership costs $30 and includes a subscription to **PROGRESS**. Overseas members $35. Progress subscription only $15.

**Our mission is to replace all existing taxes with an annual charge on government granted priveleges and natural resources, including land.**

# Contents



**“The purity of his motives, the rugged integrity of his character, the power of his intellect, commanded universal recognition. As a thinker, a philosopher, a writer, he was great, but he was greatest as an apostle of the truth as he saw it – an evangelist carrying the doctrines of justice and brotherhood to the remotest corners of the earth.”**

**The New York Herald on Henry George**

**“Rent is not a tax! It is merely giving to the community a rental equivalent of the special advantage of being allowed to hold the exclusive possession of a piece of land which due to its location or productivity, gives its possessor an advantage others don’t enjoy.”**

**Clyde Cameron, Federal Minister for Labour in the 1970’s**

**The sincerity, the passion, the genuine pride in progress and anguish over its failure to extinguish poverty, and the attempt to fuse the intellectual rigor of classical economics with...a Christian morality, give Henry George a unique place not only in the literature of economics but in the English language itself.**

**Kenneth E Boulding, (1910-1993)**

# Stamp Out Stamp Duty

by David Collyer


David Collyer is the Campaign Manager for Prosper Australia
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**"The Victorian Government should remove stamp duty from the sale of property to increase housing affordability, support first home buyers and give the economy a much needed boost."**

The Stamp Out Stamp Duty campaign calls on the Baillieu Government and Treasurer Kim Wells to heed the advice of their own departments and scrap stamp duty in favour of a small value based land tax on residential property. The proposal is revenue neutral.

Stamp duty creates an unnecessary barrier for first home buyers and is an economic dampener which prevents easy property transfers and best use by owners.

"First home buyers are hit with a huge tax at the same moment they take on a giant mortgage debt. Stamp Duty also takes advantage of people forced to sell due to the death of a family member, illness, unemployment, family breakdown or a change in circumstances. It's an unfair and poorly targeted tax that serves no real economic purpose."

"Stamp duty also adds around $25,000 to the cost of an average block of land, which makes already expensive properties even more expensive."

To make up the lost revenue from stamp duty, a small efficient value based land tax should be introduced, a proposal supported by leading economists such as Dr Ken Henry and the Victorian Department of Treasury and Finance.

"Victoria already has a State Land Tax, however owner-occupied properties are currently exempt. We are calling for this tax to be extended to residential properties with appropriate measures to safeguard community housing and those who have recently paid stamp duty from an unfair burden."

"This change would provide a genuine spur to development on high-value land and reduce the pressure for more urban sprawl. Both the supply and affordability of rental housing would be boosted as a broader land tax base would put landlords and home owners on an equal footing. For the vast majority of Melbournians, this change would lead to a net cost saving."

Economic modelling of this key recommendation of the Henry Review by Australian Housing and Urban Research Institute shows landowners in Melbourne, Port Philip Boroondara, Bayside, Stonnington and Yarra municipal areas would overall pay more while the vast majority of homeowners elsewhere would pay considerably less.

"For too long discussion on tax reform has been stifled by vested interests. We now have quality economic modelling that shows wealthy landowners benefit most from Victoria's very bad tax system."

"This modest change would galvanise economic activity in Victoria, something the Baillieu government – and every Victorian government before them – proclaim loud and long is a key objective."

# Why Renters Are Vermin...

By Gavin Putland

My wife and I live near the top of a tall residential building on the edge of downtown Melbourne. The view from our balcony is slowly being ruined. To the right, a newer, taller residential building dominates the skyline. Straight ahead, not quite breaking the horizon is another residential building, adorned with signs advertising apartments competing with ours. Behind that, and towering above it, is a crane drawing attention to yet more competing apartments under construction. Behind and below that crane is another. Thirty degrees to the left is yet another. Rumour has it that several more sites in the foreground are earmarked for high-rise residential developments that would compete with our apartment and further encroach on our view.

So you might expect that we're bombarding the City Council and the State Government with objections to these developments, and mobilizing other residents to do the same, arguing that such overdevelopment is inappropriate to the locality and incompatible with the character of the community. But we're not.

Why?

Is it because, unlike most home owners, we understand that when the tax system encourages asset speculation and discourages income generation, the price of a home is determined by what you can borrow against it? — That “supply and demand” affects rents but not prices?

Is it because, unlike most home owners, we understand that if scarcity of housing did raise prices, this would only help people who own more than one property? — That it wouldn't help ordinary home owners, because they always need somewhere to live, so that whatever they gain as prospective sellers, they lose as prospective buyers?

Is it because, unlike most home owners, we understand that a healthy economy requires a plentiful supply of accommodation, so that employers can pay for business premises out of proceeds of their business, while employees can pay for housing within commuting distance of their jobs, out of wages that employers can pay out of the proceeds of their business?

Is it because, unlike most home owners, we understand that the real gains for home owners are to be had from improved infrastructure, so that home owners should be campaigning, not for scarcity of accommodation, but for better infrastructure, and for a viable method of funding it?

Yes and no — yes, we do understand all that; but no, that's not the full story.

No, the real story is we don't own “our” apartment. We rent it. We don't mind if new residential developments in “our” neighbourhood compete with “our” apartment or spoil “our” view, because these things are automatically compensated by making it harder for “our” landlord to raise the rent.

Consequently, we have no desire to deprive other people of a place to live.

And that, in the eyes of property investors and their home-owning dupes, makes us bad citizens of the local community, bad citizens of the state, and bad citizens of the nation. However well we take care of our landlord's apartment, that cannot compensate for our lack of opposition to the construction of competing apartments.

It is therefore accepted in polite circles that the lifestyles of renters must be made as precarious as possible, so that they will mortgage themselves to the hilt in order to buy into the market — propping up prices in the process — and then do the bidding of those who want housing to be scarce.

But in our case, because we know too much, we still wouldn't do their bidding.

# Ride for Free or Pay the Fine

By Gavin Putland

In his second budget, Victorian Treasurer Kim Wells is aiming for a surplus of $155 million, of which $109 million is due to increased fines. The Government has budgeted for $662.5 million in total fines, including $306 million from road-safety cameras, in 2012-13.

Exceeding the speed limit by less than 10km/h will now cost you more than $175.*

The Government assures us that this is for our own safety. Considering that travel by public transport is at least 20 times safer than travel by car (estimates of the factor range from 20 to 170), I would have thought that the surest way to make commuters safer is to get them out of cars and into public transport. The budget fails on that score. V/Line gets 30 new carriages, but the new and modified routes conspicuously favor road users rather than public transport users. There's $350 million over 3 years to remove three level crossings in Springvale and Mitcham. There's $42 million for duplicating the Western Highway from Buangor and Beaufort. There's $13.7 million over four years for the Dingley Bypass. And there's $15 million for a "business case" for the long-awaited East-West Link, whose actual construction depends on federal and/or private funding!

Of course, if any of these road projects passes a cost/benefit test, the uplift in land values caused by the project will exceed the cost. If a sufficient fraction of that uplift is clawed back through the tax system, the project will pay for itself without burdening any taxpayers who do not share in the benefit. Instead, Mr Wells hopes that car registration revenue will jump by 16.6%.

The same logic applies to funding of public transport projects. The biggest free-riders on public transport are property owners whose land values are increased by the availability of the service. If travel by public transport were free (except perhaps for peak-time congestion fares to encourage off-peak travel), the uplift in land values would be even greater. But only minuscule fractions of such uplifts are recycled through the State tax system (chiefly by land tax). Meanwhile, if you absent-mindedly put your foot on a seat, or forget to validate your ticket, or miss your stop and consequently overtravel your zone, you'll be hit with a fine of more than $200.*

The same logic applies to funding of schools. Real estate agents love to spruik the proximity of schools when talking up the price of the property. Yet the budget finds funding for only one new school – at Doreen South, where the local land owners will profit at your expense and mine.

The budget forecasts an 11.9% increase in land tax receipts, not from any increase in rates or lowering of thresholds, but from a tightening of the rules on companies and family trusts. In view of the continuing decline in home prices, which is really a decline in speculatively-inflated land prices, any increase in receipts must be regarded as optimistic. If speculative bubbles are to be prevented, and if infrastructure such as transport and schools is to be adequately and equitably funded, then land tax – or some alternative mechanism for capturing uplifts in land values – must become the mainstay of State budgets.

The Government says that from mid 2014, it will save business $715 million a year by cutting red tape. Getting rid of the job-destroying and arguably unconstitutional payroll tax would surely help on that front.

The building industry, reeling from the long decline in new home sales, has been shoved under a bus with the abolition of the First Home Bonus, a State-funded supplement to the First Home Owners' Grant.

Up to the end of 2006, the Bonus made no distinction between new and established homes. From January 2007 to June 2009, it was $5000 for a new home and $3000 for an established home. In 2009-10, it was $11,000 and $2000 respectively. Since then, it's been $13,000 for new homes only. Had it been that way from the beginning, it might have slowed the growth of the price bubble. After 30 June it will disappear altogether, along with the Regional Bonus (currently worth an extra $6500). Instead, first home buyers are to receive a stamp-duty discount of 20%, rising to 30% after one year and eventually to 50%.

If the abolition of the Bonus is meant to prop up home prices by squeezing supply, it will fail. If it is meant to prop up rents at the expense of the poor, it will succeed. The supply-demand argument is more immediately applicable to rents than to prices. While prices cannot decouple from rents indefinitely, they can do so for years at a time, following a momentum of their own. For almost two years the momentum has been downward. When the market showed a similar downward momentum in late 2008, it took 425 points of interest-rate cuts plus the First Home Owners' Boost to turn it around. A piecemeal cut in stamp duty and a further slowdown in construction are not in the same league.

Nevertheless, Mr Wells somehow reckons that a recovery in the housing market will raise stamp duty receipts by 4.9% (what? — 4.9% rather than 4.8% or 5.0%?), in spite of the end of the Bonus. Similarly unrealistic is the unemployment forecast, which has been raised from 5.5% to 5.75%, although the current rate is 5.8% and the State is probably in recession as I write.

Then come the unoriginal tricks, such as instructing departments to find another $180 million in savings (delegate it!), laying off 4200 public servants instead of the initially planned 3600 (out of 36,000), and extracting about $700 million in additional "dividends" from WorkCover, water authorities, and the State Electricity Commission.

Some downward trends are acknowledged, however inadequately. The expected surplus for the current year has been revised down to $126 million from $148 million. The $155 million surplus for 2012-13 is less than the $220 million predicted six months ago. Revenue from GST has been written down by $1.6 billion for 2012-13. Revenue from State taxes has been written down by $827 million for 2012-13 and by more than $3 billion over four years. Since late 2010, total revenue for the next four years has been written down by $8.3 billion.

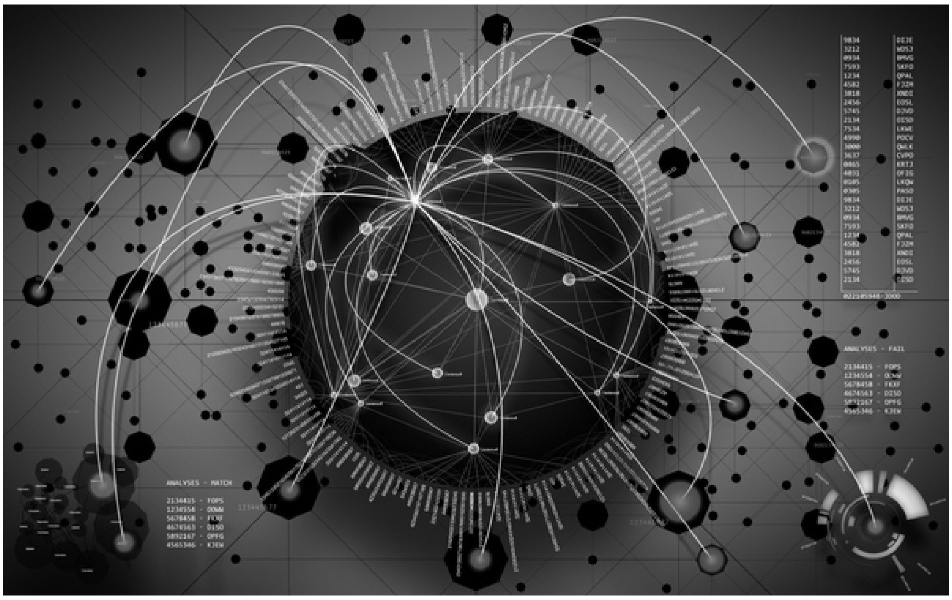
Will Mr Wells hit his surplus target? Considering the housing market and its effect on stamp-duty receipts, the labour market and its effect on payroll-tax receipts, and the heavy reliance of State governments on these two ridiculous taxes, I think not.

* At the time of writing, only "estimates" had been reported in the media. However, the "penalty unit" is to rise from $125 to $140.


**Exceeding the speed limit by less than 10km/h will now cost you more than $175!**

# Global Financial Collapse: What's Happening to Us?

By Bryan Kavanagh



**Who makes the decision that people have to be fleeced in order to retain public trust and confidence in an errant banking system?**

Many attempts to analyse the cause of the GFC contain more than a grain of truth. The vast majority, however, provide no useful hint to a remedy. As the process is structural and extremely repetitive, a cure needs to be found.

Banks did, indeed, extend excessive credit for the purchase of residential real estate without due regard for the bubble developing in the background. Where was their credit management during this time?

Whether the failure of banks merits bailouts from public funds warrants far greater debate than has occurred internationally.

Who makes the decisions that people have to be further fleeced in order to retain public trust and confidence in an errant banking system? Would not private takeovers following due diligence investigation be more orderly and appropriate? Why exactly are banks different when they fail?

And, yes, the world's reserve banks were also at fault in their poor monitoring of bank exposure to the gigantic bubble in land prices.

When Federal Reserve governor Edward M Gramlich urged examiners to investigate mortgage lending in 2000, it was Alan Greenspan chairman of the Fed who personally intervened to thwart the initiative. In 2001 US Treasury official Sheila C Bair met with the same lack of success in having subprime lenders either adopt, or adhere to, a code of best practice.

But the failure of banks and their overseers simply aided a pathological process that was long before underway. It remains largely unrecognised and is based upon mistruths about revenue sources.

In days of yore we captured a far greater proportion of the economic rent of land for revenue, whether in the fifteenth century and first quarter of the sixteenth (when the English labourer with a family of five still retained two-thirds of his wage after food clothing and rent) or before the US turned to income tax as a 'temporary' measure at WWI. (It was not until WWII that the Australian federal government also assumed the income taxing power from the states.)

In Unlocking the Riches of Oz: A case study of the social and economic costs of real estate bubbles 1972 to 2006, I mentioned the more recent decline of property-based revenues as a proportion of all taxation. It became a worldwide fashion arising from mistruths about land 'taxes' (more correctly called the economic rent of land).

The Henry Review of Australia's taxation system certainly did not capture the public's imagination when it was released in May of 2010. Its recommendation to establish an all-in federal land tax to replace poorly-applied state land taxes was greeted with dismay in some quarters, not the least of them politicians in the major parties—and even from the public, notwithstanding recommendation also to abolish a vast number of less-efficient taxes.

Public distrust of land-based revenues underestimates their advantages and has been carefully founded upon two misrepresentations which would do Joseph Goebbels proud:

1. Land-based revenues are unfair, and
2. The land tax base is insufficient to raise any worthwhile amount of revenue

### Land-based revenues are unfair?

The first of these two charges emanates from the property industry and a print media beholden to real estate advertising. Accordingly, it is undeniable that articles warning of the likely outcome of the giant real estate bubble we experienced from the outset of the new century were subordinated to soothing pieces about the benefits of home ownership: also advice to young couples and investors that they might miss out if they didn't get into the market right now.

The few articles pointing to the existence of a bubble that did make it through were often subject of 'concern' by real estate industry leaders. These worthies were not noted for having ever called a real estate bubble before it had burst.

The press and mainstream media in general have accordingly aided and abetted the idea that the right to real estate should come with no greater strings than local council rates.

In the latter connection I'm reminded of my late father-in-law who, more often than not, used to trot down to the municipal offices to complain about his rates. When council justified its valuations, he'd occasionally take the discussion of how he was paying too much up with me. "Did you ever go into the ATO to complain about the far greater amounts of income tax you used to pay?" I once inquired of him. "Don't be stupid. You can't do that", he exploded.

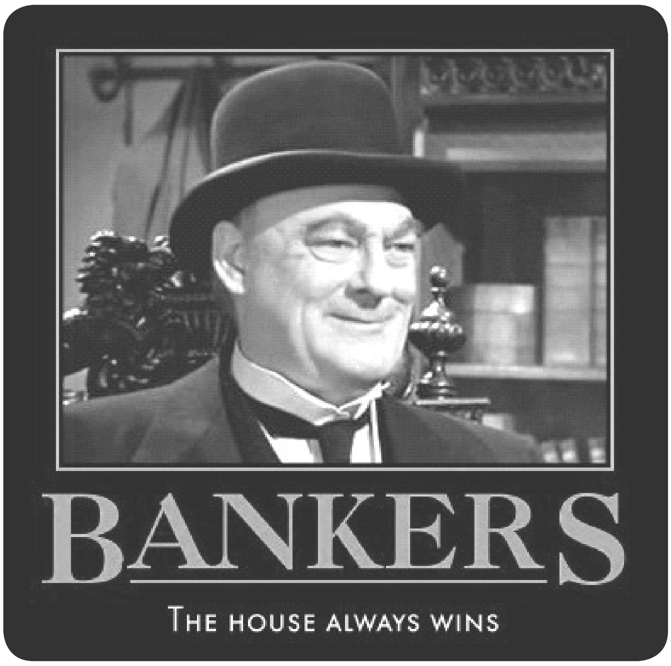
On the other hand, fortunately most of the textbooks in economics do show land-based revenues to be the fairest revenue base. This is because it can be shown they are not arbitrary taxes, they are technically rents in nature and can't therefore be passed on in prices like other taxes.

John Locke (1632 – 1704) wisely said "It is in vain in a country whose great fund is land to hope to lay the public charge on anything else; there at last it will terminate."

Today, we ignore this injunction to our great social and economic distress. The deadweight of taxation cascades everywhere throughout our prices and via an incredibly cumbersome tax administration, sending prices soaring and making manufacturing uncompetitive overseas. It is all this deadweight, not simply our labour costs as claimed, which render us uncompetitive.

So, the public capture of the economic rent of our land does not act detrimentally on the economy, and economic papers on ATCOR (all taxes come out of rent) and EBOR (excess burdens come out of rent) are unfortunately too few and far between.

In Roosevelt Institute Working Paper No. 6 Principles and Guidelines for Deficit Reduction, Joseph Stiglitz concluded: "One of the general principles of taxation is that one should tax factors that are inelastic in supply, since there are no adverse supply side effects. Land does not disappear when it is taxed. Henry George, a great progressive of the late nineteenth century, argued, partly on this basis, for a land tax. It is ironic that rather than following this dictum, the United States has been doing just the opposite through its preferential treatment of capital gains.




But it is not just land that faces a low elasticity of supply. It is the case for other depletable natural resources. Subsidies might encourage the early discovery of some resource, but it does not increase the supply of the resource; that is largely a matter of nature. That is why it also makes sense, from an efficiency point of view, to ***"tax natural resource rents at as close to 100% as possible."*** Thus endeth the rebuttal of the property industry's great lie.

### The land tax base is insufficient to raise any worthwhile amount of revenue

Having demolished the claim of the real estate lobby concerning inefficiency and ineffectiveness of a land tax, neo-classical economics circulates a canard of its very own:

*"The percentage [of property rent in the economy] has dropped to well under one percent today", New Ideas from Dead Economists: an introduction to modern economic thought, Todd G Buchholz, Plume, 2007, p.86.*

*"But by 2000 urban land rents represented only four percent of national income", A Farewell to Alms, Gregory Clark, Princeton University Press, 2007, p.198.*

*"Rent is one percent of the US income in 2004", Economics, Paul Krugman and Robin Wells, Worth Publishers, 2006, p.283.*

*"Rental income was 4.7 billion, or 0.079% of GDP in 1992", Economics, Third Edition, Karl Case and Ray Fair, Prentice Hall, 1994, p.559.*

*"Rental income is $7.9 billion of a total GNP of $5,234 billion, or 1.5 percent" Economics: Principles and Policy, Fifth Edition, William J Baumol and Alan S Blinder, Harcourt Brace, 1991, p.137.*

*"… land rent forms such a small percentage of national income: that 2% is nothing compared to the present tax percentages which is around 30", Income Distribution, Jan Pen, Pelican, 1974, p.210.*

These claims are made to look silly by Mason Gaffney, Professor of Economics at the University of California (Riverside) who actually bothers to do the required research in The Hidden Taxable Capacity of Land" [The International Journal of Social Economics, 36(4)], instead of plucking figures out of the air.

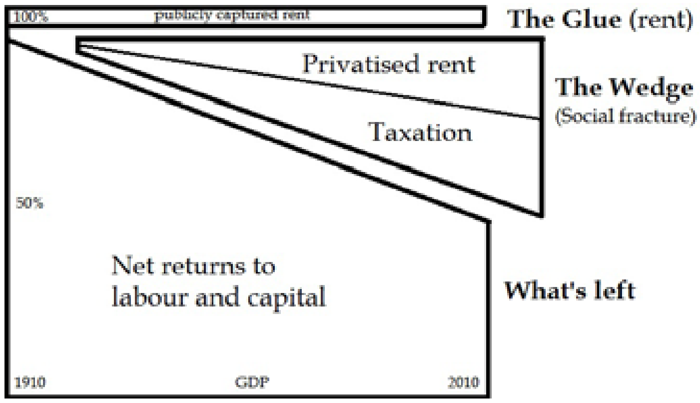
Similarly, in The Taxable Capacity of Australian Land and Resources (Australian Tax Forum, Volume 18 Number 1, 2003), following a painstaking time series analysis, Dr Terry Dwyer announces: "The 'bottom line' reinforces the overall conclusion from Table 4 that land-based tax revenues are indeed sufficient to allow the total abolition of company and personal income tax."

Land rent only four percent of the economy? Less than one percent? Bah, humbug! Try thirty percent plus!

In the face of facts, the evidence that the GFC is the inevitable outcome of a pathological tax system fining labour and business whilst encouraging real estate bubbles becomes compelling.

The diagram pictured here explains the process: effective demand is being choked off by the wedge driven into GDP by increasing shares to taxation and private rent seeking which diminishes the returns to labour and capital.

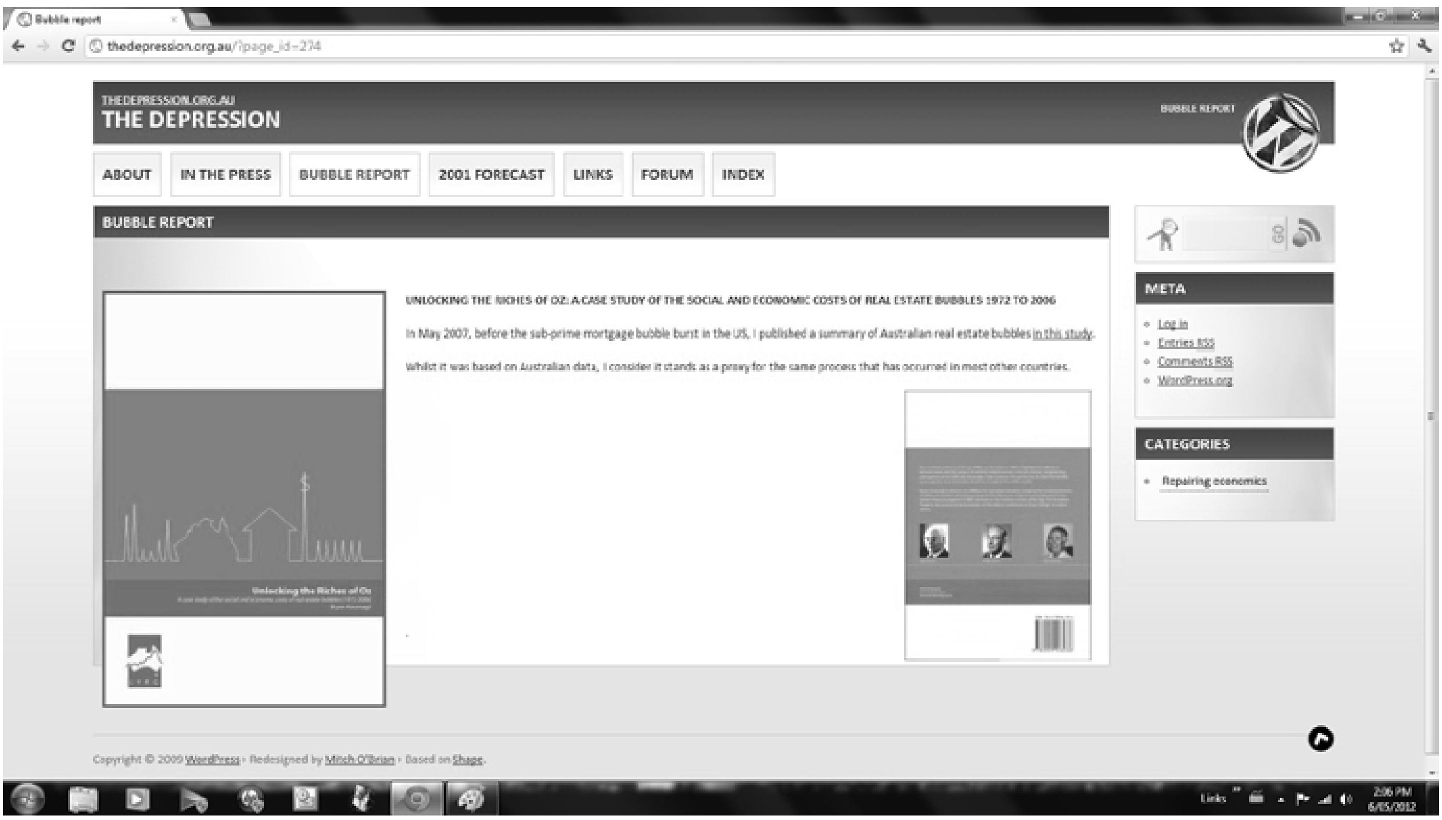
This analysis is entirely consistent with the conclusions of The Henry Review.




Bryan Kavanagh is the director of the Land Values Research Group, executive member of Prosper Australia and runs the website:www.depression.org.au

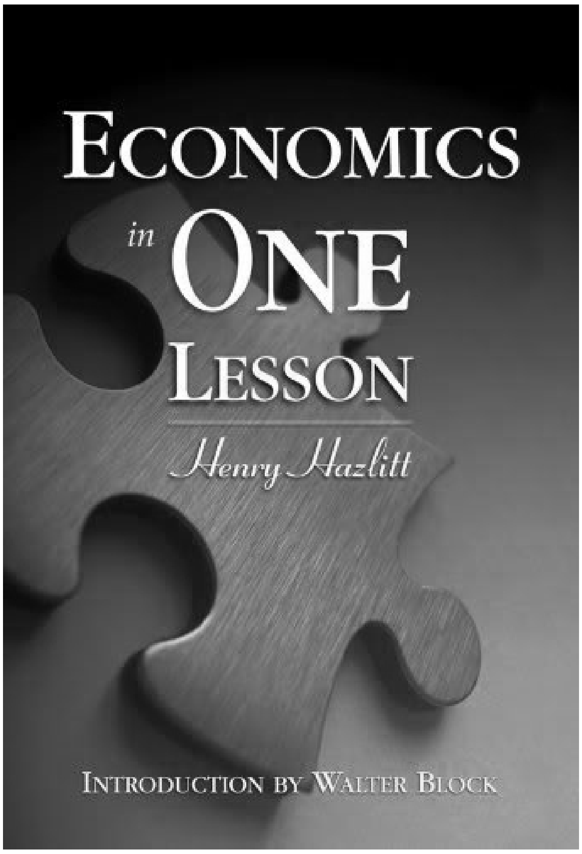
# www.thedepression.org.au

Sick of the rubbish being fed to the masses by the mainstream media?
Running out of hair to tear out everytime another lie passes the lips of a straight faced economics commentator?
For your daily dose of economic sanity, log on to Bryan Kavanagh's blog:
www.thedepression.org.au



# Economics in One Lesson

A Book Review by Gavin Putland




**Georgists contend that the market values of such assets, being publicly created, are the proper source of public revenue. The most important example is land, whose value can be tapped by means of rates, "land tax" and "capital gains" tax.**

The reader of a book review will rightly want to know the ideology of the reviewer. Very well: being of Georgist persuasion, I divide the "means of production" into two categories: those that can be produced or reproduced by competitors, and those that can't. On the former category, I'm as far Right as you can get, believing that such assets should be privately owned and exempt from tax, to encourage capital formation.

That may explain my mostly sympathetic reaction to a book much admired by advocates of free markets and small government: Economics in One Lesson (1946; revised 1978) by Henry Hazlitt (1894-1993).

His opening shot is: "Economics is haunted by more fallacies than any other study known to man." These fallacies are promoted in support of "endless pleadings of self-interest" and are assisted by "the fallacy of overlooking secondary consequences." Hazlitt's "one lesson" is then stated: "The art of economics consists in looking not merely at the immediate but at the longer effects of any act or policy; it consists in tracing the consequences of that policy not merely for one group but for all groups."

That "lesson" is not Hazlitt's Big Idea, but only his method. His Big Idea is drummed out again and again as he demolishes a long list of interventionist policies and the fallacies that support them.

He begins with the "broken window" fallacy -- the idea that you can stimulate the economy by making work that wouldn't otherwise need to be done. In reality, of course, wasteful duplication of productive effort can only result in a net reduction in purchasing power. Later chapters deal with various guises of the broken window, including war, unnecessary public works, needless bureaucracy, opposition to labour-saving machinery, and demarcations of responsibility that cause multiplication of labour rather than division of labour.

A related fallacy treats purchasing power in terms of money instead of productive power, with the result that the alleged creation or saving of purchasing power leads to a misdirection of productive power (analogous to repairing the broken window). Numerous examples are given in the chapters on government-mandated lending, make-work schemes, tariffs, export subsidies, and price controls (including minimum wages and rent caps).

Labour-saving machinery multiplies the productive power of labour and the resulting capacity to pay for labour. Hazlitt gives examples in which mechanization of an industry, by reducing the prices of its products and thereby increasing sales and revenue, led to an increase in employment in that very industry.

But usually the new jobs are widely dispersed. In what was originally the last chapter, Hazlitt admits the tendency of "even the disinterested observer" to notice concentrated losses rather than diffused gains, and says of the losers: "It is altogether proper...that the plight of these groups be recognized... and that we try to see whether some of the gains from this specialized progress cannot be used to help the victims find a productive role elsewhere." Obviously that won't happen without government intervention.

Nor is this the only example of Hazlitt's capacity for nuance. After ten pages denouncing tariffs he says: "As a postscript to this chapter I should add that its argument is not directed against all tariffs, including duties collected mainly for revenue, or to keep alive industries needed for war..."

His nuance extends to workplace relations (chapter 20). A strike, he says, is legitimate, but not if it involves pickets; and strikebreakers are legitimate, but not if they threaten violence, can't do the work, or are paid more than the strikers were. After concluding that minimum wages substitute unemployment for low wages (chapter 19) except for workers who are being paid less than the market-clearing rate, he suggests that the exception is better handled by unionization than by minimum wages.

But an elephant turns the page when he concludes (s.19.3): "We cannot in the long run pay labor as a whole more than it produces. The best way to raise wages, therefore, is to raise marginal labor productivity." Indeed we cannot pay labour more than its marginal product. But we can and do pay it considerably less, due to taxes that cause workers to cost more than their wages (payroll tax), to receive less than their wages (personal income tax), and to consume less than they spend (GST/VAT or sales tax).

How should the offending taxes be replaced? That brings us to the other category of "means of production" -- assets that can't be produced or reproduced by competitors. Georgists contend that the market values of such assets, being publicly created, are the proper source of public revenue. The most important example is land, whose value can be tapped by means of rates, "land tax" and "capital gains" tax.

Hazlitt doesn't have "land" in the index.

In three places in the text (ss. 11.4, 15.2 and 16.2), he lists the factors of production as land, labour and capital, but doesn't distinguish between them for purposes of argument. In s.16.2 he also mentions the "poorest land", "least competent farmers" (labour) and "poorest equipment" (capital), but again doesn't distinguish further.

Similarly in the chapter on credit, he doesn't care whether borrowed funds are spent on farms (land) or tractors (capital).

In s.15.2 he adds that for an economy in "equilibrium", these factors are limited "at any moment", thus glossing over the fact that the supply of capital can build up or decay. Although Hazlitt is usually said to be of the Austrian school, this snapshot view of "equilibrium" is neoclassical, not Austrian; it was pioneered by J.B. Clark for the purpose of making capital look like land, so that land could be called a form of capital. Hazlitt includes Clark in his recommended reading list.

Henry Hazlitt (1894–1993)

Earlier (s.6.2), Hazlitt cites the "limited" supply of capital as an argument against government-guaranteed home mortgages, claiming that they cause "oversupply of houses as compared with other things" -- not that they pump up land prices.

But he mentions the need for capital accumulation elsewhere, especially in the chapter on saving, where his examples of "capital" include schools, colleges, churches, libraries, hospitals, private homes, and "the most wonderfully equipped factory", all of which include land components. This conflation of capital and land is neoclassical.

In contrast, Austrian economists emphasize that capital, unlike land, must be constantly renewed, that its life cycle may be long or short, and that loose monetary policy causes overinvestment in long-life capital, whose value then collapses, contributing to recessions.

Meanwhile Georgists notice that recessions follow bursting "property bubbles", which are really land bubbles because land prices, unlike prices of buildings (prime examples of "long-life capital"), are not constrained by construction costs.

Hazlitt's failure to make these distinctions may explain why his explanation for depressions (s.23.5) is so vague: "the real causes, most of the time, are maladjustments within the wage-cost-price structure... At some point these maladjustments have removed the incentive to produce, or have made it actually impossible for production to continue... Not until these maladjustments are corrected can full production and employment be resumed." All clear now?

Those who call themselves free-traders too often fail to apply their own standards to trade within their own countries. Witness those misnamed "free trade agreements" in which each country promises to impose the other's monopolies on its own citizens.

Hazlitt falls into this error in chapter 4, where he considers an extra bridge between Easton and Weston and declares that "For every dollar that is spent on the bridge a dollar will be taken away from taxpayers." Not necessarily, because any such bridge will lower barriers to trade between Easton and Weston, especially the indispensable trade between employers and employees.

The benefit of the additional trade, net of any bridge tolls, will be shown in prices of access to locations served by the bridge -- in other words, land values. If the benefit exceeds the cost, it will be possible to cover the cost by clawing back a sufficient fraction of the uplift in land values, in which case the cost, although clawed back through the tax system, will not be "taken away from the taxpayers" but will be part of the new value created by the bridge.

The rest of that new value will be a net windfall to the property owners.

Hazlitt then turns to the Norris Dam (a New Deal project) and rubbishes the claim that "private capital could not have built it", because it was indeed built by private capital "expropriated in taxes... taken from people all over the country", causing the loss of "the private power plants, the private homes, the typewriters and television sets" that the expropriated funds might otherwise have bought. Thus the people of one district got richer at the expense of the rest of the country.

But it didn't have to be done that way. The earlier Don Pedro dam (completed 1923) was built by two Californian irrigation districts and financed entirely by local land-value taxes. The affected land owners were fiercely in favour of it because they knew the increase in their land values would outweigh the taxes. Even if the land-value taxes had been imposed by a higher level of government, the financing of the dam would still have been local, because only the local land values would have been affected by it. Private capital did not build it, because the uplift in land values that paid for it would not have occurred without it. Private agencies could not have organized it, because they would have had no way of tapping the uplifts in land values.

With an eye to current debates, I should conclude by praising Hazlitt for an insight that his latter-day admirers have ignored.

In explaining why "Taxes Discourage Production" (chapter 5), he says:

"When a corporation loses a hundred cents of every dollar it loses, and is permitted to keep only fifty-two cents of every dollar it gains, and when it cannot adequately offset its years of losses against its years of gains, its policies are affected." If individual investors "lose the whole dollar when they lose, but can keep only a fraction of it when they win," they are less likely to take risks.

The "World War II excess-profits tax", which Hazlitt condemns in chapter 22, was similarly one-sided.

If that's the problem, the obvious solution is to allow the tax bill to be negative when profit is negative. A cash-flow tax with full loss offset, also known as a Brown tax, does precisely that. Because a Brown tax reduces all cash flows by the same proportion, is doesn't affect the internal rate of return (IRR) of a series of cash flows and therefore doesn't distort investment decisions.

If credits for losses, instead of being immediately refunded, are carried forward at an "uplift rate" (interest rate) reflecting the risk that they will not be redeemed, then the total present value, hence the IRR, will be unchanged (unless redemptions of credits are incorrectly discounted at the target IRR instead of a rate reflecting the risk of non-redemption). The appropriate uplift rate obviously depends on the extent to which carried-forward credits are transferable, tradable or refundable.

Taxes of the latter sort have been proposed and even legislated. They have names like "PRRT", "RSPT" and "MRRT"! By Hazlitt's logic, the political Right should welcome such taxes as a means of reducing corporate income tax. But it conspicuously does the opposite -- for example by arguing that the uplift rate is not a sufficient return (the fallacy of the wrong discounting rate).

When it is suggested that a modified Brown tax should be used to eliminate corporate income tax altogether, the Right gets even more apoplectic, complaining that the new system would be distorted in favour of less profitable companies, when in fact the present one is distorted the other way because it increases the return needed to make an investment viable.

Thus Hazlitt's professed admirers have become leading peddlers of the sorts of fallacies that he decried.

**"The assumptions which neoclassical economists make to get their Mickey Mouse models to work basically assume away any connection with reality. One could as well come up with an aerodynamic equation for flying pigs ...... assuming, of course, 'sufficient thrust'."**

**Anon**

# Australian News And Views

By Geoff Forster

"Property in Australia is ridiculously expensive by world standards, although no one wants to hear this because of vested interests. Property in Australia was like it was in China - it became a lubricant in itself. Now the game is over. You're seeing some price creep now, but it's below the inflation rate. The whole explosiveness has gone out of property."

- Kerr Neilson, Platinum Asset Management


**A real estate publication** recently reported that the average growth rate for Melbourne property prices for the first decade of this century was about 2.4%. This is more than three times the rate experienced during the last decade of the 20th century (average quarterly growth rate of 0.7%). Furthermore, however, new dwelling commencements did not respond when prices increased during the 2000s. The growth only halved in this period compared with that in the previous decade. Amidst all the graphs and statistics there was no differentiation between land and the dwellings built thereon.

**From time to time** those glowing advertisements appear about how to buy hundreds of investment properties for under $50,000 each and create instant cash flow fast. An open invitation of course to engage in land speculation in a big way. Meanwhile State and Federal Governments remain idle, at most engaging in half-hearted palliatives, if that.

**A recent study** at the the University of Canberra found that more than 10% of Australians spend so much on rent or mortgage payments that they have little over to cover other bills. Many households that rent are struggling, with one in four considered to be in "housing stress". The report stated that many people feel the impact of of food and utility prices so keenly because housing costs take up so much of their income. In general, Hobart and Sydney came out worse in this study. Meanwhile politicians and others prate blandly about how well our economy is running, or else make off-target comments about various taxes and avoid the key issue.

**The Australian Tax Office** is seeking more powers to investigate secret tax havens as well as increased penalties for offshore tax evasion. A report gave details of the complex operations involving various agencies and instrumentalities. All very impressive, no doubt. But if the use of community created site rents for revenue was increased, the need for all this extensive activitry would be greatly diminished.

**A revealing letter** to THE AGE stated that in terms of income inequality, - the gap between the richest 20% and the poorest 20% in each country - Australia ranks as one of the most unequal among the developed market democracies. Also, there is strong evidence of a significant relationship between inequality and an index of health and social problems. A recent study showed that the best way for reducing inequality is the best way of improving the social environment. Australia's ranking in the Global Gender Gap Index 2011 (World Economic Forum), based on economic, political, educational and related criteria, ranks at 23, below Cuba and just above Costa Rica. The need for Georgist reform is as pressing as ever.

**A report** into the riots in England in 2011 concluded that they were partly caused by the deprivation of "500,000 forgotten families who bump along the bottom of society". Among other things the report pointed to hopelessness over youth unemployment (Britain has nealy a million jobless aged under 25). All very informative no doubt, but until the underlying cause is confronted, such episodes and subsequent similar reports are like to be repeated. And not just in Britain.

**A report** on inequality delivered to the Federal Treasurer stated that while Australia's welfare system is one of the best in the world, its unemployment benefits are among the worst relative to community standards, and are shrinking. Unemployment payments fell from 46% of median household income 1996 to 36% in 2009-10, a long way below the poverty line. Australia's employment ratio is one of the highest in the OECD, but up to the global financial crisis Australia had one of the highest concentrations of joblessness in households in which no one worked. Of course the basic reason for unemployment would have received no attention.

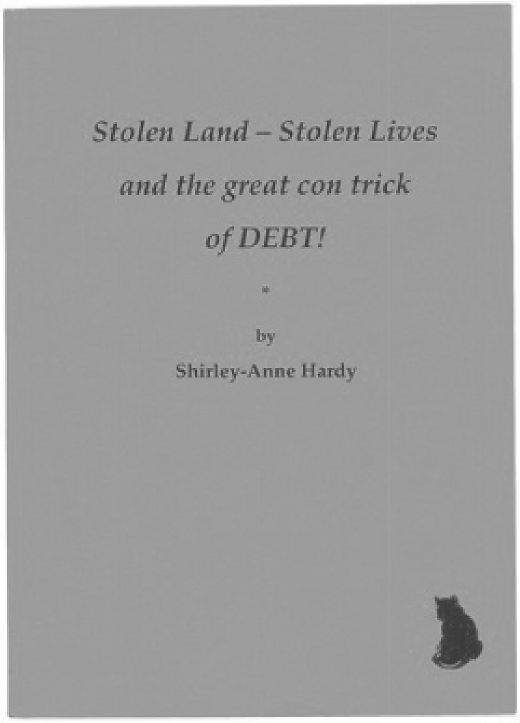
**Marilyn Lake,** Professor of History at La Trobe University, recently argued in THE AGE that historically, equality was once a shared national ideal espoused across party lines, and that modern politicians have been forgetting this heritage of our history. The idea is implied in the very title - the Commonwealth of Australia. She affirmed that with fresh debate raging about how to secure "the common good", there should be more demands that the wealth of the continent be more equally shared by all Australians.

**A survey was published recently** of bankruptcies according to postcode in 2010-11. In the Melbourne area the "prize winner" was 3977 (Cranbourne), followed by 3199 (Frankston). In the country the leader was 3216 (Belmont, Highton & Waurn Ponds). A frequent cause was mortgage stress, often occasioned by casual workers finding themselves suddenly out of work. New South Wales was by far the highest state. Of course, no awareness was shown of the role of high land prices, plus complicated taxation, as regards to the mortgage stress and restricted employment opportunities.

**A surge of older women** back into the work force has been reported. Women in the late 50s aand 60s have held onto their jobs much more than men becasue they cannot afford to retire. The growth of women in late working life has been described as dramatic, soaring three-quarters higher than that of older men, and it is reported as being mostly about money. Yet another indication of a malfunctioning economy.

**At Easter in a sermon,** the Anglican Archbishop of Melbourne called for a fairer distribution of wealth in Australian society, and specified particular areas where improvements were needed. It incurred the displeasure of that arch-reactionary, former Federal Treasurer Peter Costello. A considerable amount of controversy followed. While specific remedies were either limited or absent, at least the issue received attention, and would have facilitated some probing questioning.

**A recent report** revealed that the front-line staff who deal with people receiving welfare payments say that they are facing a rising tide of hostility and aggression from clients. Staff safety was reported to be at "tipping point". Among those affected were staff at Centrelink, as well as at Medicare. As well as face-to-face aggression, telephone abuse has become increasing. Underlying all this of course is the structural injustice, as long ago capably explained by Henry George.




## BOOK REVIEW

**"Stolen Land - Stolen Lives and the Great Con Trick of Debt"** *By Shirley-Anne Hardy. 345pp. Publ. The Peregrine Press, Pitlochry, Scotland.*

This remarkable book, by a passionate Georgist who would merit the title of Scotland's leading Georgist advocate, is a superb treatment of the centrality of the land question and the significance of land rent. The ramifications are widespread and are shown to involve many connected issues.

The book not only covers contemporary topics, but explores historical antecedents as well (such as the Essenes at the time of Christ). A wide range and variety of authors receive attention, thereby substantially enriching the book. Reproduction of previously published articles and letters by the author in various places constitutes part of the book as well.

Interesting side issues are touched upon, e.g. animal cruelty; folk medicine. Various aspects of spirituality, some unconventional, receive mention. Connections are made to the increasingly popular concept of Gaia. One highlight is the account of the successful implementation of Georgism on the island of Gosaga in the Ganges Delta.

The book is informative, illuminating and stimulating. The author is to be congratulated, not only on an excellent achievement in compiling the book, but also for her steady persistent efforts for land justice and related issues over many years.

Copies of the book are available at our headquarters.

# What a Party; What a Hangover!

By David Collyer

- Potential First Home Buyers wary of commitment
- Volume of stock for sale a swollen flood
- Consumers deleverage Australia-wide
- Banks unwilling to finance credit creation


**Prosper Australia** predicts substantial house price falls this calendar year across Australia as the mismatch between supply and demand worsens.

Current economic settings will not support current house prices. It is difficult to foresee anything that could derail the current downward trend – a trend we see accelerating strongly.

Young adults excluded from home ownership have accepted their status. In a substantial negative for future prices, they are no longer pressing their noses against the window. It will take a major price adjustment to reconnect them to The Great Australian Dream.

SQM Research shows 368,510 properties available for sale around the country – a very big lump to digest. Further, the pile is set to grow as disenchanted negative gearers exit this failed strategy in disgust.

The Household Savings Ratio ABS 5206.0 has risen to show us saving 10.1 per cent of incomes, reflecting a grim determination to purge ourselves of interest bearing debt.

Australian banks are not expanding their lending. They need to reduce their dependence on overseas borrowings and are rationing credit.

ANZ CEO Mike Smith said in February: "There will not be a return to the level of credit growth that banks experienced pre-crisis for the foreseeable future… as consumers reduce their gearing and businesses pace investments."

The RBA is gradually, cautiously lowering interest rates. It is extremely sensitive to suggestions its activities may hasten or brake the deflating housing bubble. The other obvious tool available to government, a First Home Buyers Grant, has been utterly discredited.

We expect property prices to wilt under these combined pressures, with prices at end December 2012 between 15 and 20 per cent less than today. We renew and repeat our warning to potential home buyers to stay out of the property market. Falling prices erase equity while buyers' mortgage liabilities remain payable in full. Our conclusion:

**Don't Buy Now!**

# Win For Striking Homebuyers

By David Collyer

Prosper began its ***Don't Buy Now!*** Home Buyers Strike exactly a year ago. Homebuyers who took the advice have typically saved themselves at least $58,000.

Everyone who stood aside from this dreadful Ponzi scheme* known as the Australian property market ought to be congratulated. They have lived through an era of mass hysteria without going mad themselves.

The savings for those who stood aside are staggering – they are genuine and they are conservatively calculated. For homebuyers who waited, it is as if someone just slipped this much in their wallet. It would take years to save $58,000 from after-tax earnings. Consider a typical Melbourne first home buyer couple with a 20% deposit ($120,000) ready to buy a home at the median $585,000 a year ago. Instead, they waited. *Their savings:*

- Melbourne median house prices have fallen 6.1% (ABS) – $35,000
- The difference between Melbourne median rents $17,680 (TUV) and interest at 7.46% (WBC) on a $465,000 mortgage (ignoring stamp duty, principal repayments, rates, insurance, depreciation and repairs) – $17,009
- Interest earned on $120,000 savings at 5.5% (ignoring tax) – $6,600

**TOTAL: $58,609**

There is a further long-term benefit not included above: the smaller required mortgage would leave an extra $250 per month interest in a buyer's pocket, or $41,000 over a 25 year loan. This money would be available at the buyers' discretion for living expenses or to accelerate principal repayments.

This is not a cue to immediately buy a house. Prosper expects house prices to fall much further. On February 23 we publicly forecast house prices to fall at least 15 per cent and possibly 20 per cent this calendar year. A fall of this size will deliver massive further savings to those who resist the temptation to commit to a working life of toil lived 90 days from bankruptcy.

We urge prospective homebuyers to focus on saving as large a deposit as possible. Avoid exchanging renting a house for renting money from the bank. That is not the path to economic freedom.

** Hyman Minsky identified three types of borrowers. 'Hedge borrowers' can make debt payments (covering interest and principal) from current cash flows. 'Speculative borrowers' can cover the interest due, but must regularly roll over, or re-borrow, the principal. The 'Ponzi borrower' borrows based on the belief that the appreciation of the value of the asset will be sufficient to refinance the debt but cannot meet interest or principal payments; only appreciating asset values can keep the Ponzi borrower afloat.*

## Prosper sees property prices falling 15% - 20% in 2012

**The RBA said** on March 28 assets have fallen by $40,000 per household in the last year. No wonder everyone is now saving over ten percent of their incomes and slashing mortgage balances with grim determination. The economy, which usually steers like an oil tanker, has turned on a dime. We were spending about 103 per cent of incomes, pinching off some of the strong rises in home prices and balancing this with borrowings. What happened? **Falling land prices.**

The ABS says house prices are down nationwide by a mere 4.8 per cent (ABS). This is the result. We all have a personal balance sheet. It might exist only in our heads, but it exists nonetheless. Asset price falls come straight off our personal equity, our savings, while liabilities – mainly the home mortgage – are payable in full with interest from after-tax incomes.

Returning to – overshooting – the long-term average land price is going to be quite an experience for anyone with big borrowings. The impersonal forces that provided 'Free Deposits' for housing upgrades are now issuing 'Underwater Coupons' to anyone foolish enough to be long and geared into the Australian real estate market. Baby Boomer balance sheets suddenly look quite different, and they simply do not have enough working years left to restore their finances.

The unshakable determination of the MSM (Mainstream Media) and politico-housing complex to maintain citizen 'confidence' with deliberately misleading anecdotal narratives has given people false hope. They should be jailed for the tremendous economic damage they have done.

This unfolding financial catastrophe need never have happened. Perhaps it takes a crisis to remind citizens what really matters in a modern and dynamic economy: social justice and economic efficiency. Change the tax system to remove the incentives to speculate and structure it to encourage labor and business enterprise instead. Australia has the blueprint – the Henry Review. All we need is a government with the political will to carry it out.

# Housing Industry Ploy

By Karl Fitzgerald


The HIA has released a report through the Centre for International Economics that attempts to gloss over economic theory and establish a dangerous meme. The CIE's Taxation of the Housing Sector report was quoted prominently in the AFR. Despite the GFC being caused by a global property (read land) bubble, the proposed solution will encourage more, not less speculative behaviour. The report concludes that all taxes on housing should be replaced with a new and broader GST. This is part of a global trend to switch taxes off wealth and place them on the under-educated poor with the regressive GST. A 10% tax on a $2 icy pole hits the disposable income of someone on $20,000 harder than a millionaire. It appears that such effects were not included in the modeling. But we are told the modelling will prove beneficial to GDP. We ask – which sector of the economy will benefit most?

There are a number of aspects to the report that are agreeable. Stamp Duty is the most inefficient of taxes. Replacing this income stream is where we differ. We believe this should be replaced with a Land Tax rather than a broader GST (on basic food). In the report we see statements such as 'raw land priced without distortion'. But yet the tables listed show how much have been hacked away from the effectiveness of Land Taxes. The raising of Land Tax thresholds in Victoria from $85,000 to $250,000 over the last decade sees the median block of land paying only $462. In Queensland, Land Tax has been virtually written off for affordable housing, where the threshold starts at $600,000.

Land prices have followed the rising Land Tax threshold increases, just as economic law dictates. Many are so used to being brow beaten over Land Taxes and municipal rates that they no longer understand how they work. Land Tax is quite simply a counterweight to mortgage debt. If two parcels of land are offered for sale and one has a Land Tax liability attached to it, the rational buyer will pay less for that location. This infers less mortgage debt for the consumer and less profit for the developer and the banks. Such a tax replaces a lifetime of bank interest payments with a lower Land Tax paid to government. The logical answer to 'raw land priced without distortion' is to increase Land Taxes to penalise speculation and inefficient land use. However, such taxes are seen as a threat to profits and thus think tanks like the CIE are generously funded to deflect attention from this progressive tax.

Land Tax is naturally progressive. Those earning higher incomes generally live in more valuable locations that are well serviced with abundant parks, good schools and natural beauty. This means their land values are higher. Land Taxes with yearly valuations take this into account. But we are told it is fairer to tax the core foods that so many survive on.

It is the low rate of Land Tax that has allowed land speculators to buy up large tracts of land in the surrounding areas of a city in the expectation that the city will grow outwards. When the bureaucrat gives his golden pen tick, changing land from rural to residential zoning, this is like a tattslotto bonanza for the lucky landowner. If a decent Land Tax system was in place, as soon as the re-zoning kicks in, so would the land valuation, ensuring that the people shared in this windfall, not just the lucky few. The resultant land supply would hit the market at a lower price.

One of the problems with the CIE report is that they compare apples with oranges. The GST is a transaction tax. It is charged at the point of sale (like Stamp Duty). Land Taxes are based on the length of ownership. They are a holding tax. It is stated by CIE that housing is taxed twice, once as it is built and then at an ongoing basis. We agree the taxes on conveyancing and stamp duties should be axed as countless State and federal Tax reviews have shown. The on-going holding charge, the Land Tax and municipal rates, must continue in acknowledgement that those who own land benefit from its naturally rising value. This is an unearned income that property owners receive when the wider public funds a new neighbouring train station, highway or even when volunteers plant trees in the local park. All these outcomes make a community more attractive, leading to land value increases.

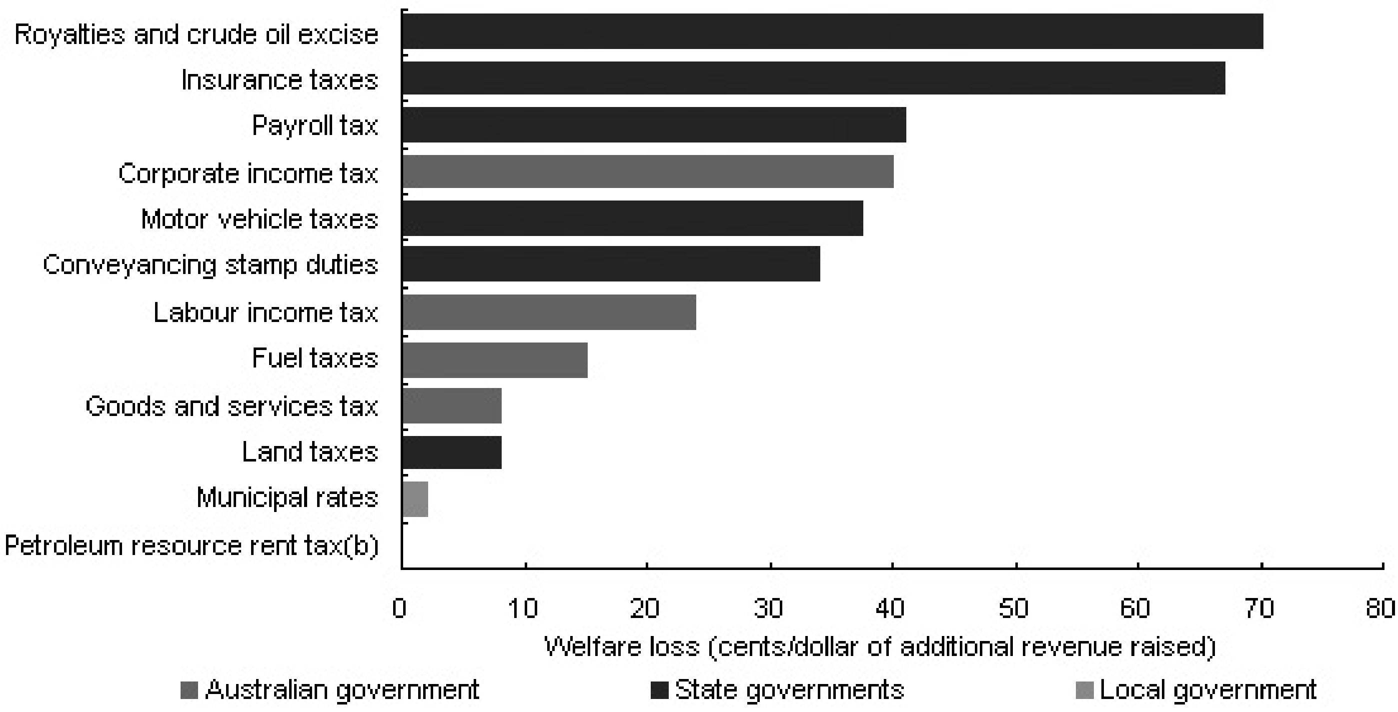
Land Taxes can infact be expanded to replace developer charges as a fairer way to pay for new infrastructure, as was the practice in the periods when we built entire new train lines. The 2010 KPMG Econtech report was referenced by CIE to 'prove' that GST was a greater contributor to GDP: Our $15 billion stamp duty and municipal rates reform (replaced by higher GST rate) without the $5 billion of productivity improvement would increase real GDP by 0.6 per cent

**Perhaps a numberwang was involved in the modelling?**

Municipal rates can be paid electronically in a matter of seconds. There is virtually zero compliance cost. The quarterly BAS statements that form the paper trail for the GST, are widely seen as the bane of small business' existence. Late Sunday nights are spent pouring over receipts, with entrepreneurs forced to work unpaid as a tax collector on behalf of the government. This is known as a compliance cost and is surely greater than an electronic payment and even paying conveyancing. Municipal rates (holding charges) should not be lumped in with conveyancing costs. This is a sleight of hand by the property lobby in an attempt to rid wealthy property owners of a tax they can't hide in a tax haven. In analysing the source to this meme, KPMG Econotech's CGE paper notes on p23:

*"The fixed supply of land and other fixed factors means that they will bear the full incidence of the company tax that is applied to them"*

This reflects an understanding that Land Taxes can't be passed on like GST can be, a further inefficiency for that tax. Economic theory hasn't been re-written there. Where did KPMG Econtech develop the thesis that GST is the more efficient tax? Much of it comes down to the impurities that have been allowed to enter the Land Tax system with regards to progressive Land Tax rates, the impact of thresholds and aggregations. We are strong proponents of a simplified Land Tax system that is set at a higher and flatter rate.




The economic efficiency of Australian taxes:
Most taxes result in some loss of economic efficiency. For example, a tax may reduce incentives for people to work or invest or induce them to alter their consumption patterns. This leads to losses in consumer welfare, which can be expressed relative to the amount of revenue raised. An efficient tax system involves taxes that result in low losses in consumer welfare per dollar of revenue raised.
This chart compares the marginal welfare loss arising from a small (5 per cent) increase in each of a range of major Australian taxes (marginal excess burden), estimated using the KPMG Econtech MM900 model. Source: KPMG Econtech (2009).

It must be strongly noted that the findings of KPMG Econtech and thus the CIE should not be taken as an excuse to remove potentially the most efficient of all taxes. This is the dangerous leap of faith the CIE and its backers are demanding governments support. Damagingly, KPMG Econtech critique the CIE model in their Henry Review paper (p23) Efficiencies of Taxes: However, the results of the CIE study do not allow an assessment of the relative inefficiencies of each tax. When discussing the efficiencies of taxation, surely the inefficiencies must be counted too! On p84 of the CIE report, following a discussion on the nature of housing supply being more elastic than housing demand:

*It follows that consumers, that is, house buyers would end up bear (sic) most of the taxes discussed previously.*

However, this ignores the role that land plays in the housing game. Land is needed first and foremost to build housing – it is not a given. This is glossed over. The incidence of Land Tax falls on the land owner. Unless economic theory has been re-written, this simplification in the modelling continues to smooth the ground for GST to 'become' more efficient than Land Tax. Gavin Putland writes extensively on the irregularities of housing supply as elastic vis land supply as inelastic in his Why Land Tax can't be shifted onto tenants.

To finish off we note from p74:

*a $500 million reduction in most state, property specific taxes such as stamp duties, land tax and rates on dwellings, and replacement with a $500 million GST on food would increase national welfare (national consumption) by over $350 million due to reductions in distortions across the economy, but it would also increase the supply of housing considerably more, by over $400 million...*

**We ask:**

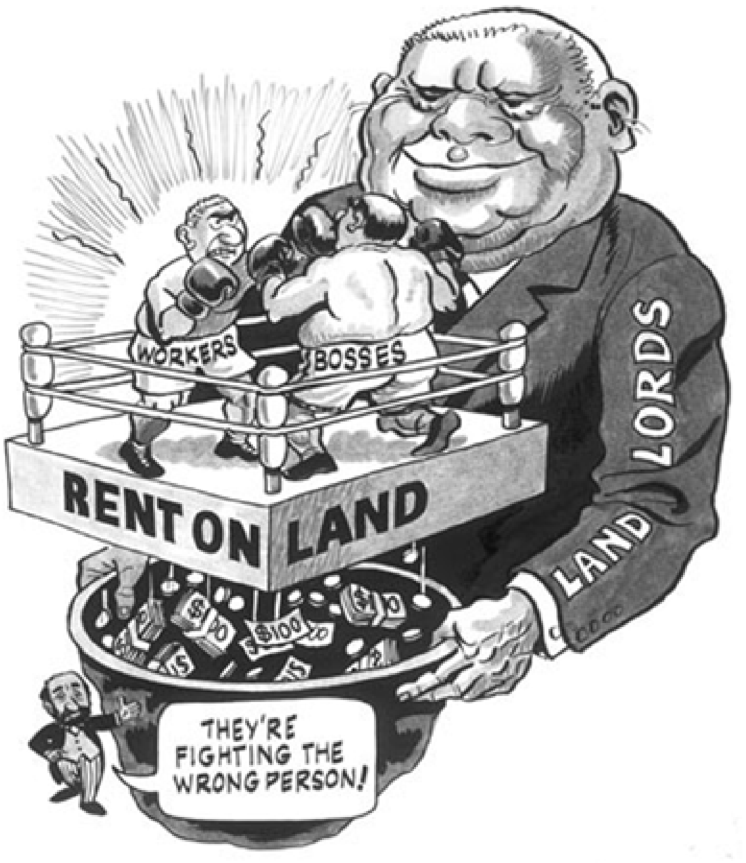
- Whose consumption would increase by $350 million? The poor who face less discretionary income due to higher regressive GST charges or investors benefiting from lightly taxed capital gains enjoyed by the tax trickery of Self Managed Super Funds (where property investment is exempt from capital gains tax)?
- Small business who would no doubt face even higher rents when holding charges are removed?
- Why would there be less distortions in the economy? Simple and easy to administer taxes in the property sector would be shifted onto the retail sector where the administrative burden would increase.
- We are asked to accept that this will increase the supply of housing by $400 million. This implies that the retail sector should be slugged with this burden so we can build a whopping extra 800 homes (valued at $500,000 each).

Without some form of holding cost, there would be little encouragement for developers and speculators to put housing on the market to meet the prevailing market conditions. Those in control of our crucial housing supply have the upper hand. They can simply hold themarket to ransom.

Should an anonymous think tank be widely quoted that it is more efficient to allow one sector of the economy to enforce higher rents in the retail, commercial and household sectors as if this is solid economic theory? The property industry can act in this manner because they have an un-natural advantage over the productive economy. Their responsibility to shareholders demands that they engage in drip-feeding the market to maintain high prices, a practice that is ignored by the CIE report.

Lastly, the importance of Land Taxes is paramount when considering the consolidation of the Australian housing industry. Holding charges are vital to counter-balance the market power of the property industry.

Karl Fitzgerald is the Project Co-ordinator at Prosper Australia. Karl wrote, directed and produced the acclaimed documentary: 'Real Estate for Ransom'



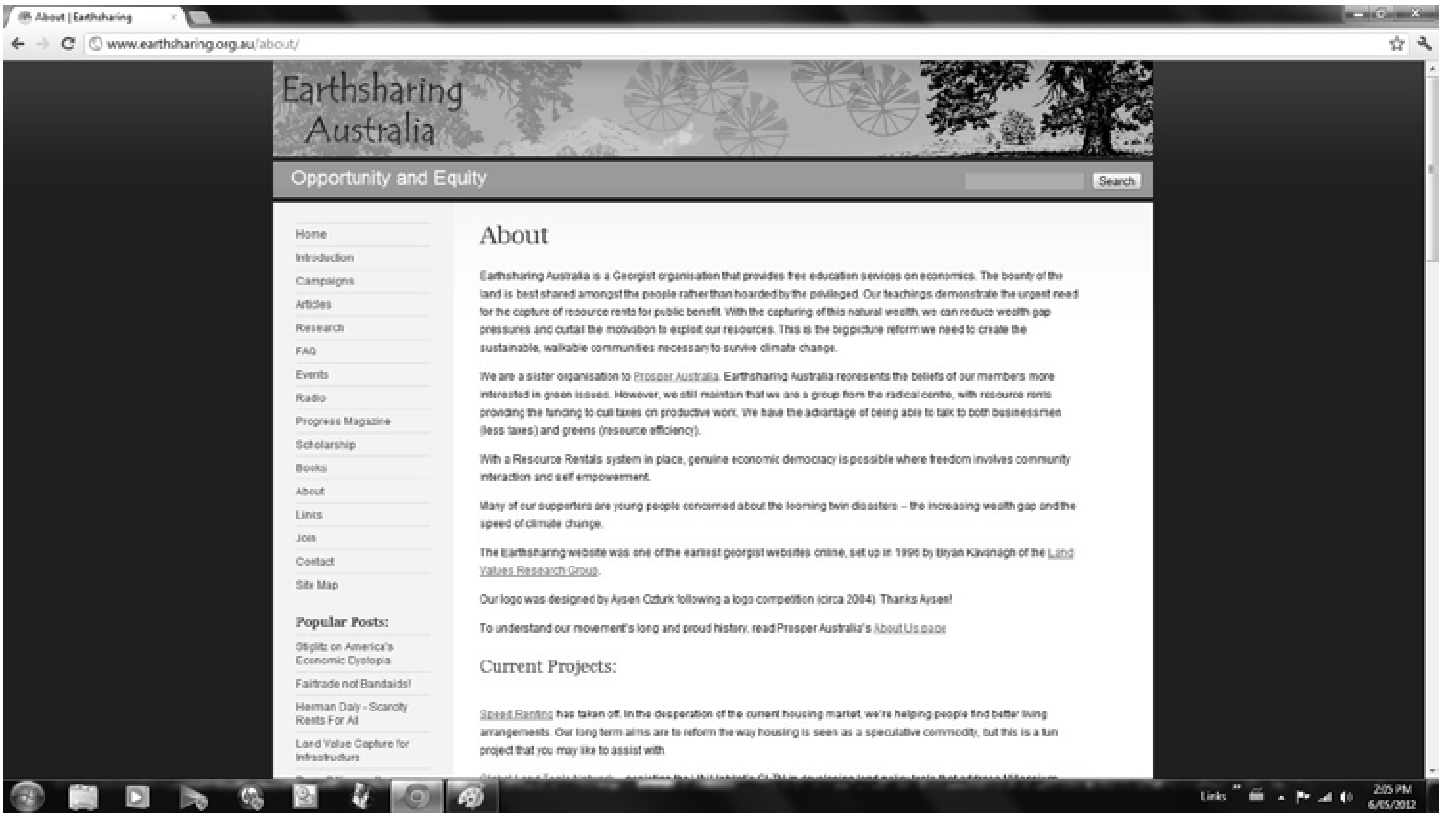
**“The earth, therefore, and all things therein, are the general property of all mankind, from the immediate gift of the creator.... There is no foundation in nature or in natural law why a set of words upon parchment should convey the dominion of land.”**

**William Blackstone, (1723 – 1780)**

**“We shall never understand the natural environment until we see it as a living organism.  Land can be healthy or sick, fertile or barren, rich or poor, lovingly nurtured or bled white.  Our present attitudes and laws governing the ownership and use of land represent an abuse of the concept of private property....  Today you can murder land for private profit.  You can leave the corpse for all to see and nobody calls the cops.”**

**Paul Brooks, ‘The Pursuit of Wilderness’ (1971)**

Keep in touch with us via the Earthsharing website: www.earthsharing.org.au



# IN FAVOUR OF THE CARBON TAX

A Georgist tax that is desperately needed

By Karl Williams

A symbol of the pro carbon tax movement, prostesters gathered at parliament house in January 2011 to pledge their support for a price on carbon.

So you've been clearing the rubble from your home extension and have been lent a trailer to take it to the local tip. When you pull up at the entrance and see that there's a charge of $20 for a full trailer load, do you exclaim "What?! I'm not paying any tax! Richard Giles, the so-called Georgist, has been proclaiming that all taxes except those on surface land are theft!" ?

When the bemused tip attendant explains that the fee is rather a dumping charge for using (perhaps abusing) our Common Wealth, hopefully you will be pacified. There's a lesson there for the ALP, who've introduced the fair and necessary "carbon tax" but, like their Mining Resource Rent Tax (or super profits tax), have botched the terminology as well as the argy-bargy of party politics exceedingly badly. It would have been much more accurate and politically acceptable to have introduced what was termed a carbon dumping charge.

It's the beautiful underlying philosophy of our Georgist (or geoist, as I like to call it, to negate any perceived hero-worship) proposals that suddenly exploded my interest in economics, after enduring a mind-numbing economics degree in the mid-1970's.

This is how I read George. The Earth – land and natural resources – is something special, not to be conflated with capital, as neoclassical nonsense attempts to do by sleight of rhetoric and terminology. This is our Common Wealth, our equal and common birthright, ours to share communally. This message refined and uplifted all my hippy ideals of that amazing decade of the 1970s. This is the underlying economic lynch pin to deal with the root cause of inequity and poverty, of disrespect and plunder of Nature, of many social evils outlined by Henry George's incredible "Social Problems", and even of the seemingly inextinguishable drive to wage senseless war.

Why didn't I hear this in the first 2 minutes of my deadly-dull economics degree?

George didn't invent "his" economic proposals – rather, he independently rediscovered what a host of great philosophers and economists have proposed throughout the ages (but in less detail and refinement than George). The essence of this paradigm is that, as Rousseau so eloquently declared "The Earth belongs to nobody, but the fruits of the Earth belong to us all!"

These fruits are not divisible, however. Here we're talking about the locational value of surface land, water, clean air, soil fertility, minerals, the electromagnetic spectrum, ocean and forest resources, biodiversity and so on. That is, we can't divvy them up like pieces of a cake, and even if we could then what's left for future generations and what's to stop subsequent predatory buying up of some shares and the resultant concentration in fewer and fewer hands?

Nope. There's a far easier – nay, wonderfully elegant – way to share the Earth. Those who take a disproportionate amount from our Common Wealth owe the rest of us – DING! The users pay a natural resource charge in direct proportion to their use. Why didn't I hear this in the first 2 minutes of my deadly-dull economics degree? Why didn't economic journalists and think tanks comment that Robert Mugabe didn't have to confiscate the land from skilled white Zimbabwean farmers?– he only had to collect the annual rent from land to benefit *all* Zimbabweans!

But what if the Global Commons (another beautiful term, just like my preferred name for our organization, EarthSharing Australia) is not just used, but *abused* (i.e. depleted, degraded, devalued, polluted)? Same elegant principle applies – a natural resource charge will effectively reimburse others for their birthright's devaluation, as long as the true cost (hence True Cost Economics) is applied. This is the reasoning of the so-called carbon tax.

***This isn't just a beancounting exercise of resource debits and credits, but a powerful set of price signals.***

This isn't just a beancounting exercise of resource debits and credits, but a powerful set of price signals that will encourage users all the way along the supply chain to shift their purchases or production methods in favour of less wasteful or polluting inputs/methods. Georgists are essentially libertarians and believers in free markets as long as they are fair markets, and any market player who gets a free ride on Nature is definitely not being fair to present and future generations.

Fortunately, progressive economists are generally convinced of the equity and efficiency of such natural resource charges, although they've created trouble for themselves by labeling such charges as a tax, therefore obfuscating the unique attributes of this mechanism. A Pigovian "tax" is defined as a tax levied on a market activity that generates negative externalities, intended to correct market outcomes. As it's generally explained, in the presence of negative externalities the social cost of a market activity is not covered by the private cost of the activity. In such a case, the market outcome is not efficient and may lead to over-consumption of the product. A Pigovian tax equal to the negative externality is thought to correct the market outcome back to efficiency.

And so to the great embarrassment I felt on reading, in our last issue, Richard Giles' article entitled 'Against the Carbon Tax' – the first copy distributed to all the interested enquirers following our Sustainable Living Festival outreach. Cringe-o-rama!

I've come to be suspicious about convoluted and turgid arguments that, despite the laborious rereading they require, make no apparent sense. This is usually the case with the deadening language of neoclassical economics – and, sad to say, by Mr. Giles' article. I can claim some cold comfort after wading through this article, confident that many enquiring minds would soon have been induced to exasperatedly flip the page rather than suffer any more ponderous language and baffling definitions.

How about the Mr. Giles' claim that pollution taxes are not a resource rent? And who didn't scratch their head vigorously when encountering "Rent is paid for a location, not for what it contains"!? Then we get mentally assaulted with "Rent is a differential charge. So the fact that the licence [to pollute] is a uniform charge indicates quite clearly that it is a tax and not a rent" ….. as if the carbon tax is a fixed charge rather than being based on varying levels of emissions!

Beauty and Truth fans need not despair that there's some fundamental flaw in our proposals – the problem is rather that fundamentalists seem to gravitate to practically every philosophy, religion and school of thought, and ours is not exempt. I've termed this small, ageing and frequently right-wing subgroup within our movement 1879-Ideologues. Henry George enunciated a beautiful set of timeless principles to apply to any conceivable economic, social and environment set of circumstances. The 1879ers, sadly, cling to the dead letter of their bible (George's landmark "Progress and Poverty", written in 1879) and essentially declare, "If George didn't spell it out, then it can't be true". In George's day, so their ideology goes, there was no problem with pollution of air and sea nor of overpopulation, so therefore any concern about them today is nigh heretical!

To those 1879ers who accuse me of being a Greenie (a pejorative term in their eyes), I respond, " 'ken oath I am!" And I'm a guy who's vitally concerned with the third bottom line, social well-being, as I've downshifted my career to humble but satisfying work in community and neighbourhood houses. This is one more reason I'm a geoist, as I see George's proposals as offering unique economic solutions that feed right down to a personal and social level.

***Note:*** *Karl will be giving a public presentation at Hardware Lane on Tuesday July 24th "What is Community and Why Does Economics Matter?"*

It would have been much more accurate and politically acceptable to have introduced what was termed a carbon dumping charge.


***Beauty and Truth fans need not despair that there's some fundamental flaw in our proposals.***

# Thankyou Anne!

After decades of committed service to Prosper Australia, Anne Schmid, our retiring office manager, is hanging up her heels and looking forward to more time with friends and family in retirement. We are all sad to see her leave, but know she will be as active as ever in our campaign to reform the tax system in Australia. John Poulter says a few words as we say goodbye...

Lloyd Churches, president of Prosper Australia thanking Anne for years of service at the 2012 AGM

Our new office manager Jess Wright, with Anne Schmid and David Collyer at Anne's farewell lunch.

October 1972 was a milestone in Australian Georgian history, but for one young lady it was the start of a 30 plus years long and ongoing journey in the service of the greater Georgian cause.

On the 25th September 1972 the Henry George League opened its new office on the Ground floor of 31 Hardware Lane Melbourne 3000. The likes of Clyde Cameron M.H.R., Cr M. W. Williams, and Sir Ronal East all attended and were welcomed by our young lady, now Office-Supervisor of the League.

This opening of 31 Hardware Lane is reported in the 757th edition of Progress. The front page of the magazine has a photograph of the young lady, Miss Anne Rankin, welcoming all guests at the opening.

From a family of Georgists, Miss Anne Rankin was inspired in the early 1960's along with a very young Robert McAlpine to join the Young Georgist Movement. Anne was obviously filled with the passion for social justice because on leaving the Young Georgists she went on to attend the Henry George School at No.18 George Parade Melbourne. Following her graduation Miss Rankin became dedicated to the Georgian Cause and served in the office.

After her marriage to John Schmid, Anne and John went on to establish a home and raise a family. The difficulties of family life did not deter her from her passion for social justice. Supported by her husband John, Anne worked and served in various rolls during the natural succession of organisational changes. Anne was at the implementation end of all the Victorian movements name changes and office restructuring. From the Henry George League, to Tax Reform, then to Prosper Australia Anne was the steady hand, always accountable and reliable. Following Prosper's move to L1 27 Hardware Lane Melbourne in 2003 Anne served as Office Manager.

Anne's commitment to social justice and work in the Victorian movement did not go unnoticed by the Henry George Foundation of Australia and the Henry George Club Ltd to which she was appointed and elected as a trustee and director respectively.

Being the only woman to hold office on both these organisations, Anne brought a very clear and different perspective to both the Club and the HGFA.

When overseas and interstate Georgian's visit the Victorian Georgian Mecca, the first question is always "Is Anne in today?" Anne Schmid I trust you will always be available and "in today".

Anne on behalf of Prosper Australia, Henry George Foundation (Aust), Henry George Club Ltd and the world wide Georgian movement we say thank you for your dedicated service. In your retirement we trust you will be" in today" and many others.

Sincerely ,

John Poulter
Trustee / Treasurer HGFA
Director / Secretary HGC Ltd

# Stewardship Economy

Private property without private ownership

A Book Review by Lloyd Churches


**"Once you see the world from the perspective of stewardship, none of the familiar challenges look the same. You will have a new way of thinking of what to do about poverty, the environment, globalisation, the tax-benefit system, house prices, negative equity, recessions, sovereign debt..."**

I first came across this book at Prosper Australia's bookshop where the office manager, Anne, told me it was the book Leo Foley spoke of in his speech at the annual Henry George Commemoration Dinner (see previous issue of Progress for an extract). I hadn't realized that Leo had been inspired by a book but since his talk, this word 'stewardship' had been featuring prominently in my thoughts. So naturally, I bought the book the instant I saw it.

I believe the word 'stewardship' is a powerful magical word. I say this because to me it instantly evokes a state of mind that lets me clearly see the georgist paradigm. We want to change the economic system. In essence that means changing the system of property rights. Stewardship of land must replace ownership of land. The word stewardship means you are holding possession of something for the benefit of someone else. With regards to land it means that land does not belong to us although we have possession of it. It means we can keep possession and control of the land but with the responsibility to care for it and the duty to give the market rent of the land (or stewardship fee) to the community.

One of the biggest advantages of the term is that it bypasses the word 'tax'. Traditional georgist literature talks about the single tax or land tax or LVT (land value tax) and about tax reform. By using the term 'tax' we are trapped in an old paradigm, in 'their' paradigm. It's also quite a turn-off. If we want people to understand the vision we need to use language that has the power to evoke a new understanding.

The book's introduction asks us "What would it be like to live in a society that does not treat the land and the environment as things that can be owned in the same way as things that people have made?" and states that "a 'stewardship economy' is one in which the natural world is held in stewardship while artefacts are held in ownership".

I like the fact that the book is well structured. (It makes me wonder if the author, Julian Pratt, was an engineer like so many georgists are.) In particular I like that there is a section about transition toward a stewardship economy which is clearly separated from the sections about general principles and the description of what a stewardship economy would be like because so often the complexities of transition are presented as a reason against the idea and people forget that transition is temporary (although temporary can mean a generation in society's timeframe).

The largest section of the book called 'Stewardship in practice' is a description of a stewardship economy compared to an ownership economy. For nearly half the book, the left side starts off with "In an ownership economy..." and the right side says "In a stewardship economy..." and so each spread explores a different issue and so in this way perhaps fifty issues are explored. This sort of depth is truly amazing. As georgists, we all know how one simple idea can have a myriad of beneficial effects and we are constantly amazed as we realize more and more of them. Well here we are treated to the author's extensive knowledge and I'm sure you'll find some of the insights you've had crystallized in his pages. The topics are quite extensive and cover areas such as land use, planning, pollution, energy, economic boom-busts, taxes, international issues to name just a few.

One of the topics, planning, gave me some new insights. He says that in a stewardship economy planning will become prescriptive instead of permissive. This means that now our town planning gives permission to land owners to develop some land but often the landowner is in no hurry to develop. In a stewardship economy there would be the incentive to develop in the form of stewardship fees so the planning is prescriptive, what is planned gets carried out. In an ownership economy, people have paid a lot of money to buy their land so we tend to think it unfair to tell what to do with 'their' land. In a stewardship economy people have not invested huge amounts in land so the money doesn't get in the way and the people would take much more interest in planning their community once they see results.

As you've in no doubt realized I really like this book. However, there were a few things that made me wonder. I didn't understand everything. When he talked about 'true cost pricing' I was suspicious that he was proposing unnecessary charges and I had a hard time accepting the universal income idea as necessary at first. In the end I agree with him all the way and see it as an important way of winning people over during transition. Another thing I thought that was hard to accept is stewardship as a kind of private property. Here he's making the distinction about who decides how the land is used, it is still private individuals that decide, not the collective.

As I was reading I was eagerly waiting to get to this section about transition. I could have jumped ahead but I didn't. It's worth the wait. Although transition is dealt with in one chapter, he does refer to a supplement to be published later that covers transition issues in detail. The chapter therefore is more about general principles and how transition would be different for different countries. It starts with the principle that the owner retains the value of any property rights at the onset of transition.

I highly recommend you get the book. There's so much more I haven't told you about. It should act as your handbook. There's a section on what you can do now; including research, education, campaigns and links to many different organisations and resources.

One downside of the book for us Australians is that many of the examples and terminology are relevant to Great Britain and it would be good to have a book that addresses the Australian economic and political landscape. That could be your next challenge, to rewrite the book for Australians. I'm sure Julian would encourage you to do that because he has released the book under a creative commons license so you can copy, adapt and distribute it as you want.

So who is Julian Pratt? As far as I can gather, this is his first book; he lives in Great Britain and is an active georgist there. He has a website for the book (www.stewardship.ac) and you can even download the book in pdf format for free from there; that's very generous.

You can order the book from the website (via Amazon) or Prosper Australia's bookshop can also send you a copy for $12 + postage. Consider it your duty to get yourself a copy now! (Ring the office on 03 9670 2754).

Juilan Pratt is the author of Stewardship Economy


**"One of the biggest advantages of the term 'stewardship' is that it bypasses the word *tax*"**

# Productivity, The Miracle of Compound Interest and Poverty

By Michael Hudson, a research professor of Economics at University of Missouri, Kansas City and a research associate at the Levy Economics Institute of Bard College


Suppose you were alive back in 1945 and were told about all the new technology that would be invented between then and now: the computers and internet, mobile phones and other consumer electronics, faster and cheaper air travel, super trains and even outer space exploration, higher gas mileage on the ground, plastics, medical breakthroughs and science in general. You would have imagined what nearly all futurists expected: that we would be living in a life of leisure society by this time. Rising productivity would raise wages and living standards, enabling people to work shorter hours under more relaxed and less pressured workplace conditions.

Why hasn't this occurred in recent years? In light of the enormous productivity gains since the end of World War II – and especially since 1980 – why isn't everyone rich and enjoying the leisure economy that was promised? If the 99% is not getting the fruits of higher productivity, who is? Where has it gone?

Under Stalinism the surplus went to the state, which used it to increase tangible capital investment – in factories, power production, transportation and other basic industry and infrastructure. But where is it going under today's finance capitalism? Much of it has gone into industry, construction and infrastructure, as it would in any kind of political economy. And much also is consumed in military overhead, in luxury production for the wealthy, and invested abroad. But most of the gains have gone to the financial sector – higher loans for real estate, and purchases of stocks and bonds.

Loans need to be repaid, and stocks and bonds receive dividends and interest. For the economy at large, people are working longer just to maintain their living standards, which are being squeezed. Women have entered the labor force in unprecedented numbers over the past half-century – and of course, this has raised the status of women. Mechanization of housework and other tasks at home has freed them for professional life outside the home. But on balance, work has increased.

What also has increased has been debt. When World War II ended, John Maynard Keynes and other economists worried that as societies got richer, people would save more. For them, the problem was to keep market demand high enough to buy all the output that was being produced.

And indeed today, markets are shrinking in many countries. But not because people are saving out of prosperity. The jump in reported "saving" in the National Income and Product Accounts (NIPA) in recent years has resulted from repaying debts. It is a negation of a negation – and hence, a statistical "positive."

Paying off a debt is not the same as building up liquid savings in a bank. It reflects something that only a very few economists have worried about over the past century: the prospect of debts rising faster than income, leading to financial crashes that transfer property from debtors to creditors, and indeed polarize society between what the Occupy Wall Street movement calls the 1% and the 99%.

What also was expected universally fifty years ago – indeed, until about 1980 – was that governments would play an increasingly important economic role, not only as forward planners but as direct investors in infrastructure. To Keynesians, government spending served to pump money into the economy, maintaining demand and employment in cyclical downturns. And for hundreds of years, governments have undertaken basic infrastructure spending so that private owners would not use monopoly privileges to charge economic rent.

Nearly all observers expected the fruits of technology to trickle down, not be siphoned up to the top, to the banking sector whose "financial engineering" played no directly technological role in the production process. Textbook models describe – or rather, assume – that rising productivity will be passed on to labor in the form of lower prices (reflecting falling costs of production, enabling wages to buy more) or, if prices are "sticky," higher wages.

According to what the textbooks called Say's Law, there is a circular flow between producers and consumers. Workers must be able to buy the results of what they produce. This correlation between output and consumption goes back to the Physiocrats prior to the French Revolution, who created economics and account keeping. Their founder, François Quesnay, was a medical doctor and a surgeon. He created the basic format of national income accounting on the analogy of the circulation of blood within the body. An increase in production had to find its counterpart in increased consumption, creating its market by paying workers who spent their wages on buying the products they produced.

***"The fat is the financial sector"***

## Working Harder, Producing More, but Going into Debt to Buy It

After World War II many women stayed home and raised families. But since the 1950s they have been forced increasingly into the labour force for what are called two-job families – and now, three-job families (with only two family members). If you project labor participation rates, by the year 2020 every woman will have to work 18 hours a day or economic trends will falter.

What was applauded as a post-industrial economy has turned into a financialized economy. The reason you have to work so much harder than before, even when wages rise, is to carry your debt overhead. You're unable to buy the goods you produce because you need to pay your bankers. And the only way that you can barely maintain your living standards is to borrow even more. This means having to pay back even more in years to come.

That is the Eurozone plan in a nutshell for its economic future. It is a financial plan that is replacing industrial capitalism – with finance capitalism.

Industrial capitalism was based on increasing production and expanding markets. Industrialists were supposed to use their profits to build more factories, buy more machinery and hire more labor. But this is not what happens under finance capitalism. Banks lend out their receipt of interest, fees and penalties (which now yield credit card companies as much as interest) in new loans.

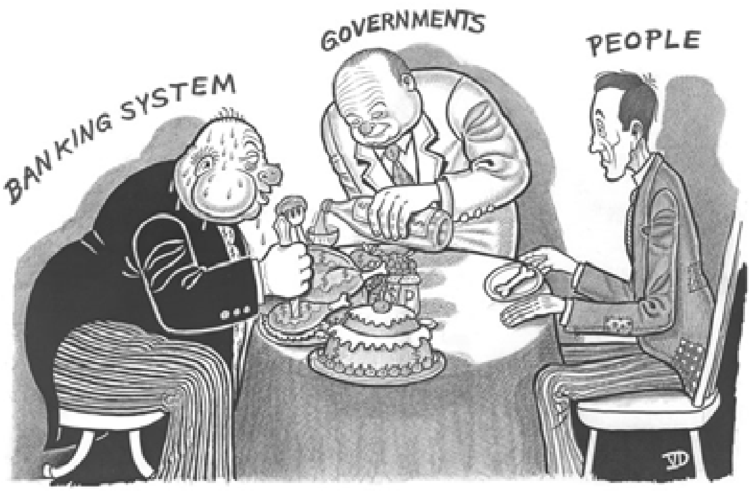
The problem is that income used to pay debts cannot simultaneously be used to buy the goods and services that labor produces. So when wages and living standards do not rise, how are producers to sell – unless they find new markets abroad? The gains have been siphoned off by finance. And the financial dynamic ends up in austerity.

And to make matters worse, it is not the fat that is cut. The fat is the financial sector. What is cut is the bone: the industrial sector. So when writers refer to a post-industrial economy led by the banks, they imply deindustrialization. And for you it means unemployment and lower wages.

## Financial Dynamics vs. Industrial Dynamics

The accumulation of payments on interest-bearing debt leads companies to search for new loan markets, just as industrialists seek out new markets for their expanding output. This search means looking for assets in place to be pledged as collateral. The largest asset in any economy is real estate – mainly the land's site value. So about 80 percent of bank loans are mortgage loans. But by 1980 property prices had turned down as interest rates rose during the Vietnam War and the general Cold War buildup throughout the world. Overseas military spending obliged the Federal Reserve to raise interest rates to borrow abroad to prevent the dollar's exchange rate from declining.

So in the 1980s banks found a new market: corporate




raiders treated companies much like real estate, to be bought on credit and managed to create a capital gain. The rise in interest rates to 20 percent by 1980 forced most states to revoke their usury laws, and credit card companies played states against each other in a race to the bottom when it came to protecting consumer rights. So the high-interest junk bond was born, largely at the hands of Michael Milken's gang at Drexel Burnham.

American industry began to be financialized (and in the process, criminalized). But running a company to make a financial gain is different from running an industrial firm to expand production. Cash flow that was not paid to bankers and bondholders for the credit to buy out stock holders was used for purposes other than direct capital investment – above all for stock buybacks to support their price, and for mergers and acquisitions to acquire yet more companies.

The aim was not to increase production but to increase balance-sheet wealth – while extracting revenue from companies much like landlords bleeding a building. That is the time frame of finance capital, in contrast to industrial capital. It is short-term, not long term. This is why it is extractive rather than productive. The revenue has no counterpart in new direct investment in output, but rather in overhead debt extracting a rising flow of interest from the economy.

"Wealth creation" by debt leveraging – that is, asset-price inflation – was celebrated as a post-industrial economy, as if this were a positive and natural evolution. But in reality it is a lapse back into a rentier economy, and even into a kind of neofeudalism. The post-2008 bailouts have vested a new rentier elite to lord it over the 21st century, thanks to the fact that most gains since 1980 have gone to the 1% – mainly the financial sector, not to the 99%.

In the end this shrinks the economy – and that means that more and more loans will go bad, until crisis levels are reached at the point where lenders realize that there is no more room to extract more, and stop lending. But in the absence of government budget deficits, bank lending is the only support for demand – so the financial rug is pulled out from under the economy. That is the point at which banks demand bailouts – giving them the money, rather than giving the economy the revenue to spend and pull itself out of depression. So government debt is increased by giveaways to the banks, not by spending into the "real" economy.

Economics textbooks teach supply and demand curves. Every marginal increase in supply lowers the price of what is being supplied. For the job market this means that the higher the unemployment rate, the lower wages will fall. Conversely, the more workers you hire, the more you have to pay to attract workers. Government officials and bankers are indoctrinated in these textbooks and conclude that the less employment there is, the more wages will fall – thereby presumably leaving a wider profit margin, assuming that the goods can still be sold at a steady price. So employers seek to earn more by keeping employment low enough to prevent wages from rising. This maximizes the power of wealth over labor.

Economists conclude that to make economies more competitive, they need to keep wages low so as to undersell other countries. So a race to the bottom develops. But what seems to help countries compete actually hurts their domestic market.

Back in the 19th century this was called the reserve army of the unemployed. Unemployment keeps labour down. And even more important, to the extent that incomes do rise, they are paid out as debt service. A dynamic is put in place in which debt keeps labor down – not only by eating up its wages in debt service, but in making workers suffer sharp increases in the interest rates they have to pay or even risk losing their homes if they miss a payment by going on strike or being fired. Alan Greenspan explained that unemployment was not needed to keep labor down these days. All that is needed is to traumatize and disable them politically by debt leverage.

This is why, despite the fact that productivity has risen so dramatically, the real economy and its wage levels have tapered off in an S curve. The magic of compound interest has increased debt (and the savings of the 1%) to more than absorb the productivity gains. And this financial overgrowth has accrued to the 1%, not to the 99%.

Finance is what makes today's economy different from that of 1945. We are at the end of a long cycle. Back in 1945 the private sector in every country was relatively free of debt. There was little civilian output for consumers to buy during the wartime years. Companies had little reason to invest, except for the government's military demand. So most families had little debt – and a lot of savings, and good job opportunities after the return to peace. But today the economy is in reverse. Savings have been run down and consumers, real estate and industry is left in debt.

***"the real economy and its wage levels have tapered off"***

## Untaxing Land Rent and Monopoly Rent so that It Can be Paid to the Bankers, not to Government

To stop this reversal, it is necessary to understand its causes. They are not only financial. The banking interests have gained sufficient power to distort tax policy, creating a dual fiscal-financial problem. Taxes have been shifted off the major bank customers – real estate and monopolies – onto labor and consumers. In the United States, two-thirds of state and local tax revenues in the 1930s came from the property tax. Today the proportion has fallen to only one-sixth. States and cities replaced property taxes with income and sales taxes. Europe and the post-Soviet economies have adopted the most anti-labour tax of all – the value added tax.

The rationale is that it is easy to collect. But it falls on consumers, not on the economy’s free lunch of economic rent as advocated by classical free market economists. The value added tax adds to consumer prices and shrinks the market, preventing labor from buying the goods it produces. This is done simply to free more land rent, natural resource rent and monopoly rent from taxation so that it can be paid to bankers as interest.

When voters threaten to elect politicians to pursue less bank-friendly policies, the EU announces that the country needs a technocrat to impose more taxes to bail out the banks for their bad loans. It is all in vain without changing the system, because today’s financial business plan cannot work for more than a short time. Being extractive rather than productive, it leaves a swath of bankruptcy in its wake. Yet it is the banks that the technocrats are saving, not labor and industry, the “real” economy’s employment, social spending and public wealth.

## Changing Social Security from Being Paid out of Progressive Taxation to a Regressive Labor Tax

In 1982, bank lobbyist Alan Greenspan was appointed to head a U.S. commission to shift Social Security out of the public budget (where it was funded largely by progressive taxation) and fund it by user fees that fall on employees and employers. The aim was to privatize it Chilean style. Wall Street’s dream is to turn wage set-asides over to money managers to buy stocks and create a stock market boom (and in the end, siphon off commissions and push contributors into high-risk bets on the losing side of the deal with large financial institutions, Goldman Sachs style). In effect, Mr. Greenspan’s position was that Social Security should not be a public service. It should be a user fee, so that prospective retirees would pay for it in advance. Their savings were to be lent to the government to enable the Treasury to slash taxes on the higher income and wealth brackets. So the effect was to reverse the long trend toward progressive taxation.

The upshot of the Greenspan tax increases (only on labor, not on wealthy earners) was to create a budget surplus for the Social Security Administration, enabling the government to cut taxes on real estate, on finance, and for the rich in general. Capital gains taxes in particular were cut in half. And real estate investors (absentee owners, not homeowners) were allowed to pretend that the value of their holdings were depreciating rather than rising in price, by junk accounting based on junk economics.

The end game came when the Bush and Obama administrations announced, in effect, “We’re broke. So now we have to balance the budget by cutting social spending and raising the Social Security tax further. We’ve cut taxes on the rich by so much that the workers have not paid enough to cover this give-away, not to mention fighting the Bush-Cheney war in Iraq and the Obama Administration’s war in Afghanistan – or for that matter, the class war against labour.

Under Pension Fund Capitalism, employees are encouraged to think of themselves as capitalists in miniature – and provide for their retirement by employee stock ownership programs rather than saving up their wages themselves or having pensions financed on a pay-as-you-go basis out of future production. The idea is to make money from money (M□M’), not by producing commodities (M-C-M’). In America, half the employee stock ownership plans (ESOPs) have gone bankrupt, mainly by being grabbed by the corporate employers. Corporate raiders borrow credit from bankers and bond investors to fund management buyouts. The plan is to buy out stockholders, pledging the earnings to pay out as interest. And not only earnings; they loot the employee pension plans. George Akerlof won the 20– Nobel Prize for describing this. But novelists have recognized it more than economists. It was Balzac who said that behind every great family fortune is a great theft, often long forgotten to be sure.

Today’s economy is based on theft under the euphemism of “free enterprise.” It’s sometimes called “socialism for the rich” because they receive most government subsidy. But it’s not the kind of socialism that people talked about a hundred years ago. It is a travesty of social democracy and socialism. In a word, it’s oligarchy. But we’re living in an Orwellian

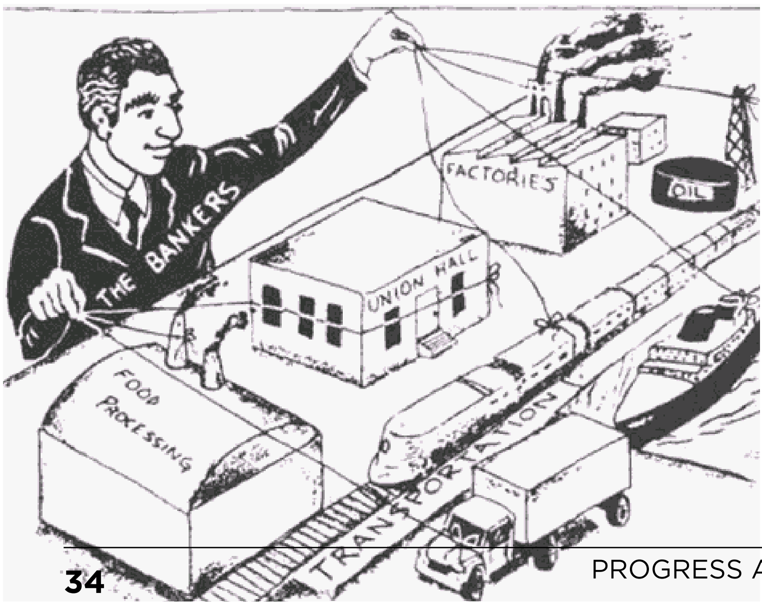
world. No party calls themselves fascist today, or even anti-labor. They call themselves social democracy. But it's the opposite of what social democracy meant in the 19th and early 20th century.

Social Security has not yet been privatized, but education has – not only privatized, but financialized. Students no longer get free or low-priced education. In order to qualify for professional jobs in America, they have to take out loans that put them deeply in debt. Then, when it comes time to start a family, they have to take on a lifetime 30-year mortgage debt. They need to take out an auto loan to buy an automobile to drive to work, especially where public transportation has been dismantled as in Los Angeles. And when their paychecks are squeezed more, they can maintain their living standards and social status only by taking oncredit card debt.

Paying the carrying charges on this debt diverts spending away from the goods and services that employees produce. The result is debt deflation. Employees have less and less ability to buy what they produce – except by taking on even more debt. That's why banks and bondholders have ended up with the increase in productivity – almost synonymous with the 1%. They are the core of the Finance, Insurance, and Real Estate (FIRE) sector that now absorbs most of the economic surplus in the form of various types of economic rent: land and natural resource rent, monopoly privilege and financial overhead.

## The Inversion of Classical Free Market Reform to its Diametric Opposite

Classical political economy sought to mobilize democratic government to tax the rentiers: landlord, monopolists and bankers. The objective was to create an industrial surplus and, in the process, raise productivity, wage levels and living standards. To keep prices low and hence national economies competitive, governments were to undertake society's largest spending programs: basic infrastructure such as transportation, power production, communications – all of which happen to be natural monopolies as well. So the aim was not only to provide basic infrastructure needs freely or at




subsidized prices, but to prevent private owners from erecting tollbooths on roads and charging monopoly prices for power, phone systems (as in Telmex in Mexico or similar phone monopolies in the post-Soviet kleptocracies).

Post-classical economics (deceptively called neoclassical) seeks to untax the rentiers, and shift the costs of government onto labor and even onto industry. To achieve this, democracy is rolled back to oligarchies. But this time they are controlled not by landlords as in the case of Europe's landed aristocracies, but bankers and financiers. And their aim is to privatize the public domain with its monopolies. Bankers advance the credit to buyers, who install tollbooths and raise prices for basic needs. By paying out their revenue in a tax-exempt form, as interest, they keep their income out of the hands of government – forcing national treasuries to tax labor and industry, consumers and producers rather than finance, insurance and real estate. Governments thus become the protectors of monopoly and its financing.

It is a short-term policy. By raising domestic price levels, financialized economies price themselves out of global markets – unless than can create a world order in which all economies are symmetrically debt-burdened. This is where the International Monetary Fund, World Bank and World Trade Organization are brought into play – to financialize globalization, excluding countries as pariahs if they do not join this self-destructive and self-terminating system.

An object lesson of the shift from classical democracy to post-classical oligarchy is a country that is held out to you as a success story: Latvia, where neoliberals had a completely free hand, as they did in Russia. What they call a neoliberal paradise turned out to be debt-ridden kleptocracy. The country has a set of flat taxes on employment of 59 percent – and only a 1 percent real estate tax.

You can imagine what happened with real estate taxed so low and labor taxed so high. Employment was high-cost – but there was a real estate bubble. When I was Research Director at the Riga Graduate School of Law, I visited the government agency in charge of property assessments, and asked how they got the 1 percent. I was told that they based it on the most recent real estate appraisal they had. This turned out to be back in 1917, before the Russian Revolution. (The lead assessor had written her doctoral dissertation on this survey.) Whatever the tax collector gives up and relinquishes in taxes, is available to be paid to the banks as interest. So housing prices are bid up in price – on credit – while the tax collector has to turn to labor and industry for the revenue that has been given up. Instead of paying taxes, new homebuyers pay interest to the bankers. The upshot is that the banks end up with the rent that used to accrue to the landed aristocracies of Europe. This is making bankers the new aristocracy.

When I headed an international investigative economic team in 2010, we visited Latvia's bank insurance agency and were told that they had anticipated a collapse of the bubble. Their response was to advise banks to back their mortgage loans not only with the property as collateral, but to get as many family members as possible to co-sign the loan. That way, if and when default occurred, the parents, siblings or other relatives would be personally liable.

The bank regulators did not urge the government to tax real estate more. That would have squeezed homeowners on their bank loans – and left less new rental income to be capitalized into new bank loans. But it would have enabled the government to reduce its heavy taxes on employment. This was not the bank regulators' concern – and bankers themselves saw their main business in lending to fuel real estate, not industry, given what the neoliberals did to Latvia's economy and that of the other Baltic states!

Unfair? Economically polarizing and destructive? Of course. But the bank insurers said that their task was to protect bank solvency, not create an optimum economic structure.

One result is that a recent EU survey found that one-third of Latvia's population between the age of 20 and 35 either had emigrated or was planning to do so. As of 2012 the country's population recently has shrunk by 15 percent. Marriage and birth rates are falling off, as they are throughout the post-Soviet economies. After all, who can marry and buy a house when your wages are taxed at 59 percent and you have to take on a debt?

Iceland provides another object lesson. Even more than Latvia, it became a rogue banker's paradise – and also one for vulture banks. Their loans are indexed to the consumer price index – which means in practice to the foreign exchange rate. The krónur plunged after the banks crashed in 2008. The result a 1,000 krónur debt has become perhaps 1,800 – against property that has fallen from the equivalent of 1000 krónur down to perhaps 400 krónur. This leaves many families in negative equity. And they are personally liable.

When the crooked banks of Iceland went under (and they've only recently begun to arrest some of the crooks) the government took them over and, on European advice, sold them to vulture investors, for around ten cents on the dollar. Despite the fact that Iceland's constitution said that they were not allowed to increase debts by indexing, this is just what the banks did. If the government had taken over, it could have written down the debts to the ability to pay. But the new vulture banks have not done this. And the Social Democratic government backed their rights to make as much as they can, rather than giving priority to the welfare of the Icelandic people.

What I find so striking is how far to the right wing of the political spectrum the Social Democratic and Labour parties have moved. Iceland's Social Democratic leadership explained that it wanted to be part of Europe. But this meant acting on behalf of the British and Dutch bankers, not democratically on behalf of Icelanders. They acted on behalf of the emerging financial oligarchy.

I've known many of the social democratic leaders of America and the world since I was a young boy. My father was a socialist labor leader and political prisoner from Minneapolis, which was the high point of American labor history as a result of its great General Strike in the 1930s. I was told by a Socialist Party leader (Terence McCarthy) in the early 1960s that the travel and hotel expenses of nearly every member of the Socialist International (the Second International, of which Dmitri Papandreou of Greece is President as of autumn 2011) was paid for by the CIA or its front organizations. I watched the Socialist Party in America come to support the Vietnam War, and Michael Harrington ban criticism of the war in its youth magazine – driving it to quickly lose most of its members.

Harrington and his mentor, Max Shachtman, took this position because they believed that the West could not be persuaded to be Marxist until the world was freed from the Stalinist travesty that claimed to be Marxist. So the Social Democratic Party of America joined the Cold War effort. Politics was turned upside down by the triangulation of socialism, Stalinism and the ability of the United States to back and finance European social democrats to support the banks and "centrists." This became the tragedy of the old non-Stalinist left in America and other countries. So the Social Democratic leadership imagined (or simply sold out to pretend to believe) that "free financial markets" would lead the world into economic progress.

This was just the opposite from the Progressive Era and indeed, what industrial capitalism promised. The Social Democratic parties of Iceland, Britain, Greece, Scandinavia and other European countries have adopted the position that the way to re-employ labor is to impose austerity. Budgets are to be balanced by lowering wages by 30 percent, and shifting taxes off the finance, insurance and real estate sector onto consumers.

Taxes on labor add to its cost. So competitive power would be maximized by untaxing labor and consumer goods, by getting rid of the value-added tax. But not all taxes are bad. The classical free market economists endorsed taxes on unearned income: land rent and natural resources, monopoly rent and financial privilege. These categories of income have no counterpart in a cost of production undertaken by the rent recipient. The more that governments can shift the tax burden onto land and property, the lower housing prices will be – and the less governments will need to tax labor by income and sales taxes.

Bankers back anti-government ideology because they want to obtain all of the untaxed rental revenue as interest. So taxes that otherwise would be paid to the government will be paid to the bankers. The result – what you're seeing today in Europe and North America – is an economic grab that is in many ways like that which gave birth to European feudalism. But this time around it is financial, not military.

Michael Hudson is a high level economics consultant to Governments all over the world, and the author of many books. Stay tuned for his next visit to Australia.

# GEO-POLITICAL POWER IN THE 21ST CENTURY

By David Smiley

**"The poor have always kept the poor. *That is no problem*. The problem is that they also have to keep the rich."**

## BACKGROUND

In his book, The Power in the Land, Fred Harrison directly linked what we now call global financial collapses to real estate speculations that could have been prevented by adequate land taxes. This essay, though also concerned with power in the land, will directly link this power to those geopolitical power structures that have caused, and are causing, so much damage: the poverty and inequality that lead to famines, wars and revolutions. But after tens of thousands of articles and learned papers from social scientists, all offering different explanations, a reasonable assumption is that there is a key component missing from the models of power and conflict used by the social sciences, and interpreted by the institutions that run this world.

## MODELS OF POWER AND CONFLICT

All of us use models all the time. For example, whenever we walk across a road or press the accelerator we predict the outcome by using a mental model, memories of times and spaces, the success of our model being reflected in accident statistics, the survival of the fittest model. Any model is better than none, but some models are better than others. So the purpose of this essay is to find a better model than those of the social sciences that have failed.

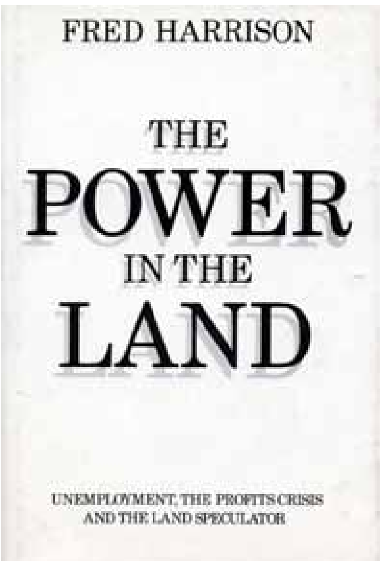
**Complex models.** Examples include political models of conflict such as war games balancing the risks and gains of intervention, economic models attempting to balance those budgets already beyond the reach of reform, and those models that attempt to predict society's behaviour. A recent addition from the field of sociology is called the FuturICT project, where the ICT refers to information and communication technologies. This is not a small-scale project, the EU plans to invest one billion euros in it over 10 years, to apply massive computer power to the collection and mining of "big data" on socio-economic problems. It may be presumptuous to question the foundational assumptions of this project at this stage, but you will find later, in my discussion of institutions and the ideas that underpin them, examples of failure of other multi-billion dollar UN, EU, World Bank and IMF projects.

**Simple models.** But good models can be simple, and very instructive to those that build complex models. Here is a good example. "Imagine a small island to which castaways swim as ships are successively wrecked on a nearby reef; eventually the earlier occupants will be able to present new castaways with the choice: be our slave, or keep swimming." As I will argue later, this single sentence illustrates, at the simple level of boat people, how land monopoly can illustrate many dilemmas in those social sciences that do not connect social problems with uneven distribution of "the power in the land". It is obvious that real life problems, and therefore of necessity their models, are complex. But a complex model that excludes an important component of a simple model will fail. To construct a simple but complete model of geo-political power you and I now have some work to do.

## EARLY MODELS OF POWER

Let us start to build our model with our early ancestors specialising in either hunting or gathering. Adam Smith gave us our first formal model of this in 1776 in his description of the division of labour; one worker did this, another did that, each becoming thereby more efficient. The hunter-gatherers specialised and they also developed tools, again generalised by Adam Smith into a simple mathematical model; we take time off from work in order to make tools (capital) thereby producing more goods with less effort. In both cases the investment in capital paid off. Hunter-gatherers postponed starvation and then started to exchange of goods systematically. In 1817 David Ricardo developed the first mathematical model of all these forms of exchange. That people benefit from trade should be obvious, but that this applies even when a person or a country is better at all things was the genius of his theory of comparative advantage. But the hunter-gatherers soon pressed against the carrying capacity of scarce land, by over-populating it. Then tools such as baskets and spears, and inventions such as the bow and arrow, soon increased the carrying capacity of a given area of land. The perimeter of the land our tribe needed was thereby reduced, we now needed less land to survive. But, with population growth even this was temporary, so our first simple mathematical model of progressive over-population came in 1798 from Thomas Malthus. In his model population tends to increase by geometrical progression while the availability of food increases by arithmetical progression, leading to starvation of surplus population.

Scarce land led inevitably to inter-tribal warfare for the conquest of land. A medical historian (McNeill, 1977), studying parasites, suddenly saw the origins of human class systems in what he called macroparasitism. "A conqueror could seize food from those who produced it, and by consuming it himself become a parasite of a new sort on those who did the work."





These then are all the tools we need to explain why our ancestors moved "out of Africa" and spread round the world. No one leaves a land of milk and honey voluntarily so, following Malthus, we must conclude that populations progressively exceeded the carrying capacity of scarce land, and so inter-tribal warfare pushed waves of surplus populations outwards. For our hunter-gatherer Malthus had trumped Smith.

For our next model we move on to the development of agriculture and settled societies. The circle that described the area that sustained a hunter-gatherer tribe had an implicit value, what economists call rent, especially compared to that of a nearby avaricious and warlike tribe. Let us now replace these circles of hunter-gatherer land by the rectangles we now call farms, estates, properties or sites. For these land values now become quite explicit. It was David Ricardo who developed simple mathematical models of these values that he called rent, always rising with population. Karl Marx and Henry George both then developed theories of the landed class systems that arose, depending on who got the land first or who then stole it, and could therefore demand rent.

How large were these rents? Malina (2001) has found that the pre-industrial city typically contained ten percent of the population that it controlled. Of these, two percent were priests, administrators and absentee landlords (minor landlords lived on their farms). The remaining eight percent were small merchants, craftsmen, beggars and slaves. Such societies could, and still can, remain stable for hundreds of years, population being limited at the level of subsistence. Warriner (1948) found that, for example in Syria, absentee landlords of non-irrigated land took 40-50 percent of the crop, 60 percent for irrigated land. Later development economists like Michael Todaro (1989) quotes typical land ownership ratios of 90 percent owned by 5 percent of the population.

Moving on now to industrialising societies, anthropologists such as Brian Fagan (2009) attribute the rise of the nation-state to increasingly sophisticated trade networks. By now the rulers were called kings, jealously guarding their "percentages" skimmed from any passing trade. On land we meet the warning "where goods cannot pass, armies will". At sea we find the evolution of the battleship to defend those trade routes exporting manufactured goods in exchange for raw materials imported from imperial networks of colonies. But both European industrialisation and colonial exploitation cannot be understood without the help of Ricardo's laws of rent, and the social implications of the rise and fall of land values with population. For example, the industrial revolution took off when the English land enclosures, the Scottish highland clearances, and the Irish land expropriation poured cheap surplus labour into Manchester's mills and factories. Rural landowners gained land for more profitable grain and grazing, urban landowners gained rent bonanzas from the population influx, while the factory owners got cheap labour. Overlapping in time were the colonial systems that raped Latin America and Africa. To understand all these, let us represent an English common, a Latin-American estate or an African tribal settlement by a rectangle. Push the occupants into half the area and, following Ricardo's theory of rent, wages, that is to say the standard of living, is approximately halved. Now continue pushing until its occupants are willing to work for subsistence wages, and you have the entire history of humanity sitting in Ricardo's equation.

***"where goods cannot pass, armies will"***

It seems little short of astonishing that so many famous historians, sociologists, political scientists, and even some economists are incapable of putting together these models of Malthus, Smith and Ricardo to explain quantitatively the coexistence of poverty and progress, and the armed conflict that marches alongside. Some get close to the truth, but at a rhetorical level only, as in the following examples. For History, "Europe was a series of dynastic squabbles over real estate." For Sociology, "The poor have always kept the poor. That is no problem. The problem is that they also have to keep the rich." For the Law and Human Rights Jeremy Bentham was very close, "It is impossible to speak of rights without enforceable duties." As was JS Mill anticipating our modern environmental and conservation concerns when he said "The social problem of the future we consider to be, how to unite the greatest individual liberty of action with a common ownership in the raw material of the globe". For Political Science, "where goods cannot pass, armies will." and

"In capitalism  man exploits man. In communism it is the other way round." Marxists argue that monopoly of capital, not land and natural resources is the key to social problems. This argument was always inappropriate to agrarian societies, even more so to today's urbanising world, hungry for homes and resources.  Let us examine this in the contexts of the 20th and 21st centuries.

## MODELS OF 20TH CENTURY POLITICAL POWER

The first half of the 20th century was dominated  by two world wars that devastated large parts of the globe. Where European domestic history was essentially dynastic squabbles over real estate, its history of foreign affairs was essentially the same struggle for control of imperial real estate. By the 20th century this real estate included most of the world. Competing for large slices of the earth were the rent-seeking empires of Europe, Russia, Japan, and the Ottoman. The Ottoman Empire did not survive the First World War. Nor did the German Empire survive, in the sense that the allies took all its resource-rich colonies, a deprivation leading, ultimately, to the Second World War. In the East a rapidly industrialising Japanese empire found trade embargos were placed against essential resources such as oil, resulting in a situation explained by the maxim "where goods cannot pass armies will". As with Germany a deprivation also leading to the Second World War.

The second half of the 20th century was dominated by a standoff between the First World of NATO and  the Second World of the communist states, called the Cold War. The implosion of the Communist Bloc left reverberations that are still ongoing. The non-aligned, usually poor countries were labelled the Third World, and later called South or Developing Countries. Sad remnants of the European  feudal legacies maintained much of Latin America and Sub-Saharan Africa in poverty and gross inequality.. In India, the most populous country, its bourgeoisie revolution lifted its top half leaving the rest in the poverty of caste. In China, the second most populous country, grinding feudalism awaited grinding communism and then a spontaneous land reform the result of which is lifting China to the top of the heap, carrying a parasitic bureaucracy with it.

Outside of North Korea, communism as a system did not really survive the 20th century. Way back in the 19th century Marx and Engels had recommended “The collection of all land rent for public purposes”, the equivalent of Henry George’s Single Tax. Had the communist revolutionaries left it at that the history of the 20th century would have been very different. When Russian communism finally imploded and property rights were suddenly up for grabs, an American Georgist economist collected 30 signatures, three from Nobel Prize winners, for a letter to Gorbachev advocating what was essentially the collection of all land rent for public purposes. But by then the Commissars had already morphed into monopoly capitalists and it was all too late. At the end of the 20th century conventional warfare between states had shifted to asymmetric wars conducted, depending on your point of view, by freedom fighters, terrorists, or occupying powers, and there were still 27 million slaves in the world.

But there was one ray of hope. , "In all three of Asia's biggest successes - Japan, South Korea and Taiwan [and China]- the groundwork for both fast growth and the income equality that eased the social strains of development was laid by a radical land reform." (Economist, 29 June, 1991, p. 16.) The Chinese land reform of 1976-78, when the peasants walked out of the communes back to their farms,  was perhaps the only revolution in history that was spontaneous, non-coercive, bloodless, and delivered an astonishing but continuous high rate of economic growth.

## MODELS OF 21ST CENTURY POLITICAL POWER

In the 21st century the wealth within nations remains concentrated, as it has always been, in the elite classes. But when we look at the struggle for wealth between nations we see new power blocs partly replacing the old empires and ideologies, but with the same ambitions over territory and resources. Let us look at some of the emerging power blocs. Some names, the West and the Middle East are familiar. Some, the BRICs, the Land Grabbers, the NORCs and the Precariat, are new.

**THE WEST**, now possibly in decline, is inflicting on the world one or possibly two inexcusable Great Financial Collapses, policies of agricultural protection that continue to damage its taxpayers as well as third world famers, property rights over nature, and enough weaponry to destroy civilisation several times over.

**Financial collapse.** The 21st century was ushered in with a big bang of financial disasters, giving us new labels like GFC 1 & GFC 2, naughty banks, bailouts, contagion, sovereign defaulters called PIGS (Portugal, Italy, Greece and Spain), Freddie Mac and Fannie Mae who tempted the poor to join the real estate rat race, and CDOs, the collateral debt obligations that re-packaged and sold real estate debt. The money to be made was colossal, drawing in most of the best maths Ph.D.s away from productive work into non-productive, ultimately extremely damaging,  financial engineering.

**Protectionism.** ”Farmers in poor countries struggle to compete with heavily-subsidized farmers in Europe and America – and even see their own market destroyed when food surpluses are dumped. Lost trade costs poor countries an estimated $700 billion each year, says the UN, a figure that dwarfs aid spending.” (Economist July 1, 2000:50)

**Property rights.** Bentham’s idea of corresponding obligations faces powerful opposition, as Australia is finding out with carbon and mining taxes. In the field of intellectual property rights, it has been reported (Guardian Weekly, 6.1.2012) that French farmers now have to pay to use their own seeds, with massive implications for the third world.

**Armaments.** The good news is that the frequency and cost of wars are in decline. That we did not notice this may be due to the media’s news policy: “if it bleeds, it leads”. The bad news is that the predictors of conflict: poverty, inequality, unemployment and shortages of energy, water and food are on the rise. This has not gone unnoticed by UK arms industry whose exports have risen 70% over four years, or by the US, Russia, China and Israel who recently blocked the banning of cluster bombs.

**THE MIDDLE EAST.** In the March-April 2011 issue of Progress I suggested that, though what we call the Arab Spring may deliver the vote, poverty and social unrest will continue until social revolutions address the huge monopolies in the ownership of land and natural resources. These monopolies explain the Gaddafi family wealth, 35 billion in seized or frozen financial assets and 10 billion in real estate, the Mubarak family fortune of 70 billion, and Saudi Arabia's royal family's net worth of 1.2 trillion. It also explains why the US has recently finalised a Saudi arms deal worth 60 billion.

**THE BRICs.** The old abrading tectonic power plates we used to call the first, second and third worlds, and the hegemony called the Washington Consensus, are being challenged by the new high growth economies: Brazil, Russia, India and China. But these new tigers are also creating wealth at the expense of the poor.

While Brazil has ridden a commodity-fuelled boom up to world's 6th largest economy, its slums now occupy 37% of the urban population, and the middle class are now landlords to the poor. As Rio prepares for its Olympics, nearby slums are being walled off from view, sanitised and soundproofed.

Russia's oil-based resurgence, while creating more billionaires in Moscow than exist in New York, and providing Putin with a huge personal fortune, has left behind millions in "transitional poverty". These, and especially their fellow communists in Bulgaria and Albania, now hanker for the secure jobs and cheap housing of communism. Some poor people are even nick-named "dalits" living in slums with names like "Cambodia".

India's dramatic recent economic growth has been described as being "from the middle up". But while this is happening slums now occupy 56% of the urban population. "In India three-quarters of urban space is owned by 6 percent od urban households, and just 91 people control the majority of all vacant land in Mumbai"(Davis, 2006).

China's extraordinary economic growth started when the government was not looking. In 1976 China's peasants spontaneously walked out of the communes and when their far more efficient household farms returned a surplus they invested that in manufacturing in what were called Town Village Enterprises. Then, money poured in from overseas Chinese into the Special Economic Zones. These became so successful they sucked in the unemployed who, as happened in Brazil, Russia, and India, now had to pay escalating rents to those who were riding the new property boom. Today, slums now occupy 38% of the urban population. "The widening gap between rich and poor, high property prices and rural land rights, are amongst the social problems that have been highlighted by Chinese Premier, Wen Jiabao" (Sydney Morning Herald, 6.3.2012). If Wen had understood item one of the Communist Manifesto, or read Progress and Poverty he would have "collected all land rents for public purposes". But perhaps, like Putin, he is already riding the new property boom.

**THE LAND GRABBERS.** These Countries, China, The Gulf States, India, and South Korea, were reported in Progress September-October 2009. Since these countries cannot grow enough food for their populations they need to look elsewhere. David Ricardo's answer would have been "trade" for food. But today's agricultural protection and general political instability have made these countries persuade others, largely in Africa, to sell off their farming land instead. But the Progress article asked exactly the right question "Why can't they [Africa] just lease the land and use the rent to support their own population?"

**THE NORCs**,or Northern Rim Countries: Canada, US, Greenland, Iceland, Norway, Sweden and Russia all look North to rich gas, oil, mineral and fishery resources, now increasingly accessible with global warming. . They also look South to increasing risks of flooding and heat waves. The New North (Smith, 2011) predicts that, by 2050, rich, stable northern countries will get even richer leaving poorer countries (see The Precariat, below) behind. The study identifies four global forces: demographic, finite natural resources, globalisation and climate change. The study is based on assumptions such as incremental advances in technology and no catastrophic events such as World War III.

**THE PRECARIAT,** In all these cases, in Western financial engineering, arms sales, and agricultural protection, in the BRICs economic takeoff and the NORCs Arctic ambitions, economic progress seems accompanied by increased poverty, unemployment, insecurity and precariousness. By combining concepts of precarious and proletariat into The Precariat: The New Dangerous Class Standing (2011) describes how, perhaps for the first time, the mainstream left in Britain and Europe [and Australia] has no progressive agenda, having forgotten a basic principle. Every progressive movement builds on the relative deprivation of some class. Today that is the Precariat. Its growing population includes 20 million in Japan and Europe's unemployed youth (e.g. Spain at 50 percent). In the Middle East educated and frustrated youth have already created perhaps the first precariat-led revolutions. But precariousness also extends to those forced, by those who were there first, to live in potential volcanic, flood and tsunami zones in Asia and the Pacific. The Pacific nation of Kiribati is negotiating to buy land in Fiji so it can move islanders under threat from rising sea levels to safety, in what could be the first climate-induced relocation of a country.

## CONCLUSIONS

Though there are new actors now strutting the 21st century geo-political stage, they all collide with UN and other institutions seeking to restrain their impacts on the global problems of sustainability, conflict resolution, human rights, development, trade, and financial instability. For each I will now summarise the threats, the failures to deal with these threats, and conclude with appropriate reforms.

Sustainability faces threats to the planet's environment, ecology, and scarce natural resources. These arise not only from increasing populations but also from aspirations which will increase per capita consumption of environmental, ecological and natural resource goods. International treaties have failed since they depend on supporting legislation in individual countries, while each country waits to see what the others are doing. JS Mill's ideal of common ownership of the raw material of the globe is way off in the future. Meanwhile, it is claimed that otherwise sensible carbon and mineral taxes are unaffordable. But it is possible to meet these burdens from part of the revenue from land value taxes (LVTs), taxes already justified as highly efficient and equitable (Low and Smiley, 2005).

**Conflict resolution.** "It is doubtful whether any single word [sovereignty] has ever caused so much intellectual confusion and international lawlessness" (Akehurst, 1987). Though conventional  international wars between sovereign states appear to be in decline, problems of sovereignty underlie all contemporary revolutions and the asymmetric wars they call terrorism. The word sovereign derives from titles such as royal, lord, monarch, meaning supreme ruler. The concept of sovereignty arose from the Treaty of Westphalia. This assigned arbitrary territorial boundaries across Europe, which were then extended, over most of the surface of the globe, as Europe's colonial empires. All of this happened without the consent of the populations concerned whose descendents remain trapped within these arbitrary boundaries. The result today is a world of sovereign states of greatly varying, and therefore socially unjust, allocations of land and natural resources. It is thus entirely possible that wars, revolutions, invasions, occupations, and terrorism will never be abolished until the rents of land and resources are redistributed justly across the globe. Meanwhile, the incentives for rent seeking could be greatly reduced if each country collected its own rent of land and natural resources.

**Human rights.** "Count up the results of 50 years of human rights mechanisms, 30 years of multi-billion dollar development programmes and endless high level rhetoric and the general impact is quite under-whelming…this is a failure of implementation on a scale that shames us all." (Mary Robinson, when UN Human Rights Commissioner). Here we have a massive explosion of treaties, pacts, protocols, conventions, charters and concordats, all radiating from a basically flawed document, the Universal Declaration of Human Rights. In this, the UDHR, those rights in articles 7-21 are now seen as culturally variable, and those in articles 22-26 are now seen as economically variable, in both cases by most of the world's population. Articles 28-30 seem to assume acceptance and implementation of the other 27 articles, which has never been the case. Articles 1 and 2 are not distinct rights and really belong in the Preamble. To get over these problems Nicolaus Tideman (Tideman, 2000) has condensed the intent of these articles into two axioms. One: that each person has an exclusive right to his or her person, and their productive powers. Two: that all persons, and each generation, has an equal right to the productive opportunities that nature offers.

**Development.** "Over the past 50 years rich nations have given $1 trillion in aid to poor ones. This stupendous sum has failed spectacularly to improve the lot of its intended beneficiaries." (Economist, June 26, 1999:22). There is a sad history of development projects, both Marxist and free market, that have failed. All have failed in ignoring Olson's findings that the difference between rich and poor countries depends on differences in institutions, not endowments in land, labour or capital. For example "The star economic performers of the past 30 years have been resource-poor countries in East Asia such as South Korea, Taiwan, Hong Kong" (Economist, The Natural Resources Myth, 23 December, 1995, p. 102). Development economists like Todaro (1989) have consistently cited land ownership as the critical institution here. Using World Bank data for 1950 to 2000 I was able to compare the per capita economic growth of three countries with different forms of land ownership: El Salvador (feudal land ownership), South Korea (feudal to peasant land redistribution) and North Korea (state land ownership). El Salvador's fell from 2635 to 2050, South Korea's grew rapidly from 367 to 2462, while North Korea's fell from 367 to 188, millions dying of starvation along the way. Meanwhile the human rights record was good in South Korea, poor in El Salvador and very poor in North Korea.

**International trade.** "Rich country farm subsidies prevent the poorest countries from selling some of the only goods, other than illegal drugs, that they are able to export, keeping millions of people miserable. Consumers in rich countries pay over the odds for food. And for what? So that a tiny number of farmers and a few large agricultural firms in rich countries can continue to benefit at the expense of the world's poor." (Economist, April 17, 2004).

Financial instability is a well known problem. Less well known are its origins in over-investment in real estate, encouraged in the US by the government agencies Freddie Mac and Fanny Mae and, in all countries, by a raft of tax breaks that encourage even more speculation. Hardly understood at all is the heavy land tax that, by removing incentives to speculate, would have prevented the Great Financial Collapse in the first place.

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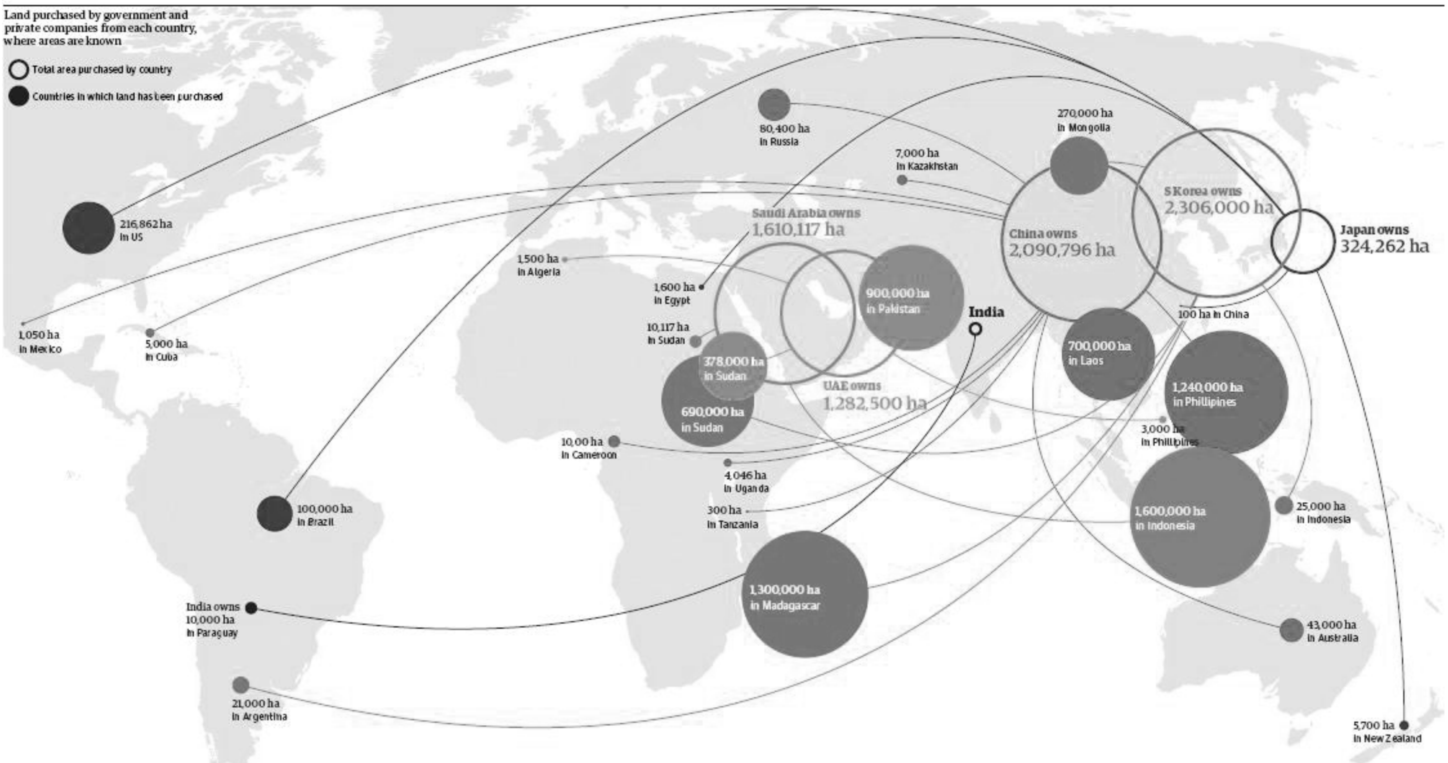
**World land grab**



# Isn’t It Time?

## Right now, millions of people around the world are fed up with an unjust economic system. Isn’t it time you added your voice to the chorus?

Prosper Australia doesn’t have all the answers to all the questions, but we have one very big solution to one very big problem. Problems are interconnected, so getting it right in one place has a powerful effect on others. Here in Australia, we are closer than ever to implementing a fairer tax system for everyone. Ken Henry’s review points us in the right direction, but politicians don’t act just because it makes sense. They act when they have to; when enough people make their voice heard. Isn’t it time you became a member of Prosper Australia?

# Geoists in History: ALFRED DEAKIN (1857 – 1919)

By Karl Williams

**"The whole of the people have the right of the ownership of land and the right to share in the value of land itself, though not to share in the fruits of land which properly belong to the individuals by whose labour they are produced."**

Given the deplorable state of federal politics in Australia today, replete with personal attacks and obstructionist tactics, it's almost impossible to imagine that a political leader could ever have been highly respected and regarded throughout his entire public life by both sides of the political spectrum. But Alfred Deakin was no ordinary politician and no ordinary man. His stature and renown led to him being offered many honours and awards, including a knighthood; however his modesty led him to refuse all these. Among his long list of achievements are the recognition of him as the intellectual leader of the movement for Australian federation and his election as the second prime minister of Australia (and the fifth and seventh!). A brilliant statesman, Deakin excelled in a defining period of history predisposed to his adroit negotiating skills that were fixed on compromise & conciliation and augmented by his natural powers of persuasion.

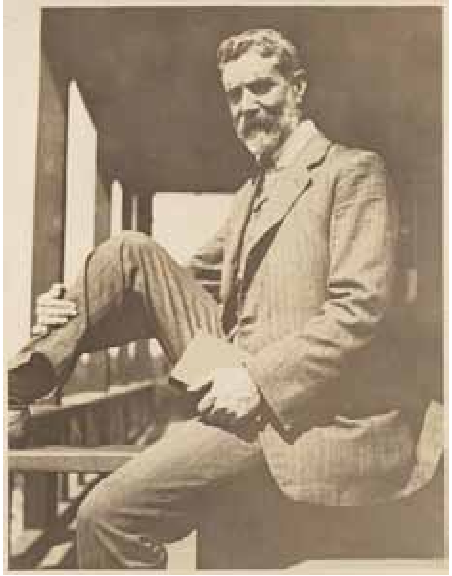
"Affable Alfred", as he became known as in adult life, was born in the inner Melbourne suburb of Fitzroy to old-fashioned, hard working parents who strove to give their only son the best education. His 8 years of secondary school were spent at the prestigious Melbourne Grammar School where he was able to indulge his voracious appetite for books. Here he was bestowed with his first great geoist influence in the form of the great Scottish historian, Thomas Carlyle, who became Deakin's prophet and lifelong influence. Carlyle, amongst many famous geoist utterances, had written "Who can or who could sell us the earth? Actually the earth belongs to these two: the almighty God and all his children who have ever worked on it or who will ever have to work on it. No generation of men can or could with even the highest solemnity and exertion sell the earth according to any other principle."

Obtaining honours in algebra, geometry and history at school, he changed course to begin studying law at Melbourne University at the tender age of 14 and although he had no particular interest in law, his quick comprehension skills and superb memory enabled him to pass his course and to be admitted to the bar 5 years later. He readied himself for his life's mission by speaking frequently at the University Debating Club. During his university years, not wishing to be too great a burden to his father, he taught at schools, was a private tutor, and acted as bookkeeper and representative of his father in a printing establishment.

He had grown into a tall, slender, alert and decidedly handsome young man, still reading insatiably, but not suggesting to his tutors that he was marked for future distinction. In fact, he had such little enthusiasm for the law that he spent most of his time in his law chambers writing poetry, essays and literary criticism.

In 1878, the year after he began his near-briefless law career, a chance introduction changed his life's direction. Mind you, to be introduced to the press baron, David Syme (of the Melbourne Age newspaper, was no small matter. Syme, who

**"I am a State land taxer from head to heel, but this Government makes no proposal for the addition of a Federal land tax. We are waiting on the States for the land, and responsibility rests with them."**



became a close friend, engaged him as a paid contributor of reviews, leaders, sub-leaders and general articles on politics, literature and miscellaneous topics.

In 1880 he edited the Leader, the Age's weekly. He excelled at journalism, which became his major occupation for some five years and provided a useful source of income for most of his life. His intellectual interests were a world away from the trash culture and infotainment of today. His voracious and wide ranging appetite for books and writing continued; his reading encompassing titles and authors as diverse as Plato, the Bhagavad Gita and George Meredith. To give just one example of his vast intellectual pursuits he published 'Temple and Tomb in India' (1893), an exploration of religion and architecture in India. He read everything that came his way in English literature, biography, history and philosophy, French in the original, and German and the classics in translation, and still found time to do an immense amount of writing himself, both in prose and verse.

It was later in 1880 that the still very young (23 years!) Deakin was elected into the Victorian parliament, from 1883 he began to hold high portfolios, and from 1885 to 1890 he was joint leader in a coalition government.

The young Deakin who entered parliament had now matured into an even more impressive figure. He was six feet (about 183 cm) tall, dark haired and dark eyed, and his handsome, alert face was fashionably bearded. He spoke rapidly in a rich, baritone voice which, he claimed, bore no trace of 'provincial' accent. Deakin had a charming manner, an engaging style, and a journalist's skill with narrative.

The political divide was very different in those days. Deakin had always been liberal in tendency; liberals at this time were similar to radicals in England in their belief in the breaking up of the big estates, a protective tariff and in having the support of the working classes. He proved an able administrator, and he practised and polished the art of compromise. He introduced the Factories and Shops Act of 1885, a pioneer social measure based largely on British legislation that had impressed the royal commission of 1884. The act, though mutilated by the Legislative Council, provided for the regulation and inspection of factories, enforced sanitary regulations, limited the hours of work of females and youths, and compensated workers for injury.

He chaired the 1884 royal commission on irrigation, a cause he pressed with fervor, and it seems that the second geoist shaping might first have occurred with Deakin's close involvement with this issue. There had been much suffering from drought years, and a royal commission was appointed with Deakin as president. In December 1884 he went to America to see what was being done there. He returned in May 1885 and presented his report "Irrigation in Western America" which was received as a remarkable piece of accurate observation, and was immediately reprinted by the United States government. In 1886 he again became minister of water supply and succeeded in passing his irrigation bill. It was the beginning of a great movement in Australia, which it may not be too much to say has proved to be a great boon to our country. Deakin retained his interest in the subject for many years, publishing in 1887 his Irrigation in Italy and Egypt, and in 1893 Irrigated India.

Of course the pressing question concerned how such grand irrigation projects could be financed. To an open, inquiring mind, the answer was obvious – those landowners who enjoyed the staggering uplift in land values should pay, rather than the ordinary taxpayer. These were the glory days when the writings of Henry George were sweeping the world, as the monster best-seller "Progress and Poverty" had only been published in 1879.

Alfred Deakin as a young man

Thus it was that Deakin introduced the first legislation in Australia to promote an irrigation system. The bill broke with traditional English riparian law by placing ownership of natural waters under the Crown and provided for the construction of state-aided irrigation works by local trusts. In time, successful irrigation and water schemes became a feature of rural Victoria and Australia.

The third geoist life lesson Deakin learnt at this period was a bitter pill to swallow – the reality of the boom-bust land cycles caused, of cause, by a taxation system encouraging speculation in land. In the year 1888 everything seemed prosperous in Victoria and the government like everyone else spent money extravagantly. Melbourne at this time was indeed marvelous and a massive inflow of British capital fuelled the Victorian boom. The coalition won the election of March 1889, but in 1890 the land boom was starting to waver and soon the bubble burst. Deakin, like many contemporaries of his social class, speculated heavily in the rush to be rich: he lost his own and his father's savings. Unlike many he repaid his debts. Nonetheless, the picture of him as an innocent intellectual unwittingly caught up in the brutal world of business seems too kind. As joint coalition leader he shared power and responsibility in a government whose own borrowing and investment policies contributed much to the onset of the collapse and the severity of the depression. As an individual investor he sought quick and easy profit with the rest of them.

Deakin in this respect was no wiser than his fellows, and there appears to be no evidence that he ever raised his voice against this extravagance. In November 1890 the government was defeated, and Deakin was not in office in a Victorian government again.

Australia, in the throes of a crippling bursting of a land bubble, was more than ready to absorb the geoist message, and Henry George's extended tour of Australia in 1890 was well-timed indeed. In those days of horse and buggy transport, an estimated 10,000 people clamoured to hear George at Melbourne's Exhibition Buildings. According to Deakin's biographer, Walter Murdoch, Deakin "avowed himself a disciple, in a general way, of Henry George".

Deakin was about to embark on his great life mission of cobbling together a group of disparate and oft-squabbling states into one nation, and there were many like Deakin who wanted Australia to begin its independent life free from the tyranny of British-style lords, barons, earls and dukes who owned vast estates and who keep their landless workers in a condition of near-servitude. One of the great attractions of geoist site rent collection is that it would force the so-called well connected "squatters", who had already legally misappropriated huge tracts of the best land, to put the land to optimal use. Site rent would force the landholder to put their land to appropriate use or else consign the land to those who would properly use it. "Bust up the big estates" therefore became a popular catch-cry in those times, and one echoed by Deakin himself.

The 1890's was the decade in which Deakin, free from party politics, threw himself into the cause of federation. It is too often overlooked in Australia today that in the 19th century most people thought that a single, united, federated Australia was an impossible dream due to serious colonial differences and self-centred squabbling politicians. We can truly ascribe "the miracle of federation" to the marvelous conciliatory skills, personal charm and persistence of Deakin.

In 1887 Deakin had made his first visit to England, being one of the four representatives of Victoria at the colonial conference. Deakin had taken a much bolder tone and had spoken of the difficulties the colonies had in dealing with the British ministry. He made a great impression in London, and if the conference did nothing else it brought home to the delegates of various Australian colonies the advantages that would accrue if they could speak with one voice. But federation was then still a long way off. The federation of the Australian colonies had long been his dream. If it could become more than a dream there was work to be done, and much of his time during the next 10 years was given to this cause.

Deakin's interest in Federation had been greatly stimulated at this Colonial Conference of 1887, where colonial division thwarted attempts to overcome Imperial apathy. He attended all subsequent Federal conferences and conventions. He appears to have helped resolve differences between the prominent fueding politicians Duncan Gillies and Sir Henry Parkes, who convened the Australasian Federation Conference of 1890. Deakin was the youngest delegate to the National Australasian Convention of 1891 in Sydney, and he polled third in the popular election of ten Victorian delegates to the Australasian Federal Convention of 1897-98: in both he served on the constitutional committee. As a progressive liberal from a large colony he adopted a democratic stance on most issues. He opposed conservative plans for the indirect election of senators and sought a relatively weak 'States House' which he foresaw would be dominated by political parties. On the most vital constitutional issue of all, control of money bills, he tried to limit the Senate's power and make the House of Representatives supreme. He advocated wide taxation powers for the Commonwealth.

These efforts, and similar ones of Barton and others in New South Wales, took Federation out of the hands of parliamentarians, and helped to ensure its success. As chairman of the Federation League of Victoria and acknowledged leader and symbol of the cause in the colony, Deakin was the central figure in the referenda campaigns of 1898-99, when the Commonwealth bill was put to the popular test. His celebrated address at the A.N.A. banquet at Bendigo in March 1898 set the tone for the campaign, converting a hostile and suspicious, Age newspaper.

Thus it was that at the conventions of 1891, 1897 and 1898, Deakin was the leading figure. Between conferences, he worked to popularise the concept of federation and campaigned for its acceptance in colonial referenda. He then fought hard to ensure acceptance of the proposed constitution by the Government of the United Kingdom. To him often fell the task of reconciling differences, and of finding ways out of apparently impossible difficulties.

At last only one obstacle remained in the form of Joseph Chamberlain, the colonial secretary, who asked that representatives of the colonies concerned should be sent to London to confer with him, and Deakin was selected to represent Victoria. The other leading delegates were Edmund Barton and Charles Kingston. The three were determined to consent to no amendments, but Chamberlain said the bill must be amended. The real difficulty was clause 74 relating to the high court, which was thought to go too close to severing ties with Britain. It was a long struggle but eventually a compromise was found, and it was decided that appeals from the high court should be by consent of the high court itself.

Thus it was Deakin's skills and knowledge relating to law, history, oration and negotiation which played a vital role in the burgeoning Federation movement until its culmination in 1900 when the Constitution was finally passed by the British Parliament. The Australian representatives were greatly pleased that they had been able to get the act passed with so little amendment.

It was during Deakin's struggle to achieve independence for a united Australia that he received his next great geoist influence in the form of the mentoring by the English born intellectual, headmaster, journalist, politician and educational reformer, Charles Pearson. Even before the rise to stardom of Henry George, Pearson had been lecturing wisely on the history of taxation in England. Allying himself with The Age and the more radical Liberals, he advocated a progressive tax on the unearned increment accruing to large landowners, a tax which should effectively limit the size of estates to 40,000

Edmund Barton & Alfred Deakin in the 1901 Cabinet acres (16,200 ha) and thereby meet the chronic deficit in the colony of Victoria's budget caused by the drying up of revenue from the sale of crown land. He believed in free trade 'as he believed in the rules of arithmetic' and thought it 'infinitely more important that the land tax should be put on a sound basis than that a few duties in the tariff should be struck off or diminished'.

Pearson was a personal mentor to Deakin, who was later to describe Pearson as 'a leading figure in one of the fiercest campaigns of party warfare waged within the Empire in this century'. Pearson's organisation, the National Reform and Protection League, was regarded by the big pastoralists, bankers and merchants as the most serious challenge to their economic and political power since the granting of responsible government. The high-born Pearson appeared to some as a class traitor: Melbourne Punch referred to 'Professor Pearson's alliance with the Communists'.

Before we turn to Deakin's second great life mission, we should examine his fascinating personal life and interests which today would be seen as far to unorthodox and risky for a public figure. But let's get one thing straight from the start – Deakin was not a nobleman but very much a noble man. He was a dedicated family man to his beloved wife and three daughters and was inspired by what he saw as the highest principles. He was a good provider to his family, who all lived in their South Yarra house from where Deakin walked, bicycled or took the tram to the city. Have there been any other prime ministers who copped a summons for riding on the footpath? And it's worth repeating that he was almost universally liked, admired and respected by his contemporaries, who called him "Affable Alfred".

Yet he was certainly a complex character – the outer man generally charming, confident and intelligent yet the inner man often wracked with doubt about himself and his place in the world. All his life he was given to deep introspection and prayer. The young Deakin was attracted to spiritualism and theosophy wanted to be a philosopher, poet, dramatist: instead he "merely" became a statesman. He was unusually modest and circumspect, declining all British offers of titles and distinctions in the belief that he had not earned them and that his independence might be compromised.

In contrast to the current American crop of politicians who proclaim their piety, Deakin invariably took pains to obscure the spiritual dimensions of his character from public gaze. Only in his private writings is it evident that he felt a strong sense of providence and destiny working in his career – indeed, the way his remarkable life played out it seems that these feelings were right on the money. But rather than having an inflated sense of his gift to the nation, Deakin's sincere longing for spiritual fulfillment led him to express a sense of unworthiness in his private diaries which mingled with his literary aspirations as a poet. These diaries express a profound contemplative (though more ecumenical) Christian view of the importance of humility in seeking divine assistance with his career. "A life, the life of Christ," Deakin wrote, "that is the one thing needful — the only revelation required is there ... We have but to live it." In 1888, as an example relevant to his work for Federation, Deakin prayed: "Oh God, grant me that judgment & forsight which will enable me to serve my country — guide me and strengthen me, so that I may follow & persuade others to follow the path which shall lead to the elevation of national life & thought & permanence of well earned prosperity — give me light & truth & influence for the highest & the highest only." Mighty stuff, eh?

Perhaps Australia's greatest historian, Manning Clark, whose History of Australia cites extensively from his studies of Deakin's private wrote: "By reading the world's scriptures and mystics a deep peace had settled far inside [Deakin]: now he felt a 'serenity at the core of my heart'. He wanted to know whether participation in the world's affairs would disturb that serenity ... he was tormented by the thought that the emptiness of the man within corresponded with the emptiness of society at large where Mammon had found a new demesne to infest."

And so to the final chapter of this man's worldly life. Edmund Barton became Australia's first Prime Minister and Deakin became the first Attorney General and Leader of the House. Deakin was to become Australia's second Prime Minister and he served in this role for three terms (1903-4, 1905-8 and 1909-10). He resigned from his first term as PM when he refused to accede to Labour party demands, but in 1905, after Labour had made electoral gains, he formed a new Liberal ministry and stayed in office with Labour support until 1908. During this period, curbs on alien immigration were eased somewhat, pensions provided for the aged, and important commercial laws adopted. After a commission (set up in 1906) proposed that only factories paying "fair and reasonable" wages should be given the benefit of tariff protection, Deakin affirmed his New Protection doctrine of a benefit to the worker from tariffs; in 1907 a minimum, or "basic," wage was established.

Deakin lost support in 1908 but became prime minister for a third term (1909-1910) in a "fusion" with erstwhile opponents on the non-Labour side. A significant defense measure was the creation of an Australian naval squadron. When Labour (under Andrew Fisher) replaced Deakin, many liberal measures advocated earlier by him were adopted. Deakin remained in the House of Representatives until 1913 when he resigned prior to that year's elections.

It is only possible to here summarise Deakin's other achievements as prime minister. He was largely responsible for building the basic national government structure by recognising the need for, and fighting to establish, institutions such as the High Court, the Public Service and the Commonwealth Court of Conciliation and Arbitration. Legislation relating to immigration, trade protection, defence and labour were framed by his Government, which gained an international reputation for experiments in welfare policies and reforms in working conditions. It's worth noting that in his second term as PM, Deakin took measures to establish the future national capital, which was to be set up as a geoist enclave with its land tenure founded on the site rent collected as the basis of government revenue. It should be said that the idea of public financing through site rental was extremely popular in the early days of Australia, supported by both Deakin's Liberal Party and his Labor opponent Andrew Fisher.

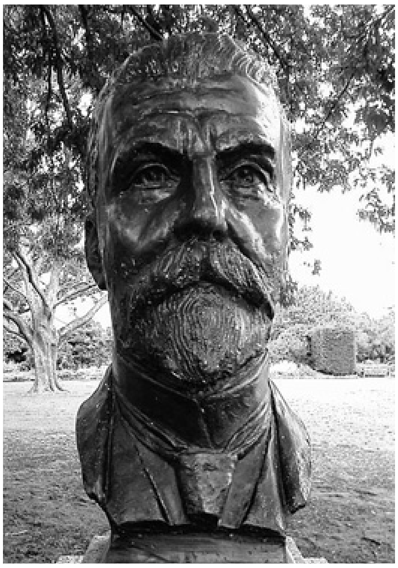
As prime minister, Deakin's efforts to introduce powerful geoist reforms were delayed and diluted by the politics of the day, which involved many coalitions and compromises. Constitutionally, much more power then lay with the states than the commonwealth - in fact, it wasn't until 1942 that the federal government took over the income tax powers from the states. Deakin's Victoria had already introduced a land tax act in 1877 and Deakin believed more in state's rights than federal power. The irony is that it wasn't until shortly after Deakin's resignation in 1910 when Labor's Andrew Fisher came to power that a federal land tax was introduced, initially to finance federal pensions.

What else? In his second term Deakin authorized the survey of a trans-continental railway-route, and provided for Australian statistics, meteorology, wireless telegraphy and copyright. The Contract Immigrants Act of 1905 established stringent procedures and safeguards for admitting contract labour, and the Commonwealth assumed full control of the former British New Guinea. The Commonwealth Literary Fund came into being and Australia involved itself in Antarctica. The Surplus Revenue Act of 1908 set the Commonwealth on the path to financial independence and dominance. Old-age pensions were introduced. Fittingly for a geoist, Deakin created the term "Commonwealth of Australia" as he saw Australians sharing a Common Wealth.

And with Deakin's resignation from politics we must sadly turn to the tragic finale of Deakin's life, for to tell the story of how a life filled with immense achievements and the highest ideals prematurely fades into dementia is tough work. One can speculate whether Deakin's deep sense of destiny and yearning for mystical oneness gave him a glimpse of the bitter chalice that would be passed to him in his twilight years.

It was actually during his second term as Prime Minister that he received the first indications of the toll his hard work and responsibilities were taking on his health. His memory began to fail him and he wrote of his concern regarding this in his private journals. When Deakin retired from Parliamentary life in January 1913 his health was broken and his once magnificent memory virtually non-existent. Tragically, he was fully aware of his decline; his retirement was meant to be full of books and writing, but he was now unable to remember things that he had read the previous day. Despite this, he was persuaded to chair a Royal Commission on Food Supply in 1914 and to act as president of the Australian Commission at the International Exposition in San Francisco in 1915. He battled on and accepted the work but found both tasks extremely onerous and his mental state worsened such that he was seldom in the public light again. The loving support of his wife, family and friends provided him with a great deal of comfort and eased his life as much as was possible until his death in October 1919, at the age of 63. His progressive mental collapse was probably due to Alzheimer's disease.

Deakin was a great geoist, a great Australian, perhaps the first great Australian and arguably the greatest Australian. He began as a dreamer, he was always an idealist, yet he realized that he lived in a world of men with important worldly concerns, and so his life became one which was to glitter with achievements in the service of his newborn nation. Australians to come will scarce believe that such a one as this ever in flesh and blood walked upon this earth. They don't make 'em like Alfred Deakin anymore, that's for sure.



A bronze bust of Alfred Deakin in Ballarat

*Next issue: Who's the next geoist in history? Hands on the buzzer! I was a co-founder of the London School of Economics. I wrote numerous brochures and speeches for the Fabian Society. I am still the only person to have been awarded both a Nobel Prize for Literature and an Oscar. I became a vegetarian and anti-vivisectionistat age 25. Besides being an outspoken geoist, I was an accomplished orator in the furtherance of equal rights for women, alleviating abuses of the working class, and promoting healthy lifestyles. I was active in local politics and served on the London County Council. I'm probably most famous as a playwright (I wrote over 60 plays), journalist and dramatist. I was born in Dublin. Give up? – then read all about George Bernard Shaw in the next pulsating edition of Progress.*

# A True Friend

by Anne Schmid

Maurie as we knew him


Maurie and Doreen attending one of our functions.

Maurie playing the piano in Hardware Lane during our street party in 2006.

On Tuesday 15th May 2012 the Georgist movement in Australia lost a true friend. We all held Maurie Fabrikant in very high regard and valued his friendship. At the time of his death he was a Trustee of the Henry George Foundation (Aus), a Director of the Henry George Club, and a life member of Prosper Australia.

Maurie was appointed a Trustee of the HGFA in 1994. Maurie always put much energy into his belief in Georgism and was soon appointed minute secretary. In 2000 he took over the role of secretary when Bill Canfield retired. Significantly Maurie would then visit Bill on most weekends for many years afterwards.

Maurie stumbled across the Georgist idea from an advertisement in a Melbourne paper in 1983 and in his own writings, he explained how he used the scientific method to test Georgist theories. He also said that of George's writings, Social Problems was most helpful and that it contained wisdom presented in a relatively attractive form. Dictator-Democrat was also a booklet of significance to Maurie, one which he always recommended to new comers.

Maurie soon became an active member of Tax Reform Australia as we were then called and joined the Executive. He took on the role of presidency between 1997 and 2006. In that time he was a well liked, respected and capable president. We were sorry to see him resign his presidency but we were glad that he now had time for his other great love, trad-jazz. In recognition of the great and generous work that Maurie did for our organization, we conferred life membership on him.

Maurie's approach can be summed up in his own words printed in PROGRESS . "It has taken me about twenty five years – admittedly of only part –time thinking – to progress from zero Georgist knowledge to that which I presently have. Do I know it all? Hardly! If I did, I'm sure my success rate at persuading others to embrace Georgist ideology would be far better. Provided we have open minds, we will continue to learn….perhaps to the stage where we succeed in persuading sufficient citizens to demand the changes we believe necessary."

In his time as president Tax Reform Australia changed its name to Prosper Australia. Maurie was keen to move on from theory to implementation and wrote his own detailed implementation policy. As part of our teaching project, Maurie put together a precise presentation of our ideas which he delivered very effectively on numerous occasions. And of course he wrote numerous articulate and forthright letters to prominent people and politicians.

Many members have spoken of Maurie's welcoming presence, his willingness to support good ideas, his authoritive tone when needed and his love of truth. He did much tireless and unthanked work in furthering the cause, whether it was helping out administratively or with projects that others were undertaking. He gave countless support to others. And of course none of us want to forget that Maurie thoroughly enjoyed Prosper's social events and was an entertaining conversationalist. In Brian Kavanagh's words, Maurie was 'a truly lovely bloke'. We extend our sympathy to his wife Doreen and family.

# Prosper Australia

**Our mission is to replace all existing taxes with an annual charge on government granted priveleges and natural resources, including land.**

Our vision is to establish proper stewardship of land that will abolish:

- inequality of access to land and natural resources
- environmental irresponsibility
- all taxes on enterprise, work and savings
- involuntary poverty and wage exploitation
- speculative holding of natural resources, including land
- unaffordable housing

thus creating civic health and prosperity from public capture of the *common* wealth.

### Office Manager, Jess Wright

Hi everyone, I'm Jess, Prosper Australia's new office manager. My background is in grassroots environmental campaigning, which I got involved with while living in Tasmania.The protection of Tassie's old growth forests is the first community campaign I was involved with and after this I worked as a climate change campaigner with Tasmania's Conservation Council. I was passionate about community action and mobilisation, so in late 2008 I co-founded Climate Action Hobart – a grassroots, volunteer group that is strong and active to this day. These days I am lucky enough to study Kyinandoo (Aboriginal Studies) with the Moondani Balluk Indigenous Academic Unit at VictoriaUniversity, which I absolutely love. I'm excited about working for an organisation that has social and economic justice as its core values. Anne has been a great teacher and I'm already really enjoying working in the Prosper Office. I'm looking forward to meeting everyone over the coming months so feel free to send an email through to the office to say hi!

## Contact Information Related Organisations

**ACT**
Association for Good Government
goodgov@bigpond.net.au
Phone: 02 6254 1897
Office: 1/2 Holt Street Holt 2615
PO Box 4376 Manuka ACT 2603

**NSW**
Association for Good Government
goodgov@westnet.com.au
Office:122 Little Eveleigh Street, Redfern, NSW 2016. Postal Address: PO Box 251, Ulladulla, NSW 2539

**QLD**
Henry George Association of Queensland,
Secretary Stephen Keevil
henrygeorgeassociationqld@gmail.com

**WA**
Georgist Education Association
www.gea.org.au
contact@gea.org.au
Phone: 08 9279 5590
Office:1/20 Old Perth Rd (PO Box 472) Bassendean, WA 6934

## Prosper Committee

Lloyd Churches . . . . . . . . . . . President
Anne Schmid. . . . . . . . . . . . . Secretary
James Mathieson . . . . . . . . . . Treasurer
Karl Williams . . . . . . . . Vice-President
David O'Rourke . . . . . . Vice-President
Maereid Sullivan . Membership Officer
Bruce Every
Andy Moore
Bohdan Kuzyk
Bryan Kavanagh . . . . . . Public Officer

## Prosper Staff

Jess Wright . . . . . . . . . Office Manager
Karl Fitzgerald. . . Projects Coordinator
Gavin Putland . . . . . . Research Officer
David Collyer . . . Campaign Manager

## Websites

www.prosper.org.au
www.earthsharing.org.au
www.lvrg.org.au
www.taxreform.com.au
www.realestate4ransom.com
www.iwanttolivehere.org.au
www.3cr.org.au/economists
www.youtube.com/earthsharing
www.grputland.com
www.thedepression.org.au
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www.henrygeorge.org
www.theIU.org
www.michael-hudson.com
www.savingcommunities.org
www.cooperativeindividualism.org
www.earthrights.net
www.bubblepedia.net.au
www.progress.org
www.landandliberty.net
www.schalkenbach.org

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