PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

1110th EDITION
SPRING 2013
FIRST PUBLISHED 1904

EXPENSIVE LAND ON THE OUTSKIRTS DRIVES UP PRICES EVERYWHERE

Great Expectations
Mason Gaffney

Canberra's Leasehold System
Leo Foley

Replace 'Gearing, Stamp Duty
Catherine Cashmore

ACCESS TO LAND • FAIR TAXES • CITIZENSHIP

Progress

Spring 2013

Number 1110

First published 1904

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Publisher

Prosper Australia Inc

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PROGRESS is the journal of
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Earthsharing Australia
Land Values Research Group

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Progress is supported by a grant from the Henry George Foundation of Australia.

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Printed by The Print Press

(03) 9569 4412

ABOUT

Prosper Australia is a tax reform lobby group and think tank that is now 120 years old. It seeks to move the base of government revenues from taxing individuals and enterprise to capturing the economic rents of the natural endowment, notably through land tax and mining tax.

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CONTENTS

Editorial *By David Collyer*

Prosper welcomes the election of the Tony Abbott-led Liberal/National Party government – not because we are ideological allies, but for the opportunity of a fresh look at tax reform.

During the election campaign, Mr Abbott loudly proclaimed he would cut taxes and chisel at government services. This was warmly embraced by wage and salary earners who carry a disproportionate part of the burden of government through income taxation (PAYG, health levies and payroll taxes).

Australia already enjoys very low taxes compared to our OECD peers at around 23.5 per cent of GDP. It is difficult to see major tax cuts, particularly as the Abbott government has a major $11.5 billion road building program and solemnly promised careful management of national finances.

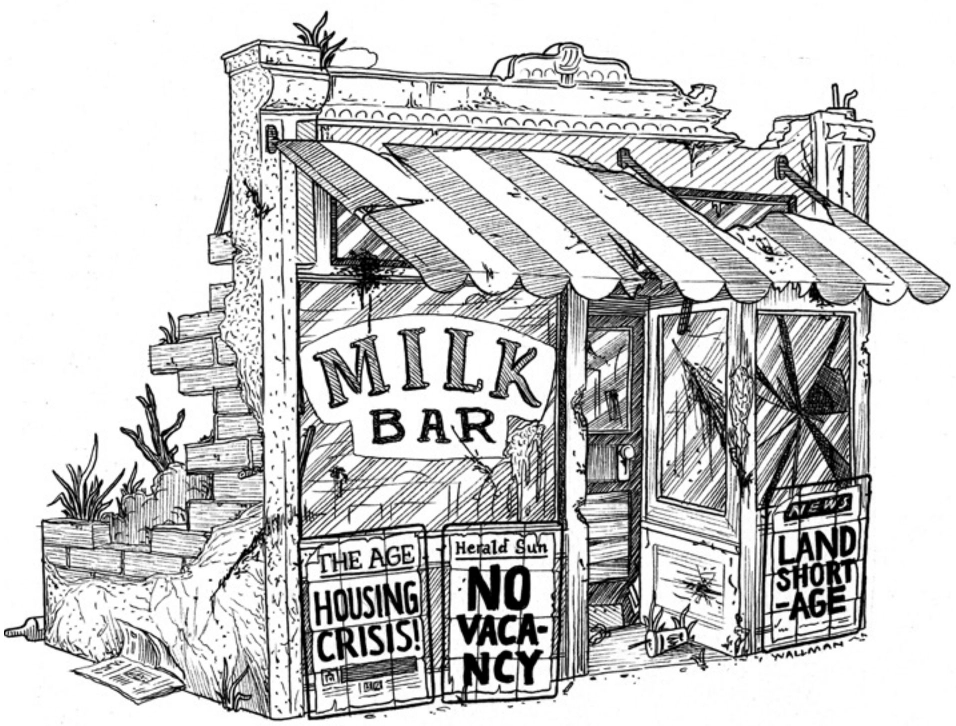
Mr Abbott's opportunity is in changing the composition of taxation – where the burden falls and who pays.

The KPMG Econtech 2010 report on the Australian tax system identifies which taxes impose the highest costs on citizens - over and above the revenue raised – the 'excess burden' or 'deadweight costs'.

It lists Royalties, Payroll Tax, business-related Motor Vehicle Taxes and Conveyancing Stamp Duties as the most damaging. All are state imposts but state governments show no appetite for reform. Mr Abbott can talk reform in a soft voice as he carries a very big stick – the major and conditional transfer payments from the commonwealth to the states.

In particular, the reform of mining tax should command the new government's attention. KPMG says mining royalties have a marginal excess burden of 70 per cent and an average excess burden of 50 per cent. They impose economic costs of between $1.70 (MEB) and $1.50 (AEB) for every $1.00 raised. The difference is destroyed – we are burning $50 notes to the value of billions.

By comparison, KPMG says the Petroleum Resource Rent Tax has nil external costs. This is the model Mr Abbott should urge upon recalcitrant state governments.



Great Expectations: How credit markets twist the allocation and distribution of land *By Mason Gaffney*

'The basis of allocating loans is not marginal productivity but collateral security' – Rainer Schikele

Henry George likened the aggregate effects of land speculation to those of a cartel of landowners. What do cartels do? They control enough of a resource to affect price, and withhold part of the resource from use, or from its full and best use. Formal cartels do this consciously. Herbert Hoover called it "Associationism", and fostered his "Associations" which he evidently thought were good for the economy and the country. FDR spent his first term sponsoring his National Recovery Association (NRA), with its Blue Eagle logo posted in every store window. Each logo bore the motto "We do our part", meaning our part in upholding prices and avoiding competition while goods stuck glued to the shelves.

For farm landowners (but not tenants or workers) there was the Agricultural Adjustment Administration (AAA) dedicated to retiring much of our best farmland from production and employment. A locomotive pulling just 3 cars and a caboose were a common sight then, while railroad freight rates and passenger fares were maintained at high levels. Cities and counties that foreclosed on millions of tax-delinquent lands around the nation held them in cold storage for years, to help support the market. Texas enforced a "prorate" on oil wells, limiting each well to pumping just 15 days or less a month. ALCOA monopolized aluminum by owning all the bauxite and holding it underground until wartime's urgent need for aircraft forced the U.S. Government to build up a competitor, Reynolds.

Rootless youths rode the boxcars or the rods, such as were moving, seeking jobs or a handout, then even as today. Cartels are not good at making jobs. But Henry George saw and wrote about hordes of tramps in the depression after 1873, and traced their problems to the same root: land held out of use – only then it was hard to blame organized cartels. How can there be too little land, he asked, in a nation with more and better land per capita than any nation in history? How can

Pictured: Mason Gaffney

the free market fail to allocate land to more intensive and better uses when people seek work, and demand more food, clothes, and shelter?

What about that wonderful free market Chicago-Schoolers crow about? There must be, he reasoned, some basic flaw in the land market that makes it produce results like a cartel, without the visible presence of cartels. He called this immanent presence "land speculation". This term "land speculation" today can mean several different things. Land lasts forever, so even to forecast a constant future stream of rents and discount rates is speculative. It is just as conjectural as to posit continual rises, or falls, or any repeated pattern of cycles. Economic theorists sometimes write casually of "perfect knowledge", but perfect forecasting to infinity smacks more of Divine Omniscience beyond human foresight. From George's contexts, however, he clearly uses "speculation" to mean buying and holding land for the rise, whether for future resale or re-use or collateral or estate-building, so that is the meaning I use here.

George never learned the basic algebra of finance. He had the mind for it, demonstrated for example in his demolition of M.I.T. President Francis A. Walker in their celebrated debate over how to measure the concentration of farmland. He anticipated what are now named the Lorenz Curve and the Gini Ratio, after scholars who formalized his insights. But he did not move beyond words and similes into algebraic formulae. It is true that today's academics clothe themselves in pretentious formulae to hide their naked brains; yet it is also true that a few good formulae outlast the exciting oratory that evoked them.

> ***"FDR spent his first term sponsoring his National Recovery Association (NRA), with its Blue Eagle logo posted in every store window. Each logo bore the motto "We do our part", meaning our part in upholding prices and avoiding competition while goods stuck glued to the shelves."***

Few understand Einstein, for example, but many can recite E=MC2. Let us, therefore, translate George's "land speculation" into some of the basic algebra of finance, not to hide but to clarify. Our mentors weaned us on **V=a/i**, where V is land value, "a" is annual rent, and "i" is the interest rate.

It's a good start, but deceptively simple. Here are its hidden assumptions:

- **"a" and "i" will stay the same forever. (Forever is a long, long time.)**
- **Everyone in the market has access to long-term funds at the same interest rate, "i"**
- **Everyone forecasts the same value of "a"**
- **Irregular pulses of costs and revenues can be levelized and summed to translate them into the assumed level "a"**
- **We can think in infinite time, although our lives are finite, and so are the lives of goods other than land**

To handle infinite time, and relate it to the present, I will divide it into two parts:

- **a. The current use, with levelized annual rent of "a", and a life of "n" years. For an arithmetical example, let n=30 years.**
- **b. The rest of infinite time after the first 30 years, with levelized annual rent of "b". "b" > "a", and may well be >> 'a'.**

Land Value (V) comes from both parts of the infinite future, "a" and "b".

The present value of part **(a)** is the Discounted Cash Flow (DCF) of "a" over 30 years. There is a compact formula for DCF:

$$DCF/a = [1-(1+i)-n]/i \qquad (1)$$

The right side of (1) is the Discounted Cash Flow Factor (DCFF). It converts a 30-year flow of rents into the equivalent "point" value at time 0. (Point values are aka "lump-sum" values.)

The left side of **(1)** is often called, in the stock market, "the P/E ratio", but the name deceives, even as it clarifies: it includes rent among "earnings", disguising the unearned nature of rent. In London real estate it is "the year's purchase"; in Turgot's French it was le denier. I will call it just the Price/Rent ratio.

Note that the bottom of the DCFF is "i" and is, obviously, an increasing function of "i". This makes the DCFF a DEcreasing function of "i". The decrease is tempered by the top of the DCFF, which is a gently Increasing function of "i". For the net result see Table 1, Column 3.

As to Part b, let us begin by valuing it at its beginning point, after year 30. At this point it still has a future life of ∞, even though "a" has used the first 30 years. A remarkable quality of ∞ is that you can use 30 years of it, or any finite number of years, without deleting the remainder at all. The DCF of Part "b" as of year 30 is therefore simply b/i. To find the value at time 0, simply apply the discount factor for a point value, and the net result is:

$$DCF/b = 1/[i \times (1+i)30] \qquad (2)$$

Note well here that the bottom of the ratio (the denominator if you prefer) is a DOUBLY increasing function of "i". The first "i" covers all years from 31 to ∞. The second "i" covers all years from 1 to 31.

TABLE 1: Financial Power Rising with Futurity of Cash Flows

Factor	I	DCFF	(1+I)30	1/i	i x (1+I)30	1/[i x (1+i)30]
Column #	(2)	(3)	(4)	(5)	(6)	(7)
Scrooge	.03	19.6	2.43	33	0.073	13.7
Cratchit	.10	9.4	17.5	10	1.75	0.57
Scrooge/ Cratchit	.30	2.1	0.139	3.3	0.042	23.9

3. Multiply the two elements together and the DCF that derives from "b" is a sharply DEcreasing function of "i". To compete in the market for buying title to land, therefore, one must have access to long term funds at low interest rates. Call this "Financial Power", or "Waiting Power". This is what makes expectations "great". It is not so much that b>a – it might be the same, or lesser. It is rather that the DCF of the "b" values looms so much higher to people with Waiting Power than to those without it.

Table 1 gives a numerical example. It compares the present value, as seen by two different individuals, of the two components of land's present value at time 0. One person we'll call "Scrooge", is a retired banker with access to rich long-term funds at an effective interest rate of 3%. The other we'll call "Cratchit" would have to pay 10% for such funds. We'll ignore, to keep it simple, the other terms and incidents of loans, weighty though they are in practice, which favor Scrooge over Cratchit even more.

Just remember Schikele's universal truth at the head of this essay: "The basis of allocating loans is not marginal productivity but collateral security". Credit is not like water that seeks its own level; rather, it flows uphill, so credit rationing, once initiated, concentrates Financial Power more and more. This is why landowner speculators, as a group, act like a cartel.

Column 7 shows that Scrooge can bid 23.9 times what Cratchit can bid for the speculative element in land values. This wide disparity is why the land market is so flawed, and speculators, Scrooge-like, choose to withhold so much land from the Cratchits of this world.

Bankers, other lenders, and their apologists say that the Cratchits simply must pay a risk premium to even things out, because of their bad credit ratings and poor records of repaying loans. Their apologists, including most professional economists, generally agree. They are viewing the world from the side of the lender class, who butter their bread. From the side of the Cratchit class, however, each individual is penalized for being poor, and especially and most acutely penalized in the effort to buy land from speculators who preempt more than they need, or will ever need. For, as Tolstoy had the Indian chief observe, each of us before long will need only 6' x 3'.

Englobo *By David Collyer*

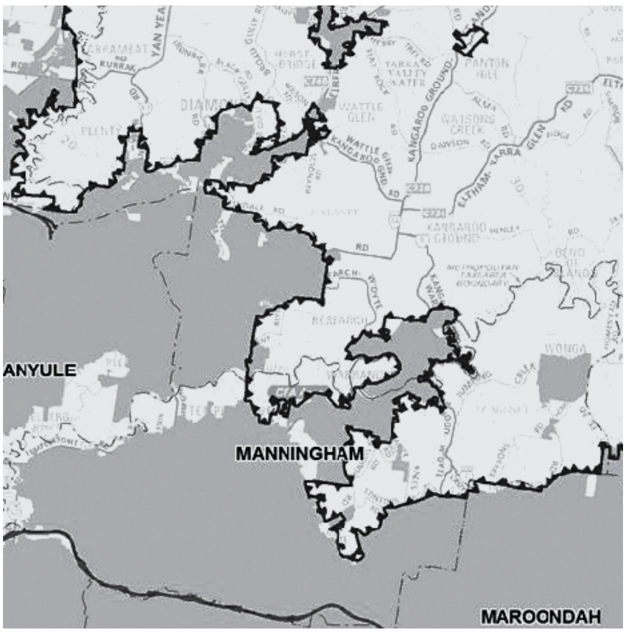
Let me introduce you to a beautiful word that loops off the tongue, sweet soft and round. Englobo.

It is "an undeveloped lot, group of lots or parcel of land that is zoned to allow for, and capable of significant subdivision into smaller parcels under existing land use provisions."

Australian housing is madly expensive for only one reason: land prices. Buildings come and go, while the long-term value of property lives in the land and endureth forever.

Land developers are an odd bunch. Always sniffing around local government trying to juggle a swift rezone, braying to the world about their stellar contribution, whining about 'red tape' introduced to stop previous abuses, constantly calculating which infrastructure project will be approved next by government and whether it will deliver them an unearned capital gain.

Residential subdivision – 'The Game' - is for the very patient. The ideal is to buy cow paddocks ahead of rezoning, quietly sit on it for a few years while the city grows out around it and infrastructure develops, manage a subdivision plan through a compliant council, build roads and pipes, then dribble it out to builders and buyers, lot by lot.



In one sense this is farsighted corporate behavior. In another, landbanking developers hold us to ransom by limiting supply to drive up prices. They do it only because they can. All this causes trouble for government. They want to limit sprawl, yet they need to house voters. Developers sail between these competing objectives to make their unearned increment.

Melbourne's urban boundary has grown 96,775 hectares since 2003 as government attempted to curtail developer rationing. Sadly, this has not restrained land prices or developer margins.

The real victims are homebuyers. The Game boosts land prices, creates land shortages and obliges all who need shelter to commit their working lives to mortgage repayments.

Planners proudly expedite conforming applications. And they eagerly engage in empty debates around 'red tape' which miss the point entirely.

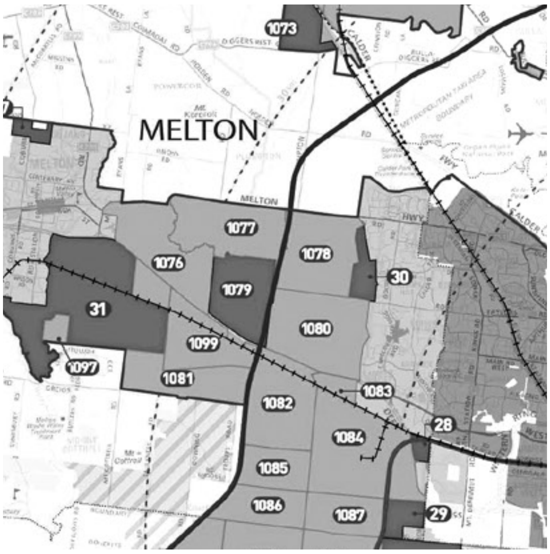
Let us start somewhere else by considering the role of vacant land in urban areas or held 'englobo' nearby ahead of subdivision. Withholding vacant land from use displaces activity and drives up land prices – to the profound benefit of existing landholders.

There is another devil deliberately driving up land prices. When historians later write about The Great Australian Land Bubble, Melbourne chapters will be filled with the deeds of this sinner: the Victorian government.

As migration swelled the population of Marvellous Melbourne, government expanded its planning boundaries – a gift to lucky or well-informed landowners. This process is not unique to Melbourne. It goes on under all governments who like to control things but are challenged by rising populations.

In September 2012, the Victorian government expanded Melbourne's Urban Growth Zone by 90,000 lots. Citizens could reasonably expect this to add to the supply of land and therefore lower its price. Sorry, but that just isn't true. The freshly zoned land will not be offered for sale in, say, the next decade.

Why? The Victorian government. Activity is limited to farming and some development task on UGZ land until a Precinct Structure Plan is created, laying out schools, parks, arterial roads, sewer trunks and commercial centres.



Quite logical, until you look at the map of Melbourne's PSP's. The UGZ is huge; the PSP's mere postage stamps. For government, there is deep logic in restricting development to a few zones and reducing the infrastructure costs to government. Schools, roads and sewers would cost more if development was allowed anywhere. Heavy restrictions contain government costs even more, so heavy restriction it is.

Limiting buyer options to a handful of PSP's has a profound effect on land prices. Developers know buyers have nowhere else to go and exploit their market power mercilessly.

But wait! Landowners blessed by inclusion in the UGZ get steak knives too!

One would expect government to claw back some of the gift to landowners, the uplift in asset values from the right to subdivide for residential use, through State Land Tax. This is the ideal funding base for the new infrastructure the expanded city needs.

Early this year, the Victorian government deemed land recently included in the UGZ as being used for primary production and entirely exempted it from State Land Tax, despite the massive capital gains forcibly thrust into landowner pockets. They don't even have to graze a sheep.

So englobo holders are both exempt and issued a get-out-of-jail card. Rural land values are suddenly irrelevant. A landowner can argue they are trapped outside the PSPs and cannot realize what they believe their land is now worth. They have joined the speculator oligarchy. There is no incentive to sell at current values for present uses. The planners' X years of supply just spread into decades, generations.

Meanwhile, the net present value of rezoned land is calculated as current subdivision lot prices less development costs and time. Price skyrockets – yet supply remains constrained. Landowners have every incentive to withhold land from use and speculate on future price rises. These misplaced inducements mean raw land in the UGZ trades for a million dollars a hectare, not $20,000.

All this distortion, all this financial pain for homebuyers, just so englobo holders may play The Game.

Simon Tilford, chief economist at the Centre for European Reform puts the argument for tax reform clearly:

"A land tax would involve property owners paying a percentage of the value of their land in tax each year. If the value of their property rose, so would the amount of tax paid on it. This would achieve a number of things. First, local authorities would have a financial incentive to change land from agricultural to residential (and commercial) use as they would profit from the increased value of the land this would cause. Second, it would make it more expensive to speculate on future rises in land values, and some of those gains would be captured by the government. Third, construction companies would not be able to sit on large amounts of land (so-called land banks), and drip feed the market, maintaining prices at artificially high levels. Instead, land would have to be developed or sold, which together with the increased availability resulting from the freeing up of greenbelt land, would bring down the price of developing land and with it the cost of housing, commercial property and infrastructure. Lower land costs would also increase competition by reducing barriers to entry to the construction sector."

Dr Ken Henry offered us a bargain: remove 125 very bad taxes and introduce just two – a Resource Super Profits Tax and a Land Value Tax. The Rudd then Gillard governments failed to sell this fabulous reform opportunity to voters, to our great and enduring cost.

The self-interest of land owners can be better directed by astute application of land tax. Broadacre land zoned residential ought be taxed as if it were already in use – it's net present value. Developers would have an insistent reason to put their holdings to best and highest use as quickly as possible, rather than hoarding.

Land in Australia should be dirt cheap. Outstanding access to land ought be pursued as a strategic national advantage, generously conferred by a loving government upon the citizens it represents. And it could, with decent Land Tax rules.

Cut stamp duties to improve labour mobility

By Leith van Onselen

The Productivity Commission has released its Draft Report into Geographic Labour Mobility, which identifies Australia's high stamp duties as a key impediment and recommends a shift towards more efficient revenue sources, such as broad-based land taxes:

The most common impediments to geographic labour mobility raised by stakeholders are insufficient housing supply and a lack of affordable housing. Housing affordability is of particular importance in communities experiencing an influx of population, where demand for housing has outstripped supply, and where substantial increases in both rents and house prices have been experienced. This can have important implications for the community, as low-to-middle income earners may no longer be able to afford local housing. It has also been identified as a problem in Australia's larger cities, where some workers are unable to live close to areas of employment growth.

A number of existing government policies, such as taxation and land-use planning, could be contributing to distorted housing costs, which impact on rental and purchase decisions and can impede mobility. Two areas that have been frequently raised in this study are also areas that the Commission has examined in previous work:

- Inefficient land-use planning processes and the delayed release of land for residential development can limit housing availability.
- Conveyancing duty (stamp duty) imposes additional costs on property transactions and leads to a lower level of property exchanges than would occur in the absence of the tax. Governments at all levels have committed to addressing housing supply and affordability issues. Despite this, stakeholders have consistently argued that government policies have not been successful in facilitating efficiency in the housing market …
- Households surveys also suggest that legal and administrative costs (together with other transitional costs) play a significant role in making people more reluctant to move. A 2007-08 survey by the ABS (2009a) found that 26 per cent of households considered themselves unlikely to move in the 12 months following the survey because of the unaffordability of the costs associated with moving.

Government fees payable on home purchases in capital cities[a]

City	Median house price ($)[b]	Stamp duty ($)	Mortgage registration fee	Transfer fee ($)	Total fees (% of median house price)
Sydney	640 000	24 290	105	209	3.8
Melburne	500 000	21 970	85	1339	4.7
Brisbane	445 000	6 825	157	962	1.8
Adelaide	392 000	15 930	148	2825	4.8
Perth	515 000	20 438	160	270	4.1
Hobart	334 000	11 295	125	191	3.5
Darwin	568 000	28 116	133	133	5.0
Canberra[c]	547 000	19 490	121	234	3.6

[a]Calculated fees are for estabilished used as primary residences and not include any discounts for first home buyers or pensioners. The mortgage registration and transfer fees for Victoria assume an electronic transaction. [b]Median house prices are for estabilished homes for the December quarter 2012. [c]The ACT Government has commited to gradually phasing out stamp duty over a 20 year period beginning in 2012. *Souces: ABS (House Price Indexes: Eight Capital Cities, Cat. no 6416.0); Productivity Commission estimates*

More recently, Kelly, Weidmann and Walsh (2011) surveyed 700 residents in Sydney and Melbourne about their housing preferences. Of those that had not recently moved and were not happy with their current home, 23 per cent said the reason that they did not move was that 'the hassle and cost of finding and moving into a new house is prohibitive'. A further 10 per cent of participants said that 'it would not make financial sense, because of government charges (e.g. stamp duty) or tax arrangements'.

Evidence from surveys and study participants is strengthened further by the findings of recent academic research on the effects of stamp duty on housing turnover. Using data on Australian house sales between 1993 and 2005, Davidoff and Leigh (2013) found that a 10 per cent increase in stamp duty lowers housing turnover by 3 per cent in the first year and 6 per cent over a three-year period…

DRAFT RECOMMENDATION 12.1

Where this has not already occurred, state and territory governments should remove or significantly reduce housing-related stamp duties, and increase reliance on more efficient taxes, such as broad based land taxes.

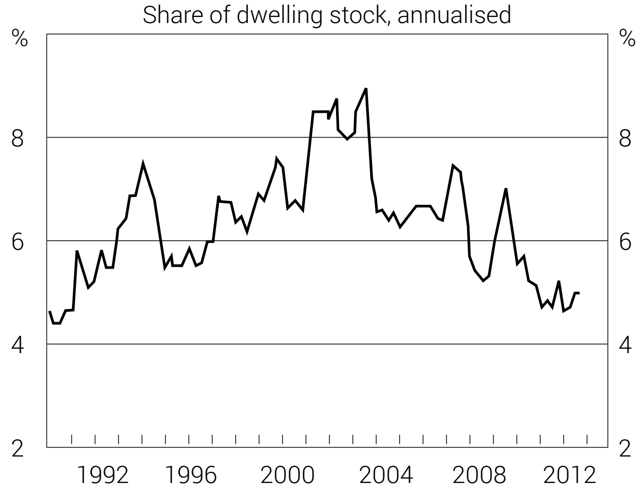
It is heartening to see the Productivity Commission questioning stamp duties, which are highly distorting and an inequitable source of tax revenue.

As argued previously, stamp duties unfairly penalise people that move to homes that better suit their needs. Obvious examples include baby boomers downsizing from large family homes and young growing families upsizing to bigger family-friendly homes. Such disincentives inevitably lead to an inefficient use of the housing stock, such as empty nesters occupying large homes with multiple spare bedrooms. And as noted by the Commission, stamp duties also hinder labour mobility since they discourage workers from relocating closer to employment.

Further, as shown recently by the RBA, only around 6% of the housing stock is transacted on average in a given year:

National Housing Turnover Rate

Share of dwelling stock, annualised



Sources ABS; RBA; Data-Rismark

As a result, Australia finds itself in the crazy situation whereby a small minority of households are paying tens-of-thousands of dollars of taxes that support services for the whole community, rather than governments sharing the tax burden by levying each household a much smaller amount on a regular basis.

As suggested by the Productivity Commission, a less distorting way of sharing the tax burden would be to abolish stamp duties and extend land taxes currently applied on investment properties to one's principal place of residence.

However, this would do more than just improve labour mobility. Rather, a broad-based land tax would also assist in the provision of new housing via two channels. First, by helping to make infrastructure investments self-funding for governments, since any land value uplift brought about through increased infrastructure investment (e.g. new roads, trains, etc) would be partly captured by the government via increased land tax receipts. In the process, governments would be more likely to facilitate development, rather than act to restrict it in a bid to save on infrastructure costs. Second, a broad-based land tax would penalise land banking and vagrancy, effectively increasing the supply of land in the process and bringing new homes to market more quickly.

Let's hope that Australia's state governments at least consider the Productivity Commission's recommendations, rather than once again assigning them to the waste basket.

Brownlee's Vision *By Geoff Forster*

Vision of a New Society. One Parliament One Tax. By Raymond Brownlee. Self Published. Second Edition, 2013. 153 pages.

This is the second edition of the book originally published in 2000.

Its central recommendations are:

a. to abolish State parliaments and replace them with an expanded Commonwealth Parliament;

b. to replace our complex array of taxes with one tax only, i.e. a land value tax.

The major emphasis is on the need for revenue reform. Steps to implement this are outlined, the numerous advantages explained, and some of the consequent benefits spelled out. The need for restructuring government - together with a process for doing this - is clearly expounded.

The original commendatory Foreword by Gough Whitlam is included, with the author's response to Whitlam's reservations.

An important element in this edition is its overview of the Henry Tax Review, especially the Commonwealth Treasury's strong recommendations for land tax.

There is also a significant array of Appendices, including land tax comparisons between the States, important quotations from the past, and an impressive array of statistical information (the last-named is important in relation to practical implementation).

An autobiographical postscript gives context to the book, and the outline of Henry George's life offers very useful background.

At the end of the book there are excerpts from Dick Smith's "Population Crisis", with important contemporary information; along with Brownlee's comments on Dick Smith's conclusions.

The first edition of the book went mainly into municipal and university libraries. This version merits a wider distribution. A particular feature is its concentration on the essentials and not diverting to more marginal issues, even while these occur in public discussions. It is important to get the foundations correct, and not be distracted by side issues.

I strongly and wholeheartedly commend this book to Progress readers and all who take a serious interest in our economic future.

Pictured: John Young, Raymond Brownlee and John Poulter

Out and About *By Geoff Forster*

The Age recently claimed labour costs in Australia have grown at twice the pace of other OECD countries over the past decade. Over the past decade, unit labour costs rose 37% in Australia, compared with 29% in the USA and Korea, 6% in Germany and minus 16% in Japan.

What weird economics is this? No mention of land costs or the numerous destructive taxes that hinder productivity and economic growth. Labor costs are part of the productive process, and in most cases subject to the overarching powers of various monopolies.

Dr Ken Henry, author of Australia's Future Tax System, was quoted again in The Age August 6. He affirmed the worst way to increase tax would be to raise taxes on capital and labour. "Over time we need to find new ways to apply higher rates of tax to natural resources including mineral resources and land. ...The least damaging way of imposing tax is on the least mobile things." Politicians continue to ignore his recommendations.

A recent article on Crown Casino included some curious statistics. Annual revenue, $1.8 billion; state taxes paid, $200+ million; Council rates per year, $8 million; annual rent to the State government, $1. So the most rational source of revenue is ignored, while compliance-costly sources complicate everything.

A recent study revealed most Australian students are living below the poverty line while their study debts are soaring. Financial pressures also cause many students to drop out before completing their degrees. Students, from newcomers to postgraduates, experience far greater levels of financial stress than ever before, with more than two-thirds worried about their financial situation. A third regularly miss classes because of their jobs and 17 per cent say that they often go without food or other necessities. Half of the students say the demands of their jobs affect their performance at university. Not surprisingly, the situation is worse for students from poor families and indigenous backgrounds.

Another aspect of the housing fiasco is the fact that the cost of renting a house is far too expensive for the unemployed, with little low-cost housing in areas where they could find work. Victoria is the worst State for low-cost housing that is also located near jobs. A recent study identified the occupations whee the unemployed were most likely to get a job. It also identified the top 40 Australian suburbs and towns with the most jobs in these fields. None had affordable housing on offer. One expert commented: "Jobseekers face a Catch 22 situation. They either live in poverty on low income support payments, or they move to areas with jobs available and live in housing-related poverty."

A further indication of the fact that the housing situation has deteriorated is the fact that the number of Australians aged 50-65 who are still paying off their mortgages has doubled since the turn of the century. A recent study shows that nearly six out of ten people aged 50-65 are concerned that they won't have sufficient income for retirement. A leading researcher said that the trend of upwardly mobile Australians caught short in later life "will arguably accelerate." Australians now aged 35-40 "are coupling later, having children much later and are well into their 30s before taking on mortgages. We would expect that by the time they reach 50-65, a greater percentage will be paying off their homes".

"A recent study revealed most Australian students are living below the poverty line while their study debts are soaring."

Our politicians seem to be more intent on uttering bland, vague slogans rather than address the underlying causes of such trends, such as radical taxation reform and land tenure conditions.

Tax Office data reveals 70 Australians with incomes of more than $1 million each paid no income tax at all in 2010-2011. The 70 millionaires gained $194 million, paid accountants and lawyers $33 million to reduce their taxable income to $20,000 and paid $0 in tax. Five who were negatively geared reported that they had lost an average of $260,000 each on their rental investments.

A striking example of the absurdity of the current revenue system. For the average taxpayer, the system remains absurdly complicated, and a substantial majority simply have to resort to a tax agent or face criminal penalties.

Ramsey taxation means land-value taxation

By Gavin R. Putland, Director of the Land Values Research Group

Abridged from "Ramsey and Pigou: crypto-Georgists" posted on the LVRG blog. This version minimizes the mathematics.

In 1902, the Congregationalist Cambridge mathematician Arthur Stanley Ramsey married Mary Agnes Wilson, the socialist suffragette daughter of the Vicar of Horbling. They had two sons and two daughters. The younger son, Arthur Michael Ramsey, born on 14 November 1904, became the 100th Archbishop of Canterbury. The elder, Frank Plumpton Ramsey, born on 22 February 1903, was an atheist.

Frank Ramsey formally studied mathematics but diversified into philosophy and economics. Among economists he is famous for proving that if the tax system is to raise a given revenue with minimum deadweight, each commodity should be taxed in inverse proportion to its price-elasticity of demand (Ramsey, 1927). That is unfortunate because the cited paper does not contain any such result. It is the more unfortunate because Ramsey himself could not correct the record, having died on 19 January 1930 at the age of 26.

This was Ramsey's original statement (Ramsey, 1927, p.56):

For infinitesimal taxes ... the tax ad valorem on each commodity should be proportional to the sum of the reciprocals of its supply and demand elasticities.

Then he spelt out the implication (pp.56–7):

If any one commodity is absolutely inelastic, either for supply or for demand, the whole of the revenue should be collected off it. This is independently obvious.... If there are several such commodities the whole revenue should be collected off them...

He gave no examples. But, while there is no commodity for which the demand is absolutely inelastic, there is one obvious commodity for which the supply is absolutely inelastic, namely land — provided of course that the taxable criterion of "supply" is the existence of the land and not its allocation to any particular purpose.

Ramsey not only formulated a rule that leads directly to a "single tax" on land, but also anticipated the so-called Laffer curve in cases where the "single tax" is not employed. Moreover, his rule was to be applied after any externalities had been internalized by means of appropriate taxes and bounties.

One of the few scholars trying to set the record straight is Mason Gaffney (2009, pp.375–6). Another is Joseph Stiglitz (1986, pp.403–4). But the first to get the story right — because he posed the problem that Ramsey solved — was A.C. Pigou. In Chapter VIII of A Study in Public Finance, under the heading "Taxes and Bounties to correct Maladjustments", Pigou (1947, p.94) sets the scene:

> ***"Ramsey not only formulated a rule that leads directly to a "single tax" on land, but also anticipated the so-called Laffer curve in cases where the "single tax" is not employed."***

Of these maladjustments there are two principal causes. The first is that, in respect of certain goods and services, the return at the margin which resources devoted to making them yields [sic] to their makers is not equal to the full return which the community as a whole receives ... In other words, the value of the marginal private net product of resources so employed is greater or less than the value of the marginal social net product.

That is, the production of certain goods and services causes what we would now call negative or positive externalities. Pigou continues:

The second cause is that in respect of certain goods and services, the ratio, so to speak, between people's desire and the satisfaction which results from the fulfilment of desire is greater, or less, than it is in respect of other goods and services.

The "second cause" is more controversial (and not mentioned by Ramsey). As an example, Pigou cites excessive discounting of future costs and benefits.

Pictured: Frank Plumpton Ramsey

Be that as it may, Pigou concludes (p.99):

When maladjustments have come about ... it is always possible, on the assumption that no administrative costs are involved, to correct them by imposing appropriate rates of tax on resources employed in uses that tend to be pushed too far and employing the proceeds to provide bounties, at appropriate rates, on uses of the opposite class.

This mixture of what we would now call Pigovian taxes and bounties (subsidies) is assumed to be in place in Pigou's next chapter, which deals with Ramsey's contribution. But before we hear it second-hand from Pigou, let's get it straight from Ramsey. I quote his introduction (Ramsey, 1927, p.47–8):

THE problem I propose to tackle is this: a given revenue is to be raised by proportionate taxes on some or all uses of income, the taxes on different uses being possibly at different rates; how should these rates be adjusted in order that the decrement of utility may be a minimum? I propose to neglect altogether questions of distribution and considerations arising from the differences in the marginal utility of money to different people... Further I shall suppose that, in Professor Pigou's terminology, private and social net products are always equal or have been made so by State interference not included in the taxation we are considering....

In the first segment (pp.48–52), Ramsey begins:

(1) I suppose there to be altogether n commodities on which incomes are spent and denote the quantities of them which are produced in a unit of time by x1, x2 ... xn. ... The quantities ... can be measured in any convenient different units.

He defines u, a function of the x's, as "the net utility of producing and consuming (or saving) these quantities of commodities," and asserts:

(3) If there is no taxation stable equilibrium will occur for values of the x's which make u a maximum....

This of course depends on the assumption that externalities have been eliminated. He then supposes that taxes are levied on the respective commodities at the rates $\lambda 1$, $\lambda 2$ … λn per unit (not ad valorem), yielding the total revenue R, and defines the problem: given R, choose the λ's so that "the values of the x's ... shall make u a maximum."

Assuming that "R and the λ's can be regarded as infinitesimals", he shows that "the production of each commodity should be diminished in the same proportion" by the taxes (my emphasis).

He then considers "the case of a given revenue to be raised by taxing certain commodities only." Under the same assumption of infinitesimal revenue, he finds that "as before the taxes should be such as to reduce in the same proportion the production of each taxed commodity."

In §9 and Part II of the paper (pp.52–5), Ramsey drops the assumption of infinitesimal revenue:

I shall assume that the utility is a ... quadratic function of the x's .... for a certain range of values ... such that there is no question of imposing taxes large enough to move the production point (values of the x's) outside this range. If we were concerned with independent commodities, this assumption would mean that the taxes were small enough for us to treat the supply and demand curves as straight lines.

Using an n-dimensional geometric argument, he concludes:

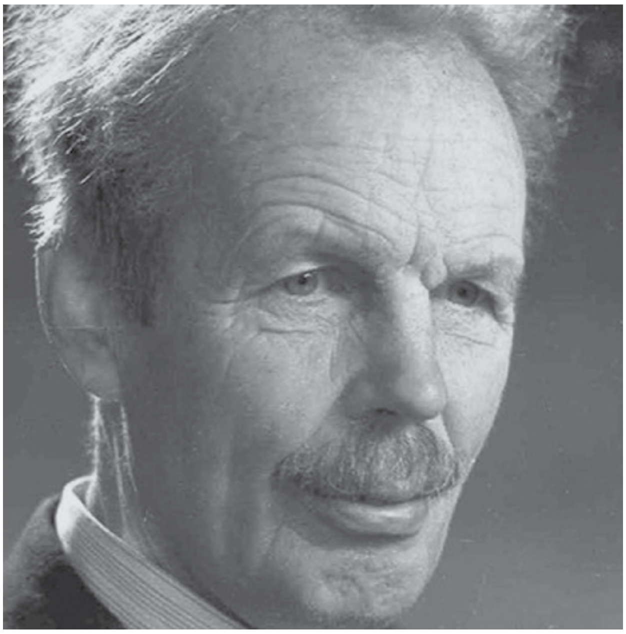
The taxes should be such as to diminish the production of all commodities in the same proportion.

And this result is now valid not merely for an infinitesimal revenue but for any revenue which it is possible to raise at all.

The maximum revenue will be obtained by diminishing the production of each commodity to one-half of its previous amount...

Revenue falls if we increase the tax rates beyond that point. Thus Ramsey anticipates the Laffer curve — if the taxes are such that production is indeed suppressed.

He then shows that if the taxes on some commodities are predetermined while the taxes on the remainder are left to be optimized, the italicized statement (above) applies to the remainder.



Pictured: A.C. Pigou

Now comes the part that is so often misquoted (Ramsey, 1927, pp.55–8):

(15) I propose now to explain what our results reduce to in certain special cases. First suppose that all the commodities are independent and have their own supply and demand equations....

For infinitesimal taxes ... the tax ad valorem on each commodity should be proportional to the sum of the reciprocals of its supply and demand elasticities.

(16) It is easy to see

(1) that the same rule ... applies if the revenue is to be collected off certain commodities only, which have supply and demand schedules independent of each other and all other commodities, even when the other commodities are not independent of one another.

(2) The rule does not justify any bounties...

(3) If any one commodity is absolutely inelastic, either *for supply or for demand, the whole of the revenue should be collected off it....*

(17) Let us next take the case in which all the commodities have independent demand schedules but are complete substitutes for supply ....

We can imagine this case as that of a country in which all commodities are produced at constant returns by the application of one kind of labour only....

For this case Ramsey obtains the same "rule", except that all the different elasticities of supply are replaced by a single "elasticity of supply of things in general". He continues:

In this case we see that if the supply of labour is fixed (absolutely inelastic...) the taxes should be at the same ad valorem rate on all commodities.

(19) If some commodities only are to be taxed .... As before we see that of two commodities that should be taxed most which has the least elasticity of demand, but that if the supply of labour is absolutely inelastic all the commodities should be taxed equally.

Thus, under doubly unrealistic conditions of supply — perfect fungibility and perfect inelasticity — Ramsey's reasoning leads to a flat consumption tax.

Here it should be noted that the supply of labour cannot be fixed as the supply of land is, and not only because workers can work more or fewer hours. Even if workers are taxed not for working but for merely existing — by a poll tax — they can emigrate or die or reduce their rate of reproduction. Land can do none of these.

If we assume that all supplies are perfectly elastic, Ramsey's equations imply that the tax rate on each commodity is inversely proportional to the elasticity of demand. But Ramsey does not consider this obviously unrealistic assumption; the last-quoted statement notes a qualitative inverse relationship between the tax rate and the elasticity of demand, but not a precise inverse proportionality.

Pigou (1947, pp.106–8) outlines Ramsey's assumptions and concludes:

Then ... the optimum system of proportionate taxes yielding a given revenue is one that will cut down the production of all commodities and services in equal proportions....

On the assumption ... that the demand and supply schedules are all completely independent, a very simple formula, built upon the elasticities of these independent demand and supply schedules in respect of the quantities that would be produced and sold in the absence of any taxation (beyond the taxes considered in the last chapter), can be found.

Remember that "the taxes considered in the last chapter" are those needed to internalize externalities. Pigou now gives a formula indicating that the tax rate on each commodity is proportional to the sum of the reciprocals of the elasticities of supply and demand (except that the "sum" has become a difference because, under Pigou's sign convention, the elasticity of demand is normally negative). Then he remarks (p.108):

If the elasticities of all the supplies are infinite ... the rates of tax on them must be inversely proportional to their elasticities of demand.

Thus it is Pigou, not Ramsey, who states the unrealistic special case for which Ramsey is remembered. Pigou immediately adds a more realistic case, which Ramsey also mentions, but which has been curiously forgotten:

If there is any commodity for which either the demand or the supply is absolutely inelastic, the formula implies that the rate of tax imposed on every other commodity must be nil, i.e. that the whole of the revenue wanted must be raised on that commodity.

The one commodity that meets this criterion is land; in the economic context, land is that factor of production whose supply is beyond the influence of economic agents, and there is no commodity whose demand is beyond their influence. Thus Ramsey's results imply that, in the words of Joseph Stiglitz (1986, p.568), *"While a direct tax on land is nondistortionary, all the other ways of raising revenue induce distortions."*

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The Road to Leasehold – the origins of the Canberra leasehold system *By Leo Foley*

The primary source for this paper is "Canberra in Crisis" by Frank Brennan, 1971

Canberra is the offspring of politics and a social ideal.

- **The politics were those of Federation and nation making.**
- **The ideal was one of social and economic freedom.**

In the early years of Federation, there was a widespread belief in the need for government ownership of all the land within the proposed federal territory. It was considered that the taking of the unearned increment for the people would make the capital city a paying proposition within a few years. In 1901, the Prime Minister, Edmund Barton spoke of the territory to be chosen for the seat of government: "we shall be able to get the land on fair terms, lease it on fair terms and still make a profit for the Commonwealth".

These were the years when the words 'unearned increment' were basic to any discussion of leasehold tenure in the proposed Federal Territory. As King O'Malley (Labour, Tas) saw it, 'Every dollar spent by the people of Australia in the erection of that capital will create an unearned increment in the property for miles around. The question is, are the people of Australia prepared to spend thousands, yea millions, and then lose the benefit of their expenditure? I say the unearned increment created by the expenditure of the people's money belongs to the people…"

The Constitution

Section 125 of the Commonwealth of Australian Constitution Act provided for the seat of government to be within territory belonging to the Commonwealth. In 1901, the Parliament moved "… to secure an area of not less than 1000 square miles…, the ground only to be let on leases to utilisers…"

Later, Section 9 of the Seat of Government (Administration) Act 1910 provided:

Pictured: Leo Foley

"No Crown land in the Territory shall be disposed of for any estate of freehold".

Legislators of the time were determined that they "shall not play into the hands of the speculators". Instead, Edmund Barton, first Prime Minister of Australia, termed the arrangement as a matter of good business: "we shall lease it on fair terms and still make a profit for the Commonwealth". .

Ideology rode high. Austin Chapman sought a "brand of municipal socialism which would present to the world a spectacle not previously seen in; an entire city, and all connected with the city owned and managed for the people of Australia."

The development of Canberra was informed by the experience of Washington in the United States. Reference was made to the land in Pennsylvania Ave which, while locked up in private hands for 100 years, was said to have increased in value by hundreds of millions of dollars through the unearned increment.

Most Australians supported the development of a Territory for the seat of government. But no one was willing to pay for it. What better way to escape the dilemma than to establish an onus on the yet unknown residents of the as yet unselected Territory to meet the cost of developing the capital.

Some optimistic members of Parliament considered that the capital city would be a paying income from land rent would almost certainly overtake the expenditure.

By 1920, however, political parties had lost their zeal for land tenure reform. Parliament was uninterested, but for the lone voice of John Grant, who declared himself a disciple of Henry George.

The City Leases Ordinance 1921 empowered the Minister to grant leases of land within the city area for periods not exceeding 99 years. The basic provisions were:

- an annual rent of 5% of the unimproved value of the land;
- the value of the land to be reappraised after 20 years;
- the construction of a building, in accordance with the lease, was to be commenced within one year and completed within two years of the granting of the lease.

John Grant moved to disallow the 20 year revaluations, saying that a five-year period between reappraisals was essential. This later proved to be an important point.

The first sale of leases was held in December, 1924. Residential land was sold at auction for £400 pounds, but the bid prices merely fixed the capital values, so all the purchaser paid at auction was the first year's land rent, which amounted to 5% of the capital value.

In 1925, the seeds of destruction for the leasehold system were sown. The Federal Capital Commission consented to leases being transferred without a building being erected on the leased land. Parliament after Parliament had previously insisted that land in the Territory should be made available to land users only. That restriction had been intended to keep land speculators away, but the door was opened allowing the land speculators to enter. It was the greatest of many mistakes made by the Commission.

By the end of 1929, 485 leases had been granted. Of this number, 186 had been surrendered. But around 130 had been transferred by speculators, a very large proportion of the existing leases.

Senator Elliott, a fierce critic of the land rent system, attempted to obtain a site for his legal practice. He was informed via the commission that there was no land for sale. Local agents, however, advised that there were a great number of sites which previous purchasers were willing to sell. He purchased leases for four blocks from two Sydney woman, who had secured them just four months earlier for the first year's land rent of 20 pounds per block (80 pounds). He paid them 1100 pounds for the four blocks.

In 1928, the head of the Federal Capital Commission (Butters) informed the Parliamentary Public Accounts Committee that the residential blocks auctioned in 1924 were really "a substantial gift by the Commonwealth Government to the purchasers".

The majority of Australians were either ignorant of this orgy of land speculation or indifferent. Canberra was seen as faraway and artificial, and people had grown indifferent to land and its administration.

The system was under pressure on other fronts too. Residents of Canberra found they could not buy into the property market in Melbourne or Sydney, because they had not benefited from the capital gain (the unearned increment). One witness claimed that the leasehold system "might not be a disadvantage if the whole of Australia were under leasehold, but the difference in tenure is against Canberra."

Another witness, commenting on purchasers who had paid more than the going rate for a lease. claimed that "the Federal Capital Commission is virtually in the position of trustees for the people of Australia.

As such it should take care of the assets committed to its care, but at the same time it should protect the beneficiaries from their own folly and not take advantage of their weakness."

The Commission critics of the time were attacking the whole concept of leasehold, calling for its abandonment. John Grant died in 1928, and with him, the ideology of the founders was gone.

The demise of the system: lessons for the future

The leasehold system suffered from many faults and failures. A few of them are now listed to emphasise the importance of introducing a complete system from the start, rather than assuming that those who will take over its administration will have the knowledge and commitment of the founders.

The absence of any published works explaining the basic principles of the Canberra leasehold system is a notable sahortcoming. As the years passed, the land administrators' knowledge and appreciation of historical origins and development of Canberra's leasehold system lessened.

From the beginning, firm principles should have been laid down:

- the lessee is entitled to the undisputed occupancy of the leased land and to its exclusive use during the currency of the lease;
- the lessee is entitled to nothing more or nothing less;
- in particular he is not entitled to increments in the value of the land accruing over the term of the lease.

Treasury, by the late 1950s, had little knowledge of the difference between freehold and leasehold, and was not interested in the difference, preferring to regard them as equal sources of revenue, without distinction.

The land critics of the 1950 — 1970 period differed from the critics of the Federal Capital Commission period, who attacked the concept of leasehold itself. The more modern-day ones attacked the administration or operation of the system. They found fertile ground.

By 1970, the rosy dawn predicted by its sponsors began to look suspiciously like a sunset. The leasehold system of land tenure had not failed in itself but its operation was obstructed and destroyed by indifferent administration.

The 'Purpose Clause'

In Canberra, the planner was given the power, through the 'Purpose Clause' of the lease, to control land use down to minute particulars. Such power and such arbitrariness was unnecessary.

The purpose clause should merely have indicated the general purpose for which the leased land may be used, without being too particular. If, for example, the planners arrange only one butcher, or one foodstore in a suburban shopping centre, it creates a monopoly affecting cost and quality of service. Abolishing competition is not town planning. It is more akin to a system of licensing of businesses.

Valuation problems

- Supply: the Commonwealth is the landowner, controlling the number of blocks available for purchase, making them relatively scarce or plentiful. Prices rise if blocks are scarce.
- Demand: the Commonwealth can also affect demand to some degree by transferring persons to and from the city. This was important in Canberra's formative years.
- It is anomalous that the authority who values the land is also the land owner and the receiver of rents. Valuation should be thoroughly independent of all other Commonwealth agencies and responsible to Parliament.

There is no land market in Canberra in the same sense as there is in a freehold area.

The Premium

Premium payments have been allowed to obtain land. It departs from the principle that no capital outlay is required to become the holder of a Canberra lease – just a year's rental.

20-year reappraisals

In early days, it was necessary to make the lease as attractive as possible by leaving the rent at a modest and unaltered level for a long period. 20 years was fixed. By 1970, the same justification no longer existed. Rents set in 1952 may have been reasonable, but by 1957 they were low, very cheap by 1962 and peppercorn in 1969.

Rates in Canberra

Each block received two separate valuations:

- a valuation for land rent purposes, and
- an annual valuation for rating purposes.

Public servants seconded to the capital paid not only their house rental, but land rent and rates as well. They were disgruntled.

In 1928, a Board of Review considered the question 'why were any rates at all imposed in Canberra?' That is, in a land rent system, why were rates necessary?

The justification for rates being levied in Canberra was found to be that since rates were payable in other parts of Australia, therefore they should also be paid in Canberra. No consideration was made of the payment of land rent.

A misunderstanding of the concept of rates lies at the heart of the problem. Rates levied on the unimproved value of land are, in the words of the late Lord Goshen, rent charged in favour of the community. Essentially, they are no different from the land rent paid for a crown lease.

In a progressive community land values have a constant tendency to rise. If the rent is fixed for 20 years, annual rates increases could be regarded as a supplementary rent. However, this is not the concept of rates that is popularly held.

Rates are regarded as a payment for municipal services and they are justified on the ground that municipal services add value to the land. In Canberra, where the annual rental value of unimproved land should be entirely absorbed by rent, rates were an absurdity. It is impossible to separate Commonwealth and municipal expenses so there is no basis for the level of rates to be estimated.

Rates in Canberra should have been abolished and the land rent remain as the sole payment for all leased land.

History rewritten

In 1965, the joint committee was informed that "the originators of the scheme never contended that the Commonwealth must show a profit from the venture…" That is how history can be rewritten. Not one word in the public records of Australia will be found to support that statement. In fact, it is the complete opposite of the original objectives of the policy of leasehold tenure.

Confused minds, freehold minds and small minds proved inadequate to implement the grand undertaking.

John Gorton's changes

Under pressure from lessees, in a by-election, Prime Minister John Gorton, put forward changes to the system that took effect from 1971.

- the payment of land rent ceased;
- the reappraisal of land values every 20 years for rental purposes ceased; and
- the income lost in consequence was to be made up by increased rates.

The changes signalled the complete breakdown of the administration of Canberra's leasehold system. Although leasehold tenure remained, the system was gutted. Leases were sold outright at auction, with no annual rent payable (5c per annum, if and when demanded).

It was estimated that the government transferred $100 million in equity to lessees at that time, resulting in the loss of an important source of revenue.

What of the future?

By 1970, there were 23,000 lessees in Canberra. But what of the next 23000 lessees?

All land has a rental value and if the Commonwealth does not get this value, the lessees will. The rent will be capitalised into land prices. Hence, all Canberra leases sold at exactly the same price as freehold.

Lessees pay their rates which need not exist, and they pay for their homes, shops and offices against the ever rising barrier of high land costs. In short, instead of paying land rent to the Commonwealth, they pay interest to the mortgagee companies for the money to build.

Should the Commonwealth ever require to resume leased land for public purposes, it will have to buy back at enormous cost land which has been so lightly given away.

A tremendous responsibility rested on parliamentary representatives to see that the interests of Australians and their children's interests were protected. They should have referred to Australia's formative years when the words unearned increment were basic to any discussion of leasehold tenure in the proposed Federal Territory. As King O'Malley said at the Federal convention held in Adelaide in 1897: "the unearned increment created by the expenditure of the people's money belongs to the people…" The experiment failed due to their lack of understanding.

Every decade the land rent should be increasing substantially and in one lifetime if the leasehold system was properly administered and land rent collected in the manner suggested, Canberra could be one of the richest cities in the world. It would be unique in that it would have no municipal rates and far from being a drain on Commonwealth finances it could begin repaying to the Commonwealth the capital expenditure of past years. This was the vision of its founders.

Land Tax must kill Negative Gearing, Stamp Duty

By Catherine Cashmore

There's been a lot of debate around property taxation in Australia – significantly negative gearing, which allows an investor to use the shortfall between interest repayments and other relevant expenditure, to lower their income tax.

The policy promotes the pursuit of speculative gain, meaning the strategy is only profitable if the acquisition rises in value rather than holding or falling. Therefore, in Australia, investor preference is slanted toward buying established buildings – the sector with robust demand from all demographics and in premium locations, has historically gained the greatest windfall from capital gains.

Aside from the impact this creates in terms of affordability – pushing up the price of second-hand stock, burdening new buyers with the need to raise a higher and higher deposit just to enter ownership – it also negatively affects the new home market, which traditionally struggles to attract consistent activity outside of targeted first homebuyer incentives; albeit, the headwinds resulting from planning constraints and supply-side policy should also not be dismissed.

Additionally, Capital Gains Tax and stamp duty have also received much debate. Both are transaction taxes, and therefore have a tendency to deter activity, impacting on both buyer and seller.

Stamp duty, as modeled by economist Andrew Leigh, has a meaningful impact on housing turnover, worsening mismatches between property size and household type – it is a deterrent to downsizing and therefore selling.

Additionally, it burdens first-time buyers by increasing the amount they need to save in order to enter the market. Changes of employment are also constrained, as owners are unwilling to move any meaningful distance outside their local neighbourhood, and limit their search for work to local areas.

But, outside academia and intermittent articles, there is scant debate in Australian mainstream media regarding land value tax and it's practical impact.

The theory is taken to its logical conclusion, and best advocated by American political economist and author Henry George who wrote 'Progress and Poverty' in 1879 – an enlightened and impassioned read – and inspired the economic philosophy that came to be known as 'Georgism.'

The ideals of Henry George reside in the concept that land is in fixed supply, therefore we can't all benefit from economic advantage gained from 'ownership' of the 'best' sites available without effective taxation of the resource.

George advocated a single tax on the unimproved value of land to replace all other taxes – something that would be unlikely to hold water in current political circles. However, his ideals won favour amongst many, including the great economist and author of "Capitalism and Freedom" Milton Friedman and other influential capitalists such as Winston Churchill, who gave a powerful speech on land monopoly stressing:

> ***"In essence, raising the percentage of tax that falls on the unimproved value of land has few distortionary or adverse affects.."***

"Unearned increments in land are not the only form of unearned or undeserved profit, but they are the principal form of unearned increment, and they are derived from processes which are not merely not beneficial, but positively detrimental to the general public."

In essence, raising the percentage of tax that falls on the unimproved value of land has few distortionary or adverse affects. It creates a steady source of revenue whilst the landowner can make their own assessment regarding the timing and type of property they wish to construct in order to make profit without being penalised for doing so.

However when the larger percentage of tax payable is assessed against the value of buildings and their improvements – through renovation, extension or

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higher density development for example – not only can those costs be transferred to a tenant, there is less motivation to make effective use of the site – having a flow on effect which can not only exacerbate urban 'sprawl', but also increase the propensity to 'land bank.'

The Henry Tax Review commissioned by the Rudd Government in 2008 concluded that "economic growth would be higher if governments raised more revenue from land and less revenue from other tax bases" proposing that stamp duty (which is an inconsistent and inequitable source of revenue) be replaced by a broad based land tax, levied on a per-square-metre and per land holding basis, rather than retaining present land tax arrangements.

The Australian Housing and Urban Research Group attempted to mimic the proposed changes using their AHURI-3M micro-simulation model in a report entitled The spatial and distributional impacts of the Henry Review recommendations on stamp duty and land tax.

And whilst it's difficult to qualify how purchasers may factor an abolition of stamp duty into their price analysis, perhaps adding the additional saving into their borrowing capacity, and therefore not lowering prices enough to initially assist first homebuyers, it does demonstrate how over the longer-term falls in house prices have the potential to exceed the value of land tax payments, assisting both owner-occupier and rental tenant as the effects flow through.

Additionally, increasing the tax base would provide developers with an incentive to speed up the process and utilise their holding for more effective purposes. And importantly for Australia, it can provide a reliable provision of revenue to channel into the development of much-needed infrastructure.

The rationale for this is coined in the old real estate term 'location, location, location.' Everyone understands that in areas where amenities are plentiful – containing good schools, roads, public transport, bustling shopping strips, parks, theatres, bars, street cafes and so forth – increases demand and therefore land values, invoking a vibrant sense of community which attracts business and benefits the economy.

The idea behind spruiking a 'hotspot' – such a common industry obsession – is based on purchasing in an area of limited supply, on the cusp of an infrastructure boom, such as the provision of a new road or train line for example, enabling existing landowners to reap a windfall from capital gains and rental demand for little more effort than the advantage of getting in early and holding tight whilst tax payer dollars fund the work.

Should a higher LVT be implemented, the cost and maintenance of community facilities could, in part, be captured from the wealth effect advantaging current owners, compensating over time for the initial outlay. Imagine the advantage this would offer residents in fringe locations who sit and wait for the failed 'promises' offered when they migrated to the outer suburbs initially?

Take New York for example – between the years 1921 and 1931 under Governor Al Smith, New York financed what is arguably the world's best mass transit system, parks, libraries, schools and social services shifting taxes off buildings and onto land values and channeling those dollars effectively.

The policy influenced by Henry George ended soon after Al Smith's administration, and eventually lead to today's landscape – a city built on a series of islands, with limited room to build 'out' facing a chronic affordable housing shortage with the population projected to reach 9.1 million by 2030.

More than a third of New Yorkers spend half their paycheque on rent alone yet like London, there is little motivation for developers to build housing to accommodate low-wage workers concentrating instead on the luxury end of market, broadening the gap between rich and poor as land values rise and those priced-out have little option but to re-locate.

New York's Central Park is the highest generator of real estate wealth. The most expensive homes in the world surround the park with apartments selling in excess of $20 Million, and newer developments marketed in excess of $100+ million.

Like London it is a pure speculators paradise – in the ten-year period to 2007, values increased by 73% – owners sit on a pot of growing Gold and there's little to indicate America's richest are about to bail out of their New York 'addiction' with an expansive list of 'A' class celebrities, high net worth individuals, and foreign magnates owning apartments in the locality.

New Mayor-elect Bill de Blasio who won his seat, based on a promise to narrow the widening inequality gap – by preserving 200,000 low and middle income units, and ensuring 50,000 affordable homes are constructed over the next decade - will struggle to help while facing a deficit reputed to be as much as $2 billion in the next fiscal year.

Yet economist Michael Hudson has recently assessed land values in New York City alone as exceeding that of all of the plant and equipment in the entire country.

Currently more than 30 countries around the world have implemented land value taxation – including Australia – with varying degrees of success not only based on the percentage split between land and property, but how those funds are channeled back into the community, and the quality of land assessments in regularly updating and estimating value.

Pennsylvania is one such state in the USA to use a system which taxes land at a greater rate than improvements on property – I think I'm correct in saying nineteen cities in Pennsylvania use land value tax with Altoona being the first municipality in the country to rely on land value tax alone.

Reportedly, 85% of homeowners pay less with the policy than they do with the traditional flat-rate approach. When Mayor of Washington county Anthony Spossey, who also served as Treasurer from 2002 to 2006, and under his watch enacted an LVT was interviewed on the changes in 2007, he commented:

"LVT ...helps reduce taxes for our most vulnerable citizens. We have an aging demographic, like the county, region and the state. Taxpayers everywhere are less able to keep up with taxes, and that hurts revenue. LVT helps us mitigate the impact both to them and the city. It's a win/win.."

Until fairly recent times, another good example to cite is Pittsburgh. Early in the 1900s the state changed its tax system to fall more on the unimproved value of land than its construction and improvements.

Pittsburgh's economic history is a study in itself, and has not been without challenges. For those wanting to research further, I strongly advocate some of the writings of Dan Sullivan – (former chair of the Libertarian Party of Allegheny County, (Pittsburgh) Pennsylvania) – who is an expert on the economic benefits of LVT and has written extensively on the subject.

Sullivan demonstrates that Pittsburgh not only enjoyed a construction boom whilst avoiding a real estate boom under a broad based LVT system, but also effectively weathered the great depression whilst maintaining affordable and steady land values along the way.

In comparing it to other states struggling to recover from the recent 'sub-prime crisis' he points out:

"In 2008, just after the housing bubble broke, Cleveland led the nation in mortgage foreclosures per capita while Pittsburgh's foreclosure rate remained exceptionally low. Since then, the foreclosure rates in Las Vegas and many Californian cities, none of which collect significant real estate taxes, have passed Cleveland's foreclosure rate. However, on September 15, 2010, The Pittsburgh Post-Gazette reported that while at the end of the second quarter of 2010, 21.5% of America's single-family homes had underwater mortgages (the American term for negative equity), only 5.6% did in Pittsburgh. As a result Pittsburgh was top of a list of the ten markets with the lowest underwater mortgage figures."

When land value tax is implemented – with the burden taken off buildings and their improvements ensuring good quality assessments and sensible zoning laws – it not only assists affordability keeping land values stable, but also benefits local business through infrastructure funding, discourages urban sprawl, incites smart effective development of sites, reduces land banking, and as examples in the USA have demonstrated – assists in weathering the unwanted impacts of real estate booms and busts.

"With any change to the tax system, the headwinds come convincing the public that it's a good idea."

Despite the numerous examples across the world where a broad based land value tax has been deployed successfully , changing policy and bringing about reform is never easy and rarely without complication.

Additionally, the implications of a yearly tax on fixed 'low-income' retirees must be handled with care and understanding, as there are ways to buffer unwanted effects whilst changes are implemented.

Therefore, the process adopted in the ACT which is abolishing stamp duties over a slow transitional 20 year period to phase in higher taxation of land is not altogether unwise.

With any change to the tax system, the headwinds come convincing the public that it's a good idea. In this respect, balanced debate and conversation is necessary, as questions and concerns are brought to the fore.

The increased tax burden also falls on those who have significant influence across the political spectrum; therefore strong leadership to avoid lobbying from wealthy owners with vested interests is essential.

We have a new and growing generation of enlightened voters who are well and truly fed up with battling high real estate prices, inflated rents, and care not whether it's labelled as a 'bubble' – but certainly care about their future and that of their children.

Therefore – I do see a time when all the 'chatter' around affordability, will finally evolve into 'real' action – and a broad based LVT should form an important part of that debate.

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The Canon of Economics *By Fred Foldvary*

A "canon" is a set of items which are regarded by the chiefs of a field to be the accepted elements of the domain. Every religion, for example, has a canon of accepted ideas and documents such as the established books of the Bible. Every scientific field has a canon of propositions and facts accepted as genuine by the experts and by those in authority such as editors of the major journals and most members of the departments of the prominent universities.

Pictured: Fred Foldvary

The canon of economics consists of the propositions, methods, and historical facts accepted as true and applicable by most scholarly economists. This canon appears in textbooks and in the articles of the prominent journals. The ideas and methods outside the canon are referred to as heterodox economics, in contrast to the mainstream or orthodox canon. There have been articles and organizations about the mainstream and alternative canons, but they have not laid out what the canons consist of. Here is my attempt.

The canon of orthodox neoclassical economics consists of 1) supply and demand; 2) graphical curves of equal utility, inputs, and output; 3) marginal analysis (additional amounts of utility, inputs, outputs); 4) the factors or input variables of capital goods and labor; 5) the price level; 6) equations of production and utility; 7) the government-influenced money supply and the market-based velocity of the circulation of money; 8) economic and accounting profit; 9) market failure and government corrections; 10) equilibrium; 11) maximizing and minimizing within constraints; 12) the premises of subjective values, self-interest, scarcity, unlimited desires, and the uncertainty of the future; 13) the "time preference" for present day good relative to future goods; 14) the trade-off between goods and leisure; 15) the trade-off between equity and efficiency; 16) diminishing marginal utility; 17) diminishing marginal products; 18) theory from mathematical models; 19) econometric testing of hypotheses; 20) the producer and consumer surplus.

Neoclassical economics is divided into several sub-schools for macroeconomic theory. The major schools and their canons are:

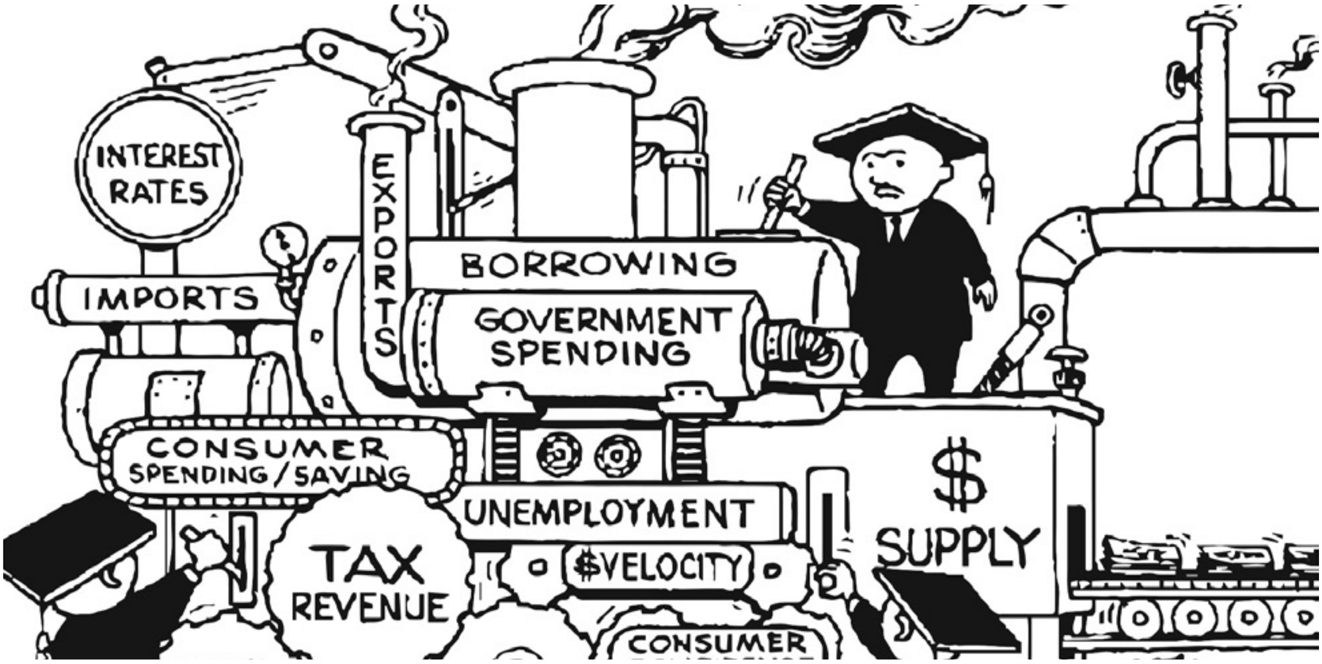
1) Keynesian or demand-side economics, with the canons of the consumption function, spending multiplier, and the determination of output from autonomous spending and the multiplier.

2) The Monetarist school, its canon being the equation of exchange: Money times velocity equals the price level times real output, hence monetary inflation generally causes price inflation.

3) The New Classical school with its canon of rational expectations, which makes inflationary policy ineffective.

4) The New Keynesian school with its canon of wages, prices, and interest rates stuck above equilibrium; it accepts New-Classical rational expectations but claims that contracts and other rigid conditions make expansionary policy effective in increasing output.

The heterodox Austrian economic school of thought accepts these elements of neoclassical economics:1, 3, 4, 7, 8, 12, 13, 14, 15, 16, 17, 20. Austrians reject the excessive emphasis on 6, 9, 10, 11, 18, 19. The canons of the Austrian school that have not been absorbed into the mainstream are: 1) the time and interest-based structure of capital goods; 2) market dynamics rather than equilibrium; 3) dispersed knowledge; 4) discrete marginal utility based on diminishing importance; 4) axiomatic-deductive theory (praxeology); 5) entrepreneurship as both



> *"A problem in economics today is that each canon excludes the useful elements of other schools.."*

discovery and creative reconstruction; 6) free-market money and banking; 7) roundabout production; 8) the market as spontaneous order; 9) the failure of government intervention; 10) the evenly rotating economy that illustrates the role of entrepreneurship in the real world of uncertainty and change.

The Marxist school canon includes 1) class struggle, 2) the labor theory of value; 3) the surplus from labor taken by the capitalists who dominate labor; 4) benefits from socializing wealth.

The Georgist or geo-classical school has these canons: 1) land and its rent as major elements of the economy; 2) the margin of production as the least productive land in use; 3) land speculation and the movement of the margin raising rent and reducing wages; 4) the creation of land rentals from public goods; 5) depressions resulting from land-value bubbles; 6) economic effects of replacing market-hampering market-hampering taxes and subsidies with land-value taxation; 7) the surplus as land rent; 8) the ethics of labor and land; 9) harmony between equity and efficiency, and 10) the social behavioral effects of economic justice.

There is also a school of thought called "public choice," which has been accepted by neoclassical economics as well as by other schools, as a side branch. Its canon includes: 1) self-interest in politics; 2) the rational ignorance of voters; 3) transfer-seeking and getting due to concentrated interests and spread-out costs; 4) vote trading by representatives; 5) bureaucrats maximizing their power and comfort; 6) the primacy of the median voter; 7) constitutional versus operational choice; 8) clubs that provide collective goods to their members.

The classical economics canon, before it turned neoclassical, included these elements: 1) Say's law, that production pays factors that enable effective demand; 2) the division of labor; 3) economic growth from unhampered production and free trade; 4) the margin of production as the least productive land in use; 5) population growth pushing the margin to less productive land; 6) the three factors of production as land, labor, and capital goods.

A problem in economics today is that each canon excludes the useful elements of other schools. Economics needs a universalist canon that integrates the best elements from all schools of thought. However, economists disagree on what the canon should be. In my judgment, the most glaring omission in the mainstream canon is the neglect of the Austrian-school time-structure of capital goods, its neglect of the creation of land rent by public goods, and its neglect of the benefits of a prosperity tax shift, the replacement of market-hampering taxes with market-enhancing payments of land rent and pollution charges.

The Housing Bubble and Lazy Land Use

By Karl Fitzgerald

Consider for a second the national headlines if we had an 8 per cent unemployment rate or lo-and-behold a 4 per cent inflation rate. There would be widespread concern. But here we have a never ending housing bubble, and a 4.4 per cent vacancy rate. This is enough housing for at least 160,000 people. Inefficiently used. Wasted. Its akin to the unemployment rate for our most crucial resource.

The locked out generations have endured 14 years of housing frustration since John Howard halved the capital gains tax rate and ushered in housing investment as a national past time. There seems to be no answer in sight. First Home Buyers have withered to 6.8 per cent of all housing loans in Sydney. Yet the media game is to blame the removal of the sellers' subsidy, the First Home Vendors grant. Little is said of the high price of land. Little is mentioned of the flat earth economics used to justify foreign investment. No matter how much money you invest, you can't create more land. It's bound to push prices up.

We all walk past dilapidated houses with over-flowing mailboxes and unkempt lawns. Rusted industrial sites. The perennial vacant shop plastered with rock posters. We have conditioned ourselves to ignore these wasted sites as an inevitable part of city living. But with housing supply such a prominent issue, perhaps it is time to look more closely at how many vacant homes there are before we sprawl any further.

The report defines vacant properties as using less than 50 litres of water a day on average over 12 months. Single person homes average 177 litres per day. Only 2 per cent of Melbournians have a water tank plumbed into the house.

In June 2012, 12,361 properties were available for lease in Melbourne. The report found 12,691 properties used zero litres of water for a full 12 months. But rents keep rising. What could doubling the amount of rental property do for affordability?

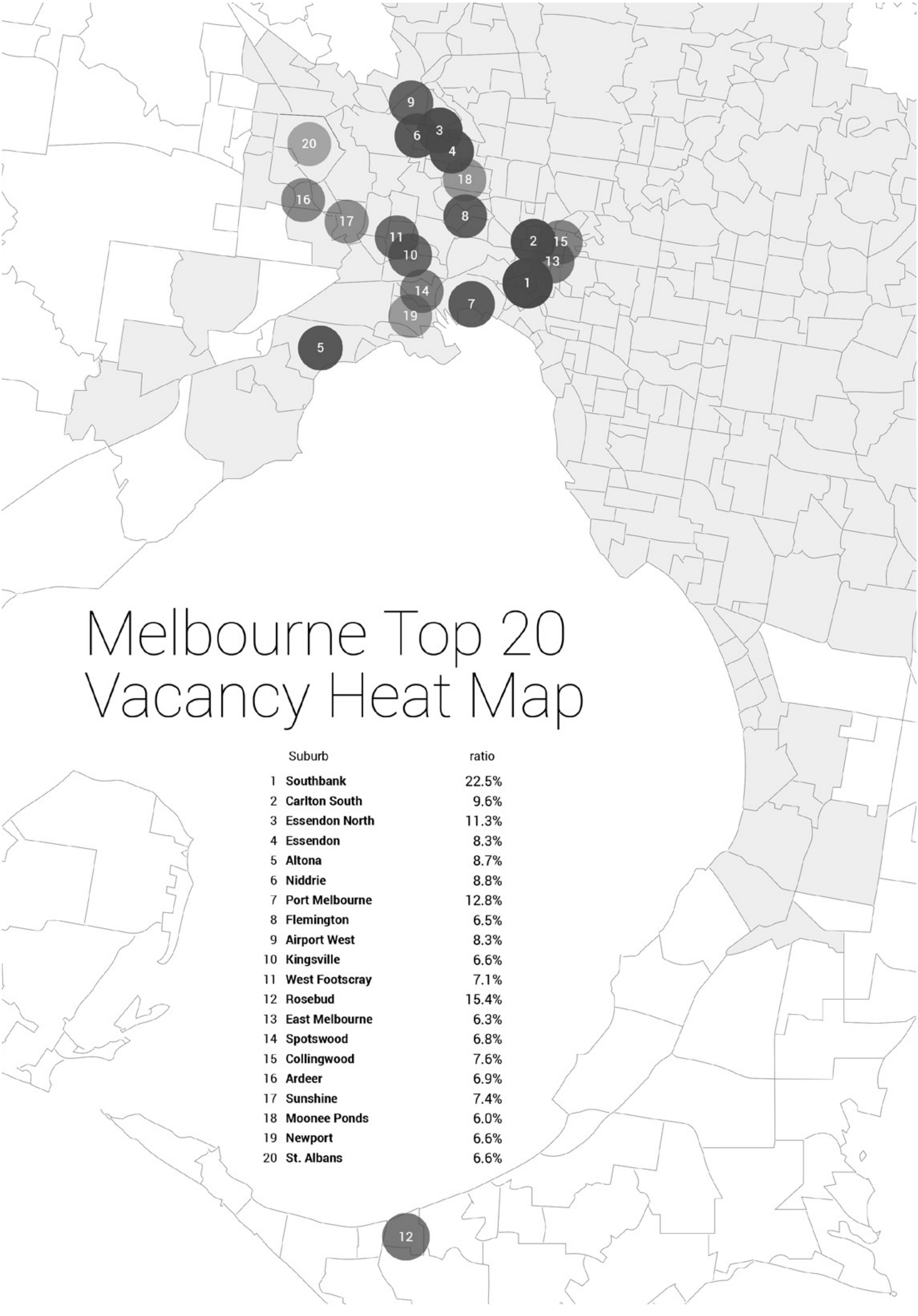
The tragedy for young people is that they now face the prospect of a lifetime of renting. Over $50 billion is given to property investors in tax subsidies each year. Those on Newstart receive barely $6 billion in welfare. Yet Federal Treasurer Joe Hockey talks about the age of entitlements. We ask, is it perfectly natural for those who already own property to receive such significant subsidies?

Pictured: Karl Fitzgerald

"But with housing supply such a prominent issue, perhaps it is time to look more closely at how many vacant homes there are before we sprawl any further.."

Our public policy encourages property speculators to hold property off the market, enforcing scarcity. Louis Christopher of SQM Research recently stated a 'staggering 17.6 per cent less property' is on Sydney's booming market than this time last year. The less on offer, the higher prices go.

Concern over vacant housing is rising. Both China and France are using electricity consumption as a proxy for vacancy. The Chinese found a staggering 65.4 million empty apartments in 2010 – a sure sign the global property ponzi game is alive and kicking.



Melbourne Top 20 Vacancy Heat Map

	Suburb	ratio
1	**Southbank**	22.5%
2	**Carlton South**	9.6%
3	**Essendon North**	11.3%
4	**Essendon**	8.3%
5	**Altona**	8.7%
6	**Niddrie**	8.8%
7	**Port Melbourne**	12.8%
8	**Flemington**	6.5%
9	**Airport West**	8.3%
10	**Kingsville**	6.6%
11	**West Footscray**	7.1%
12	**Rosebud**	15.4%
13	**East Melbourne**	6.3%
14	**Spotswood**	6.8%
15	**Collingwood**	7.6%
16	**Ardeer**	6.9%
17	**Sunshine**	7.4%
18	**Moonee Ponds**	6.0%
19	**Newport**	6.6%
20	**St. Albans**	6.6%

In the USA last week, the Census Homeownership and Vacancy survey revealed a housing vacancy rate of 10.2 per cent. The media enthused at the recent rise in US house prices, but rarely mention it is an investor led recovery, fuelled by the cheap money helicoptered in via quantitative easing.

Typifying this is Blackstone Capital, one of the world's largest property players. Despite the mess made by mortgage backed securities, the company last week launched a new breed of financial wizardry – rental backed securities. Now that so many have had their financial futures blacklisted by buying at the top of the real estate cycle, groups like Blackstone, who have snapped up over 40,000 homes in foreclosure fire sales, will now rent out these properties to (perhaps) those same families. The rental income streams and the mortgages owned by Blackstone will be grouped together and sold in tranches based on credit ratings to bondholders. Rental payments will in turn pay off the bondholders, releasing more capital for Blackstone to snap up properties. A few weeks ago, Blackstone CEO Stephen Schwarzman was in Australia talking up a $2 billion fund to snap up prime locations here.

The UK has a property bubble double the size of Australia's with over 1 million empty homes. The BBC TV show The Great British Property Scandal highlighted the concern last year. Stories of high London rents see people finding it cheaper to fly from Barcelona and back each day. In Ireland the pre-crisis demands for more land quickly turned into rapid oversupply once land prices started falling. But that didn't stop the bailouts.

The global trend is evident. Easy profits in real estate are luring more entrepreneurs into this lucrative field of tax loopholes and easy profits. They are comforted by the knowledge any meaningful reform resides in the too-hard-basket. 'It's political suicide'.

The recommendations in the Speculative Vacancies report include increasing the holding charges on land with a broad based Land Tax. These revenues could be used to abolish Stamp Duties. This would be a step in the right direction by taxing away 'unearned incomes', providing an incentive for the empty homes and shops in our neighborhoods to be brought onto the market.

Renters are being pushed to test how many rental increases they can handle in the face of thousands of vacant properties. On current projections it will take less time to change the tax system than to pay off a mortgage.

The Speculative Vacancies in Melbourne report is available for download at: **www.prosper.org.au**

Qaboos the Whimsical

By Karl Williams

If it wasn't for a battle between a father and his son on a hot summer morning 42 years ago, I would never have been able to visit Oman.

The son (now Sultan Qaboos) deposed his father in a palace coup to end the country's isolation and use its oil revenue for modernization and development. Oman had been one of the most backward, hidden and repressive nations on Earth – the country had only 2 schools and almost no infrastructure.

Now Oman is open to receiving tourists, and I was lucky to see the place before tourist traffic spoils it. Still, visitors need to watch their step and their tongue in an absolute monarchy where Qaboo's decisions are not to be questioned. Just sing the glories of the fearless leader and you'll be right.

Oman is a landscape of desert plains and stark rocky mountains which roasts under a blazing sun. The blazing sun has been intensified by short-sighted economic policies. Sunglasses filter little of its ferocity. It took over a month after we returned home before our eyes fully recovered. It is bone dry. There were practically no insects, and most human life retreated from the heat. Markets and services mostly shut at noon and reopen about 4 pm, often staying open until the middle of the cool night.

Every day, even on the coast, the temperature relentlessly soared to around 38 to 40C, and so we learnt to set the alarm for 4:30 or 5:00 am and walk while the heat was still bearable. This was the 'in between season' when temperatures are relatively mild! In summer (June-August), it gets seriously hot. I'm talking low forties to low fifties every day without relief.

How do humans survive in such conditions, especially as the sultan has decreed all buildings must conform to traditional architectural styles which become ovens? They survive because they have air conditioners that run continually and this massive electricity consumption is virtually free.

We visited a coastal town where, after an early morning walk, we met a local guy who took the rest of the day off and showed us around – Omani hospitality is like that. He works for the state-run electricity supply body, and was able to tell us how this crazy system works.

Oman is living high on the hog courtesy of its oil and gas exports, and the Sultan is spending the revenue like a drunken sailor to lift the Oman standard of living. Electricity is charged at around 2.5 cents per kwh, 10 per cent of what Australians pay.

Few Omanis pay even this low rate – most pay next to nothing. The national practice is to slip a piece of old photographic film into the electricity meter to stop it recording any usage at all. Omanis live in private compounds where their women can't be seen and the meters aren't easily accessible to electricity authorities. If there is a knock on the door from the authorities they have plenty of time to remove the film. New tamper-proof meters are immediately smashed.

Oman is in a fool's paradise of under-priced energy, resulting in gross wastage and contributing to the very global warming they're trying to overcome with air-conditioners. Old men swear the climate was never as hot in their youth when no-one had air-conditioning - or even electricity. Now their lifestyles and their houses have made them dependent on vast quantities of electricity. If ever its supply should cease in the furnace-like summer months the place would collapse.

> ***"How do humans survive in such conditions, especially as the sultan has decreed all buildings must conform to traditional architectural styles which become ovens?."***

If geoist sanity prevailed, the True Cost (including climate externalities) would be charged, and the revenues collected replace taxes as well as to mitigate climate chaos. Proper pricing signals would oblige all sorts of efficiencies including proper house design.

Remember those old Peter Sellers movies featuring oil-rich, hard-partying Arabs living as if there is no tomorrow? The whole of Oman seems to live that way when it comes to water. Oman is bone dry. Villages used to survive on the run-off from the massive rock formations which erupt out of the sand.

But now it's party time, with colossal amounts of natural gas fuelling a series of huge desalination

plants, the water from which is squandered because it's so heavily subsidized. The same shrinking gas reserves are used to pump water 100-odd kilometres inland and up to the mountain ridge which runs across much of Oman.

On a walk one evening, we met a farmer who spoke good English and who explained how reliant he is on this piped desal water. The traditional aquifers had just about been emptied in his lifetime. It was a free-for-all. Anyone could pump up as much water as they liked at no charge. Forty years ago, his family pumped water from 15 metres. Now the water level is down to 80 metres and still dropping. He reckoned the government should subsidise farmers' diesel fuel even more to allow them to pump the remaining water!

If Oman's economic policies make it seem to you like a nation of lemmings charging towards a cliff, then it gets even scarier. Like much of the Islamic world, Oman actively encourages population growth – 43 per cent of the population are under the age of 15. Many state subsidies promote large families, such as giving newlyweds a block of land with amenities.

Tax policies determine town planning, and town planning locks in economic, social and environmental outcomes for generations. Oman's town planning (or lack of it) is a multi-faceted disaster.

Sultan Qaboos made short-sighted, uninformed, unilateral and whimsical decisions about Oman simply because he could. He is an absolute dictator, and needs no consent nor agreement from anyone. His popularity is bought with short-sighted decisions, which reduce any threats to his absolute power.

Oman could have built comfortable, compact, energy-efficient towns and cities serviced by first class public transport. Instead Qaboos spreed on sprawling, car-dependent, energy-intensive settlements. Suddenly, roads and grand shiny buildings were springing up, and people were supplied electricity, fuel (still A$0.20 a litre) and water for next to nothing – hooray for good ol' Sultan Qaboos! Omanis can buy subsidized McMansions on big blocks of land, and drive tax-free guzzlers to town and market along superfast highways. Very often, isolated houses are built far outside towns and villages for no other reason than Oman's unsustainable subsidies encourage it.

The car-dependent transport model worked OK for a while. But now in the capital of Muscat where LA-style freeways were slapped up all over the place, with everybody encouraged to get a car and with no public transport to speak of (except taxis), there's already peak hour gridlock.

Social costs are mounting, but no one is counting them. Omanis used to live in close-knit walkable communities, centred around souqs (markets) where all the artisans, merchants and their families were known. 40 years of car-dependent sprawl has destroyed thousands of years of social fabric. Supermarkets are now the norm, filled with imported trinkets.

The shadow side of Oman isn't pretty either. Essentially, Oman is a nation of slaveholders, who harshly put to work euphemistically named "guest workers". Few Omanis work or study because Indians, Pakistanis and Bangladeshis will do it all for them. There is one guest worker for every five Omanis, working under atrocious and oft-dangerous conditions but too afraid to speak up as this would mean immediate expulsion, sometimes before their air fares had been repaid.

Manual workers never stop under any circumstances, even when the temperature hits the low 50s. Similar attitudes are extended to white collar workers, as explained to over dinner with a group of Egyptian and Sudanese teachers who described the appalling rudeness of their students. Guest workers are third-class non-citizens who can never marry an Omani, buy land, take out citizenship, enjoy many of the civil rights of Omanis and who must immediately leave when their contracted employment ends.

Geoists know the deal here only too well – it's a version of the 'take it or leave it' pay and conditions found all over the world. The easy neoclassical justification is "no-one's forcing you to do this – it's entirely your choice", with a biased market linking labor seekers and providers.

But it is not a proper market, and certainly not a fair one. Those labor providers are unemployed and desperate, their price competed away by the other unemployed until it is barely above subsistence. As long as the curse of involuntary unemployment exists, such gross imbalances in bargaining power will exist. In Oman the power inequity is very visible, with fat lazy playboys on the one hand and maltreated workers on the other.

Perhaps politics will divert Oman from its ecocidal course, but it's hard to see how Sultan Qaboos can be overthrown while he has an iron grip on the reins of power. No one can hold a public meeting without ministerial approval. Non-governmental organisations of any kind needs a license. The law prohibits criticism of the sultan in any form or medium. The sultan retains ultimate authority on all foreign and domestic issues.

Public officials are not subject to financial disclosure laws. Police do not need search warrants in order to enter people's homes. The state decides who can or cannot be a journalist and this permission can be withdrawn at any time. Everyone is watched, with 60 per cent of Oman's security budget spent on domestic security.

But there's a bizarre twist to this story. For a man who holds absolute power and whose praises are sung everywhere, what could possibly threaten the continued existence of the Qaboos regime? Lean closer, dear reader, and I'll whisper something that can never be uttered inside Oman… the sultan is gay!

Yes, it's Oman's worst-kept secret, not that it's hard to infer the sexual orientation of a 72-year-old childless and unmarried monarch without a successor. And this, in the notoriously-homophobic Arab world! Even so, in Oman both gays and lesbians can be jailed for their sexual orientation.

One afternoon, as the guest of a guy we met who showed us around in his car, we were given a frank opinion by an Omani who felt safe we weren't the sultan's spies. He dreads the day the 72-year-old sultan dies because he knows the country will be torn apart by powerful competing clans keen on seizing power. He intends to bunker down in his home, armed to the teeth, until the dust has settled and a new dynasty has taken power. Oman is a fascinating country which I'd recommend to any curious traveller but if the sultan isn't feeling well, I'd defer that trip.

Next issue: A nation (or emirate) of extremes if not superlatives, guzzling oil as if there's no tomorrow – Dubai.

Letters

Don't follow G20 tax call

From the Australian Financial Review 25 July 2013

Australia is silly to support the G20 on corporate tax. Some years ago Australia bitterly opposed California's unitary tax, a similar "tax initiative" against international companies. If Google should pay tax to Australia because it trades with Australia, when will China demand that BHP and Rio Tinto should pay tax to Beijing, not to Canberra? Rather than slavishly following the G20, Australia should cut the company tax to 15 per cent. After the offsetting reduction in imputation credits, the net cost could be recovered by a federal land value tax, including on mineral lands. Land values are visible and immobile and can't be shifted to tax havens.

Terry Dwyer
Dwyer Lawyers
Canberra

Time for Change

From the Progress Leader (Boroondara) 5 November 2013

Your feature on property (29/10) brings out the contrast between overseas investments in Balwyn and how increasing "house prices" are deterring first home buyers.

One real estate spokesperson you quote mentions "the elephant in the room", i.e. high land prices.

Land values are created and sustained by the presence and activity of the community and are therefore an appropriate source for community revenue.

At the local government level: site value rating should replace the current capital improved value system.

The latter deters improvements.

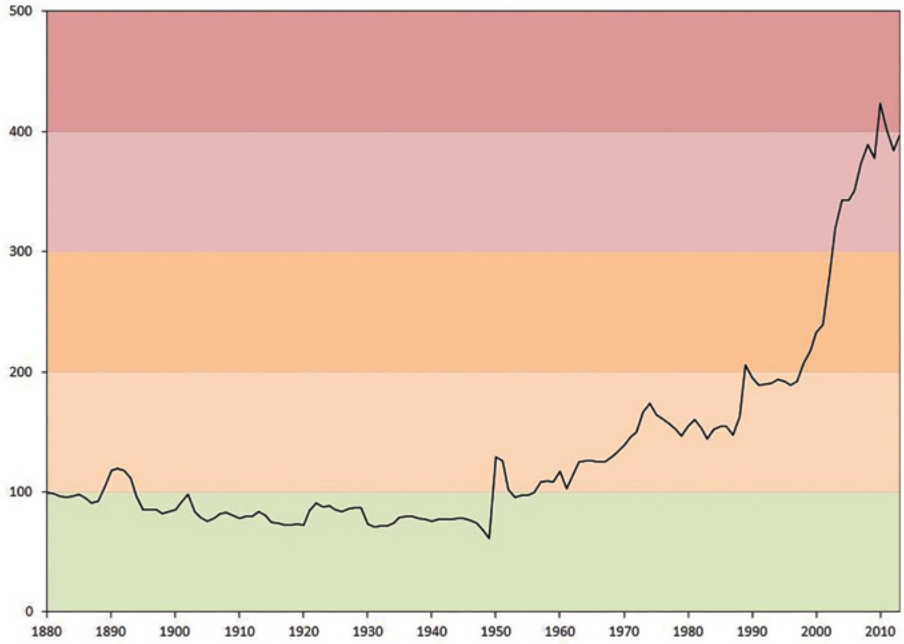
At the state level: a properly applied land tax should replace payroll tax and the regressive stamp duties.

The interests of renters and first home buyers should override those of speculators.

Geoff Forster
Canterbury

Australian Constant Quality Real Housing Price Index 1880 - 2013 (1880 = 100; 2013 dollars)

Year	Nominal	Real	Constant Quality
1880	$870	$60,181	100.0
1885	$910	$60,993	97.8
1890	$1,090	$76,378	118.2
1895	$720	$55,896	85.2
1900	$730	$57,500	85.1
1905	$720	$53,216	76.1
1910	$880	$56,525	77.9
1915	$1,120	$56,477	75.2
1920	$1,650	$55,125	72.4
1925	$1,790	$67,303	85.4
1930	$1,590	$59,992	73.4
1935	$1,440	$65,290	78.8
1940	$1,650	$64,983	75.6
1945	$2,030	$67,820	78.1
1950	$4,720	$115,496	129.1
1955	$5,680	$90,137	97.3
1960	$8,410	$112,040	116.8
1965	$10,350	$125,492	126.1
1970	$14,280	$144,015	139.0
1975	$28,970	$178,638	164.6
1980	$47,490	$176,106	155.0
1985	$74,890	$184,087	155.0
1990	$136,830	$237,768	195.3
1995	$152,860	$234,975	191.9
2000	$205,510	$288,759	232.6
2005	$347,740	$433,813	343.1
2010	$508,083	$542,310	423.1



Source: ABS, Stapledon Philip Soos

Prosper Australia researcher Philip Soos has graphed Australia's house price history. He builds on the work of Dr Nigel Stapledon with Australian Bureau of Statistics data.

Prices have moved in broad 60 year trends. The 1888-91 land bubble that destroyed many banks and borrowers is a mere blip. From 1891 to 1949, prices gradually declined. From the release of wartime price and rent controls in 1950, prices rose, with increases in the rate of increase, in a giant exponential curve that climaxed in 2010.

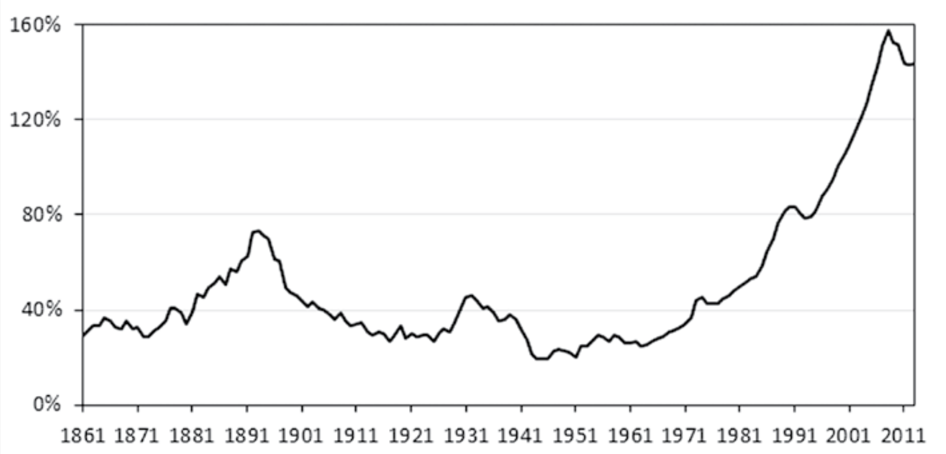
Economists foresee price corrections as 'revert to mean' - back to the prevailing long term trend, which in this index graph is 100. Such a correction would destroy the personal finances of many.

Australian Constant Quality Real House Price
Index adjusts for both inflation and improving housing standards.

Philip has a treasure trove of Australian land data, gleaned from government and colonial data. Some indexes date from the 1840's.

Visit: **www.philipsoos.com**

Household Debt and Non-Financial Business Gross Debt to GDP Ratio 1861 - 2013



Source: ABS, RBA Philip Soos