PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

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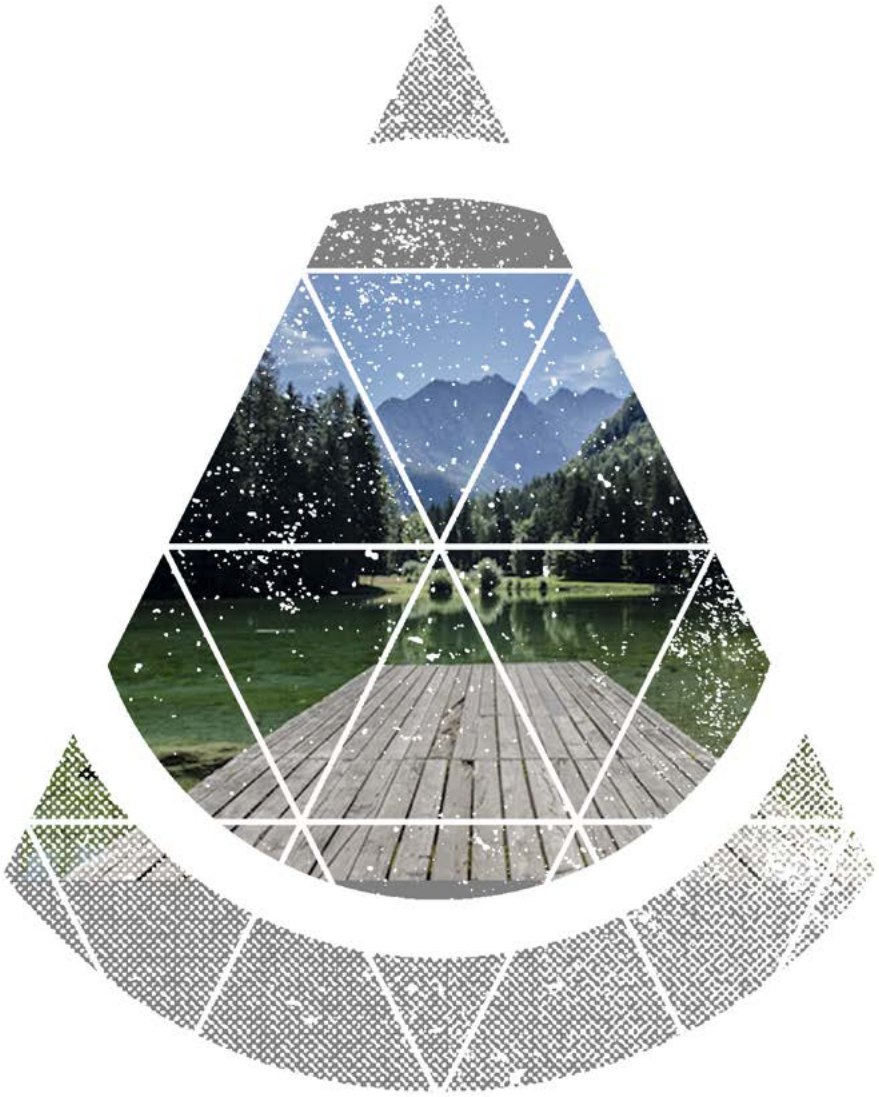

IF TIME IS MONEY ...

UNDERSTAND THE RULES TO ECONOMIC ENGAGEMENT

PROGRESS

Summer 2017
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ABOUT
Prosper Australia is a 126 year old advocacy group. 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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The rich men I knew were not thrifty; they asked others to be thrifty for them. They did not save; others saved for them. They admonished others to virtues of meekness, humility, and duty, but they observed none of their own admonitions.

They got an underhold on society, got it through monopoly and made other people work for them. They capitalized something that every one had to have or controlled a service that every one had to use. They got rich easily, often quickly, and kept the wealth they had acquired. ...Many men who got rich out of land had done so against their will, or by accident.

Frederic C. Howe, *The Confessions of a Reformer (1925)*

Editorial *by Karl Fitzgerald*

Welcome to my third edition as *Progress* editor. The nature of a 113 year old magazine in a digital age has raised its head of recent. After a long day of scanning emails, word searching PDF documents and triple checking an article on google docs, I actually appreciate reading the written word on paper. With all those pixels and all that information competing for our attention online, there is a sense of focus when picking up an edition of *Progress* and turnng one page after another.

One of the other issues I find myself wrestling with is the length of articles. Some say we should stick to short and snappy articles. For me, that's the strength of the online world. I want *Progress* to give readers a deep dive on a particular theme. I want people to read long form for the love of reading. Pure and simple.

On that note, if you love writing, please email your article, long or short to *progress@prosper.org.au*. All submissions will be considered.

This edition features two long articles. *House of Cards* is a next paradigm deep dive into the state of the Australian economic miracle. We only present 40% of the article, which we encourage you to dig out online, where over 100 insightful links will present you with the alternative facts one needs in this age of the Murdocracy. Are we on the precipice of major change?

We must remind ourselves how easy it is to fall into the trap of negativity. The transcript of Phillip Anderson's *126th Annual Henry George Dinner* presentation provides the necessary counter argument. Building on key learnings in recent editions, Phillip delves into his passion - understanding the business cycle and the role economic rents play in driving it. Is the Queen showing genuine leadership?

Economic cycles are the key theme I'd like you to dwell on in this edition. Georgists have an incredible advantage in being able to decipher the myriad of societal issues back to the stewardship of land. Amidst our learnings, we also have the ability to manage our own finances according to the 18.6 year cycle. The jury is out as to whether we are due to have the economic bust 'we need to have' or whether a minor mid-cycle correction is set to occur in 2019. Is China a go or a woe? Is economic manipulation a matter of fact today? It is time we all considered this carefully.

We start off with young up and coming UK Georgist Laurie McFarlane - another article jam packed with key data points. Just how lucky have the baby boomers been? Upon reading this one can only agree that economic policy just has to get more radical. With news in recent days that even Tony Blair is supporting LVT, the time is nearing. One thing is certain, the fact the UK's Office of National Statistics has finally separated land and buildings is something to cheer. Please note what happened to land prices in 2007, well before Northern Rock.

In Prosper news, we are pleased to see the Victorian government announce more specifics on the January 1 vacancy tax. Of particular interest was to see the State Revenue Office using water consumption statistics to demonstrate 20,000 inner city vacancies. Catherine Cashmore and I met with the SRO earlier this year to discuss our vacancy measure. For the SRO to publish these findings was a stamp of approval for our water-based methodology. We are still concerned that the vacancy tax only targets inner city vacancies, in effect channeling speculative intentions out to the sprawl. We note how similar this was to the Liberal Party's *Neighborhood Residential Zoning*, which also channelled additional demand out to the mass estates of major campaign contributors.

Prosper's press release on the prodigious increase in national land prices (2016-17) reveals why employers face such pressure to provide wage increases. Share those figures with your friends! Ricardo's Law is essential to grasp, as demonstrated in this edition's Geoists in History. Finally, Catherine Cashmore was interviewed by former UK Labor Party leader Ed Milliband on his *Reasons to be Cheerful* podcast.

Enjoy this edition from your favourite reading chair. Time is ticking. We have a big 2018 in store.

Photo by Warren Wong on Unsplash

The largest transfer of wealth in living memory

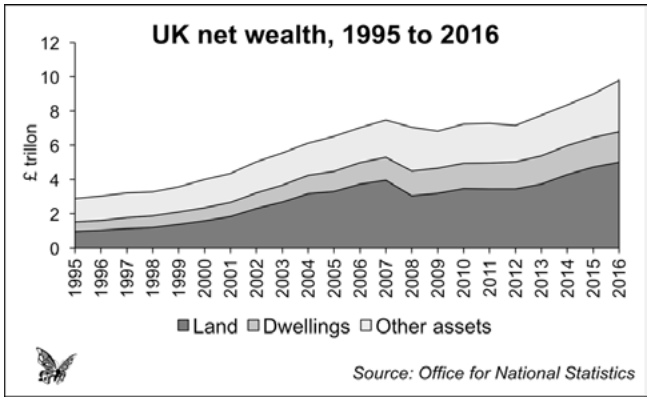
by Laurie MacFarlane

One of the basic claims of capitalism is that people are rewarded in line with their effort and productivity. Another is that the economy is not a zero sum game. The beauty of a capitalist economy, we are told, is that people who work hard can get rich without making others poorer.

But how does this stack up in modern Britain, the birthplace of capitalism and many of its early theorists? Last week, the Office for National Statistics (ONS) released new data tracking how wealth has evolved over time. On paper, the UK has indeed become much wealthier in recent decades. Net wealth has more than tripled since 1995, increasing by over £7 trillion. This is equivalent to an average increase of nearly £100,000 per person. Impressive stuff. But where has all this wealth come from, and who has it benefitted?

Just over £5 trillion, or three quarters of the total increase, is accounted for by increase in the value of dwellings – another name for the UK housing stock. The Office for National Statistics explains that this is "largely due to increases in house prices rather than a change in the volume of dwellings." This alone is not particularly surprising. We are forever told about the importance of 'getting a foot on the property ladder'. The housing market has long been viewed as a perennial source of wealth.

But the price of a property is made up of two distinct components: the price of the building itself, and the price of the land that the structure is built upon. This year the ONS has separated out these two components for the first time, and the results are quite astounding.



In just two decades the market value of land has quadrupled, increasing recorded wealth by over £4 trillion. The driving force behind rising house prices — and the UK's growing wealth — has been rapidly escalating land prices.

For those who own property, this has provided enormous benefits. According to the Resolution Foundation, homeowners born in the 1940s and 1950s gained an unearned windfall of £80,000 between 1993 and 2014 alone. In the early 2000s,

house price growth was so great that 17% of working-age adults earned more from their house than from their job.

Last week *The Times* reported that during the past three months alone, baby boomers converted £850 million of housing wealth into cash using equity release products – the highest number since records began.

> *A third used the money to buy cars, while more than a quarter used it to fund holidays. Others are choosing to buy more property.*

The Chartered Institute of Housing has described how the buy-to-let market is being fuelled by older households using their housing wealth to buy more property, renting it out to those who are unable to get a foot on the property ladder. And it is here that we find the dark side of the housing boom.

As house prices have continued to increase and the gap between house prices and earnings has grown larger, the cost of homeownership has become increasingly prohibitive.

> *Whereas in the mid-1990s low and middle income households could afford a first time buyer deposit after saving for around 3 years, today it takes the same households 20 years to save for a deposit.*

Many have increasingly found themselves with little choice but to rent privately. For those stuck in the private rental market, the proportion of income spent on housing costs has risen from around 10% in 1980 to 36% today. Unlike homeowners, there is no asset wealth to draw on to fund new cars or holidays.

In Britain, we have yet to confront the truth about the trillions of pounds of wealth amassed through the housing market in recent decades: this wealth has come straight out of the pockets of those who don't own property.

When the value of a house goes up, the total productive capacity of the economy is unchanged because nothing new has been produced: it merely constitutes an increase in the value of the land underneath. We have known since the days of Adam Smith and David Ricardo that land is not a source of wealth but of economic rent — a means of extracting wealth from others. Or as Joseph Stiglitz puts it "getting a larger share of the pie rather than increasing the size of the pie". The truth is that much of the wealth accumulated in recent decades has been gained at the expense of those who will see more of their incomes eaten up by higher rents and larger mortgage payments. This wealth hasn't been 'created' – it has been stolen from future generations.

House prices are now on average nearly eight times that of incomes, more than double the figure of 20 years ago. It's unlikely that house prices will be able to outpace incomes at the same rate for the next 20 years.

The past few decades have spawned a one-off transfer of wealth that is unlikely to be repeated. While the main beneficiaries of this have been the older generations, eventually this will be passed on to the next generation via inheritance or transfer. Already the 'Bank of Mum and Dad' has become the ninth biggest mortgage lender. The ultimate result is not just a growing intergenerational divide, but an entrenched class divide between those who own property (or have a claim to it), and those who do not.

Misleading accounting and irresponsible economics have provided cover for this heist. The government's national accounts record house price growth as new wealth, ignoring the cost it imposes on others in society – particularly young people and those yet to be born. Economists still hail house price inflation as a sign of economic strength.

The result is a world which is rather different to that described in economics textbooks.

Most of today's 'wealth' isn't the result of entrepreneurialism and hard work – it has been accumulated by being idle and unproductive.

Far from the positive sum game capitalism is supposed to be, we have a system where most

wealth is gained at the expense of others. As John Stuart Mill wrote back in 1848:

> *"If some of us grow rich in our sleep, where do we think this wealth is coming from? It doesn't materialise out of thin air. It doesn't come without costing someone, another human being. It comes from the fruits of others' labours, which they don't receive."*

Britain's housing crisis is complicated mess. Fixing it requires a long-term plan and a bold new approach to policy. But in the meantime let's start calling it what it really is: the largest transfer of wealth in living memory.

Originally published at Open Democracy:

www.opendemocracy.net/neweconomics/time-call-housing-crisis-really-largest-transfer-wealth-living-memory/

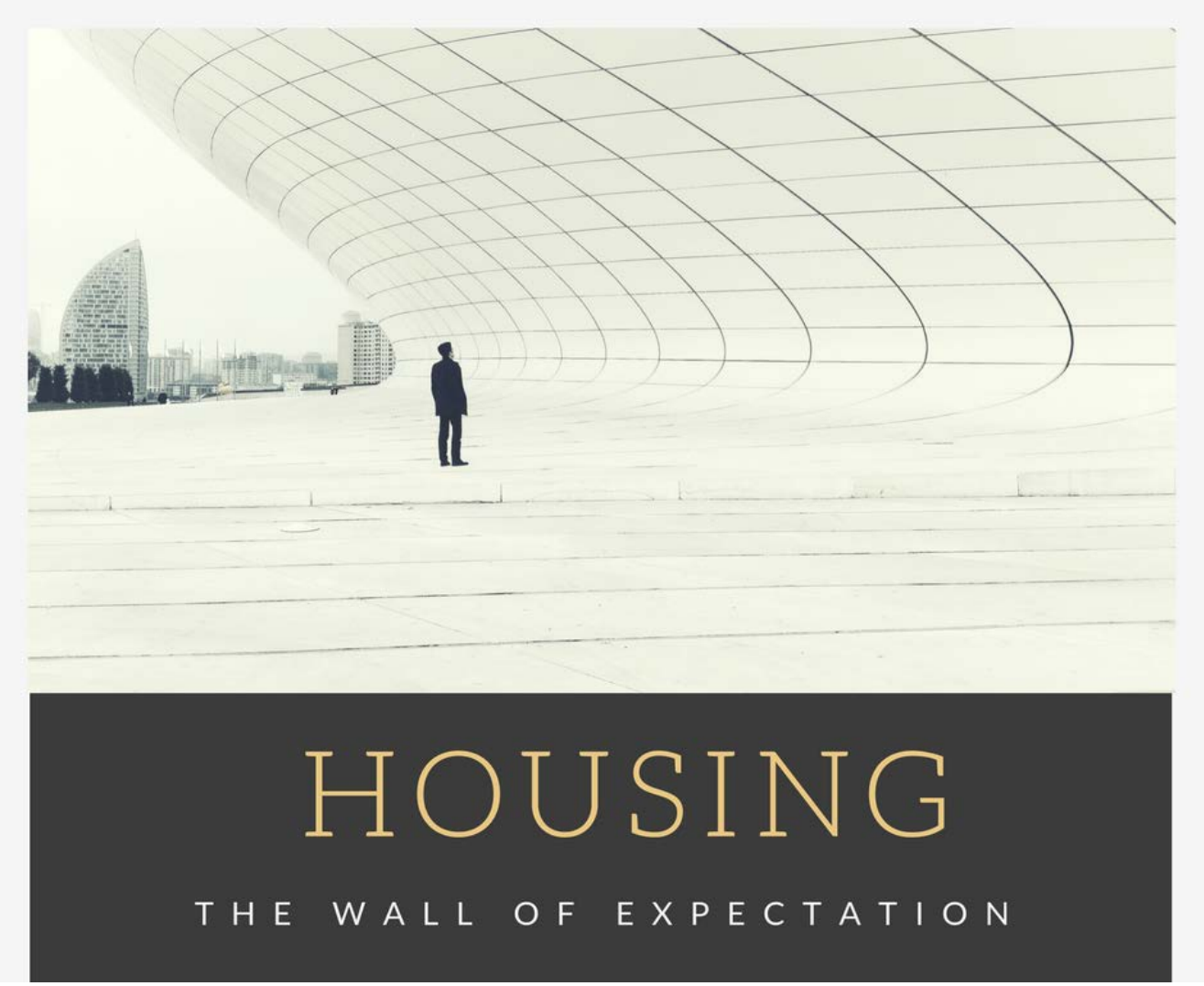


Photo by Cindy Tang on Unsplash

Australia's Economy is a House of Cards *by Matt Barrie and Craig Tindale*

I recently watched the federal treasurer, Scott Morrison, proudly proclaim that Australia was in "surprisingly good shape". Indeed, Australia has just snatched the world record from the Netherlands, achieving its 104th quarter of growth without a recession, making this achievement the longest streak for any OECD country since 1970.

Australian GDP growth has been trending down for over forty years.

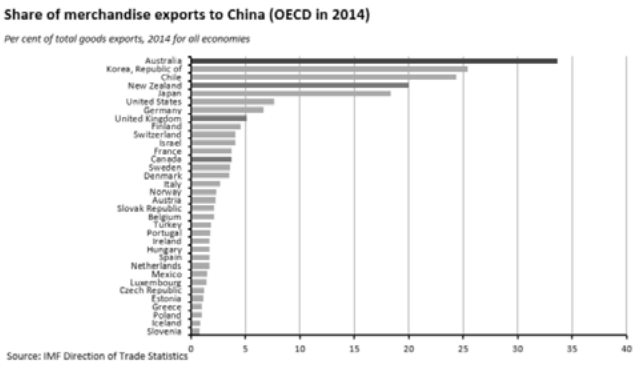
Source: Trading Economics, ABS

I was pretty shocked at the complacency, because after twenty six years of economic expansion, the country has very little to show for it.

For over a quarter of a century our economy mostly grew because of dumb luck. Luck because our country is relatively large and abundant in natural resources, resources that have been in huge demand from a close neighbour.

That neighbour is China.

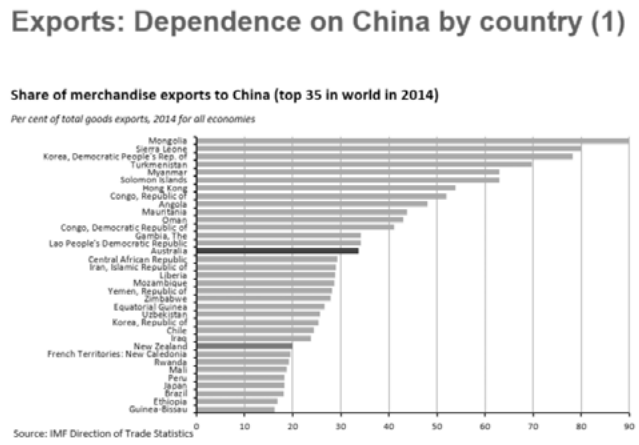
Out of all OECD nations, Australia is the most dependent on China by a huge margin, according to the IMF. Over one third of all merchandise exports from this country go to China- where 'merchandise exports' includes all physical products, including the things we dig out of the ground.



Source: Austrade, IMF Director of Trade Statistics

Outside of the OECD, Australia ranks just after the Democratic Republic of the Congo, Gambia and the Lao People's Democratic Republic and just before the Central African Republic, Iran and

Liberia. Does anything sound a bit funny about that?



Source: Austrade, IMF Director of Trade Statistics

As a whole, the Australian economy has grown through a property bubble inflating on top of a mining bubble, built on top of a commodities bubble, driven by a China bubble.

Unfortunately for Australia, that "lucky" free ride is just about to end.

Societe Generale's China economist Wei Yao said recently,

"Chinese banks are looking down the barrel of a staggering $1.7 trillion — worth of losses". Hyaman Capital's Kyle Bass calls China a "$34 trillion experiment" which is "exploding", where Chinese bank losses "could exceed 400% of the U.S. banking losses incurred during the subprime crisis".

A hard landing for China is a catastrophic landing for Australia, with horrific consequences to this country's delusions of economic grandeur.

Delusions which are all unfolding right now as this quadruple leveraged bubble unwinds. What makes this especially dangerous is that it is unwinding in what increasingly looks like a global recession - perhaps even depression, in an environment where the U.S. Federal Reserve (1.25%), Bank of Canada (1.0%) and Bank of England (0.25%) interest rates are pretty much zero, and the European Central Bank (0.0%), Bank of Japan (-0.10%), and Central Banks of Sweden (-0.50%) and Switzerland (-0.75%) are at zero or negative interest rates.

As a quick refresher of how we got here, after the Global Financial Crisis, and consequent recession hit in 2007 thanks to delinquencies on subprime mortgages, the U.S. Federal Reserve began cutting the short-term interest rate, known as the 'Federal Funds Rate' (or the rate at which depository institutions trade balances held at Federal Reserve Banks with each other overnight), from 5.25% to 0%, the lowest rate in history.

When that didn't work to curb rising unemployment and stop growth stagnating, central banks across the globe started printing money which they used to buy up financial securities in an effort to drive up prices. This process was called "quantitative easing" ("QE"), to confuse the average person in the street into thinking it wasn't anything more than conjuring trillions of dollars out of thin air and using that money to buy things in an effort to drive their prices up.

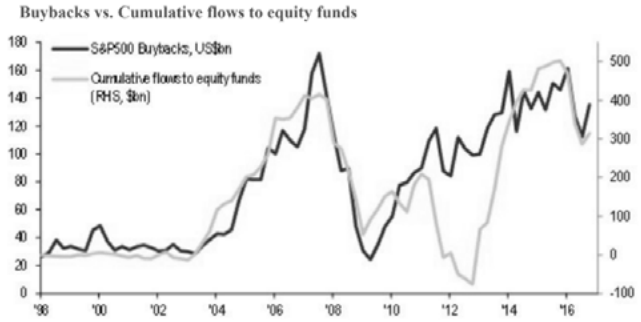
Systematic buying of treasuries and mortgage bonds by central banks caused the face value of those bonds to increase, and since bond yields fall as their prices rise, this buying had the effect of also driving long-term interest rates down to near zero.

Both short and long term rates were driven to near zero by interest rate policy and QE.

In theory making money cheap to borrow stimulates investment in the economy; it encourages households and companies to borrow, employ more people and spend more money. An alternative theory for QE is that it encourages buying hard assets by making people freak out that the value of the currency they are holding is being counterfeited into oblivion.

In reality, the ability to borrow cheap money was mainly used by companies to buy back their own shares, and combined with QE being used to buy stock index funds (otherwise known as exchange traded funds or "ETFs"), this propelled stock markets to hit record high after record high even though this wasn't justified by the underlying corporate performance.

Almost all flows into the equity market have been in the form of buybacks.



Almost all flows into the equity market have been in the form of buybacks. Source: BofA Merrill Lynch Global Investment Strategy, S&P Global, EPFR Global, Convexity Maven

In literally a "WTF Chart of the Day" on September 11, 2017, it was reported that the central bank of Japan now holds 75% of all ETFs. No, not 'owns units in three out of four ETFs'—the Bank of Japan now owns three quarters of all assets by market value in all Japanese exchange traded funds.

In today's world Hugo Chavez wouldn't need to nationalise assets, he could have just printed money and bought them on the open market.

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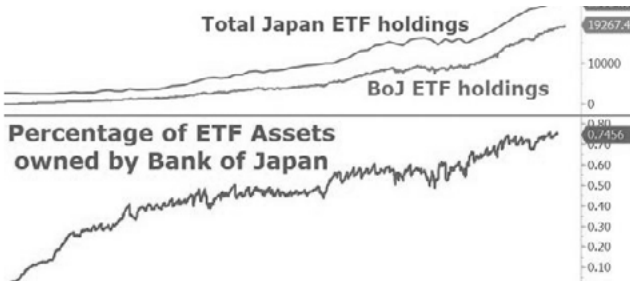
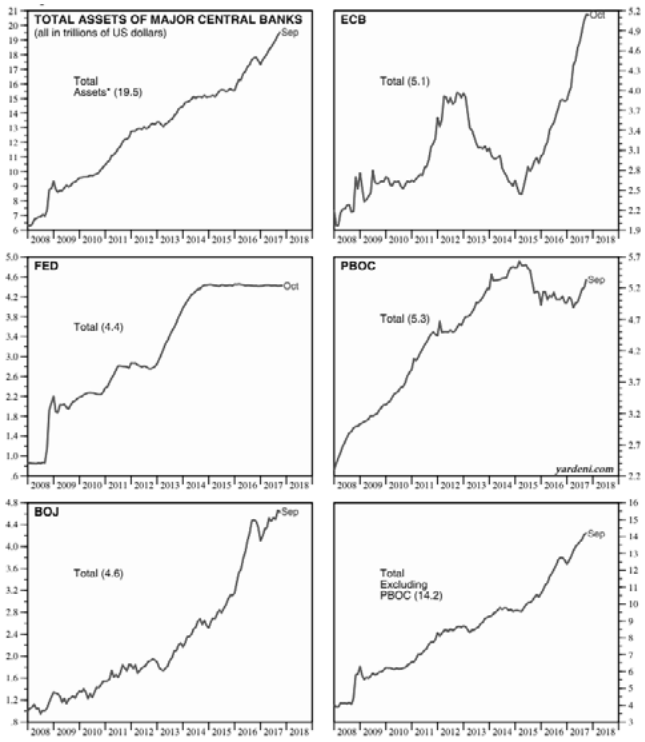


Source:Zerohedge

Europe and Asia were dragged into the crisis, as major European and Asian banks were found holding billions in toxic debt linked to U.S. subprime mortgages (more than 1 million U.S. homeowners faced foreclosure). One by one, nations began entering recession and repeated attempts to slash interest rates by central banks, along with bailouts of the banks and various stimulus packages could not stymie the unfolding crisis. After several failed attempts at instituting austerity measures across a number of European nations with mounting public debt, the European Central Bank began its own QE program that continues today and should remain in place well into 2018.

In China, QE was used to buy government bond which were used to finance infrastructure projects such as overpriced apartment blocks, the construction of which has underpinned China's "miracle" economy. Since nobody in China could actually afford these apartments, QE was lent to local government agencies to buy these empty flats. Of course this then led to a tsunami of Chinese hot money fleeing the country and blowing real estate bubbles from Vancouver to Auckland as it sought more affordable property in cities whose air, food and water didn't kill you.

QE was only intended as a temporary emergency measure, but now a decade into printing and the central banks of the United States, Europe, Japan and China have now collectively purchased over US$19 trillion of assets. Despite the lowest interest rates in 5,000 years, the global economic growth in response to this money printing has continued to be anaemic. Instead, this stimulus has served to blow asset bubbles everywhere.



Total assets held by major central banks.
Source: Haver Analytics, Yardeni Research

This money printing has lasted so long that the US economic cycle is imminently due for another downturn - the average length of each economic cycle in the U.S. is roughly 6 years. By the time the next crisis hits, there will be very few levers left for central banks to pull without getting into

some really funny business.

It wasn't until September 2017 that the U.S. Federal Reserve finally announced an end to the current program, with a plan to begin selling-off and reducing its own US$4.5 trillion portfolio beginning in October 2017.

How these central banks plan to sell these US$19 trillion in assets someday without completely blowing up the world economy is anyone's guess. That's about the same in value as trying to sell every single share in every single company listed on the stock markets of Australia, London, Shanghai, New Zealand, Hong Kong, Germany, Japan and Singapore. I would think a primary school student would be able to tell you that this is all going to end up going horribly wrong.

To put into perspective how perverted things are right now, in September 2017, Austria issued a 100 year euro denominated bond which yields a pathetic 2.1% per annum. That's for one hundred years. The buyers of these bonds, who, on the balance of probability, were most likely in high school or university during the global financial crisis, think that earning a miniscule 2.1% per annum every year over 100 years is a better investment than well anything else that they could invest in - stocks, real estate, you name it, for one hundred years. They are also betting that inflation won't be higher than 2.1% on average for one hundred years, because otherwise they would lose money. This is even though in 20 years time they'll be holding a bond with 80 years left to go to be paid out in a currency that may no longer exist. The only way the value of these bonds will go up is if the world continues to fall apart, causing the European Central Bank to cut its interest rate further and keep it lower for 100 years. Since the ECB refinancing rate is currently zero percent, that would mean that if you wanted to borrow money from the European Central Bank, it would literally have to pay you for the pleasure of borrowing money from it. The other important thing to remember is that on maturity, everyone that bought that bond in September will be dead.

So if one naively were looking at markets, particularly the commodity and resource driven markets that traditionally drive the Australian economy, you might well have been tricked into thinking that the world was back in good times again as many have rallied over the last year or so.

The initial rally in commodities at the beginning of 2016 was caused by a bet that more economic stimulus and industrial reform in China would lead to a spike in demand for commodities used in construction.

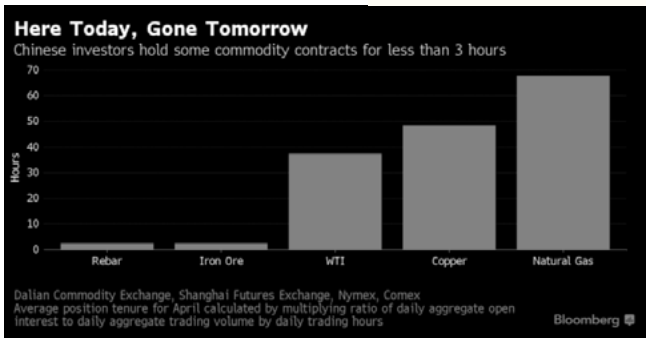
That bet rapidly turned into full blown mania as Chinese investors, starved of opportunity and restricted by government clamp downs in equities, piled into commodities markets.

> *This saw, in April of 2016, enough cotton trading in a single day to make a pair of jeans for everyone on the planet, and enough soybeans for 56 billion servings of tofu*

according to Bloomberg in a report entitled *"The World's Most Extreme Speculative Mania Unravels in China"*.

Market turnover on the three Chinese exchanges jumped from a daily average of about $78 billion in February to a peak of $261 billion on April 22, 2016—exceeding the GDP of Ireland. By comparison, Nasdaq's daily turnover peaked in early 2000 at $150 billion.

While volume exploded, open interest didn't. New contracts were not being created, volume instead was churning as the hot potato passed between speculators, most commonly in the night session, as consumers traded after work. So much so that sometimes analysts wondered whether the price of iron ore is set by the market tensions between iron ore miners and steel producers, or by Chinese taxi drivers trading on apps.



Average futures contract holding times for various commodities.

In April 2016, the average holding period for steel rebar and iron ore contracts was less than 3 hours. The Chief Executive of the London Metal Exchange, said

> *"Why should steel rebar be one of the world's most actively-traded futures contracts? I don't think most people who trade it know what it is".*

Steel, of course, is made from iron ore, Australia's biggest export, and frequently the country's main driver of a trade surplus and GDP growth.

Australia is the largest exporter of iron ore in the world, with a 29% global share in 2015–16 and 786Mt exported. At $48 billion, we're responsible for over half of all global iron ore exports by value. Around 81% of our iron ore exports go to China.

Unfortunately, in 2017, China isn't as desperate anymore for iron ore, where close to 50% of Chinese steel demand comes from property development, which is under stress as house prices temper and credit tightens.

In May 2017, stockpiles at Chinese ports were at an all time high, with enough to build 13,000 Eiffel Towers.

Last January, China pledged "supply-side reforms" for its steel and coal sectors to reduce excessive production capacity. In 2016, capacity was cut by 6 percent for steel and 8 percent for coal.

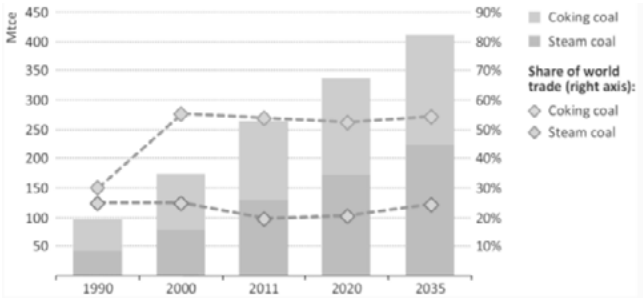
In the first half of 2017 alone, a further 120 million tonnes of low-grade steel capacity was ordered to close because of pollution. This represents 11 percent of the country's steel capacity and 15 percent of annual output. While this will more heavily impact Chinese-mined ore than generally higher-grade Australian ore, Chinese demand for iron ore is nevertheless waning.

Over the last six years, the price of iron ore has fallen 60%.

Iron ore fines 62% Fe CFR Futures. Source: Investing.com

While the price of iron ore briefly rallied after the U.S. election in anticipation of increasingly less likely Trumponomics, DBS Bank expects that global demand for steel will remain stagnant for at least the next 10–15 years. The bank forecasts that prices are likely to be rangebound based on estimates that Chinese steel demand and production have peaked and are declining, that there are no economies to buffer this slowdown in China, and that major steel consuming industries are also facing overcapacity issues or are expected to see lower growth.

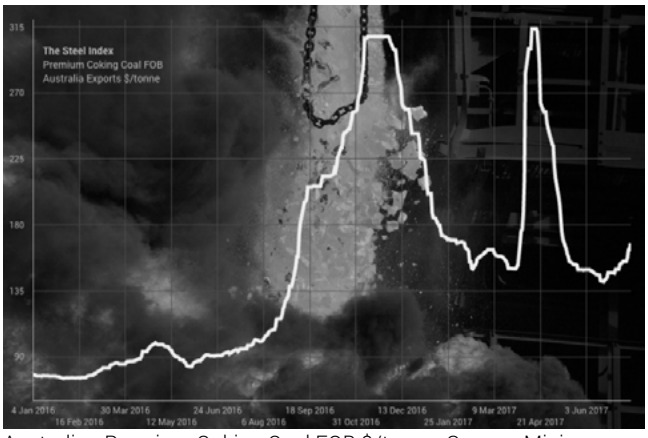
Australia's second biggest export is coal, being the largest exporter in the world supplying about 38% of the world's demand. Production has been on a tear, with exports increasing from 261Mt in 2008 to 388Mt in 2016.



Australian Coal Exports by Type 1990–2035 (IEA Core Scenario). Source: International Energy Agency, Minerals Council of Australia

While exports increased by 49% over that time period, the value of those exports has collapsed 38%, from $54.7 billion to $34 billion.

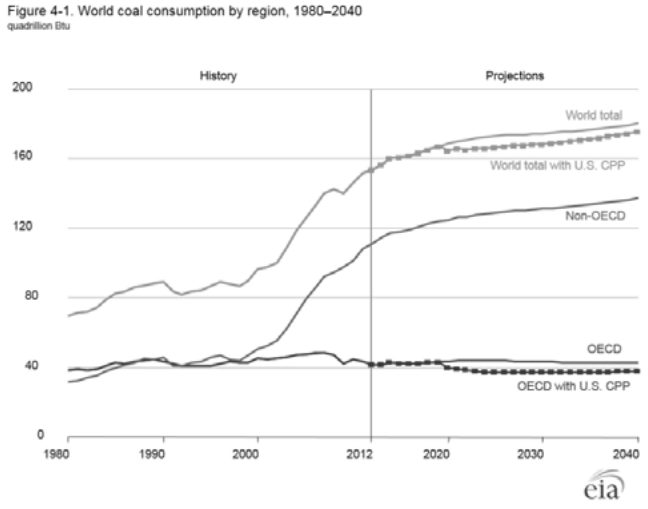
The only bright side for Australian coal in 2017 was that, unexpectedly, Cyclone Debbie wiped out several railroads and forced the closure of ports and mining operations, which has caused a temporary spike in coal prices.



Australian Premium Coking Coal FOB $/tonne. Source: Mining.com

There are two main types of coal - thermal coal, which is burnt as fuel, and coking coal, which is used in the manufacture of steel. The prospects for coking coal are obviously tied to the prospects of the steel market, which are not particularly good.

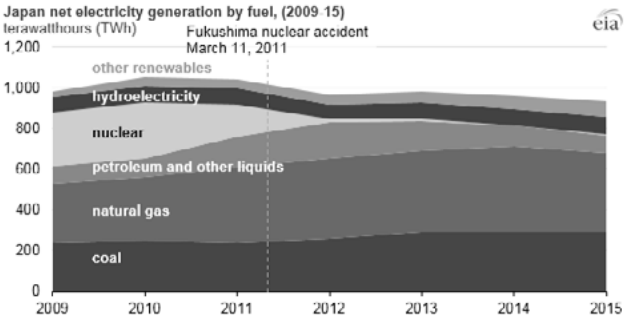
Thermal coal, on the other hand, is substantially on the nose, and while usage is still climbing in non-OECD nations, it is already in terminal decline in OECD nations. Recently, in April 2017, the United Kingdom experienced its first day without burning coal for electricity since the industrial revolution in the 1800s.



World Coal Consumption by Region 1980–2040 (forecast). Source: US Energy Information Administration

Australia's main export markets for coal are Japan and China, two markets in which the use of coal is forecast to decline through 2040.

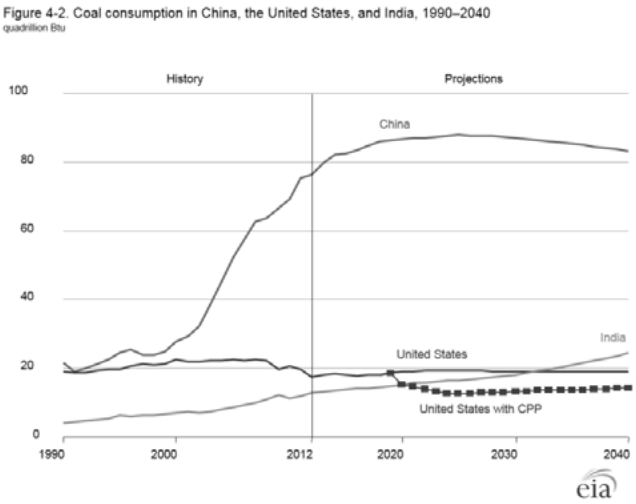
Australia's top export market for coal is Japan, and the unfortunate news is that the ramp up in coal exports here is a short lived adaptation after power companies idled their nuclear reactors in the wake of the Fukushima disaster. Between a zombie economy and fertility levels far below the replacement rate, Japan's population is shrinking and thus naturally net electricity generation has also been declining in Japan since 2010.



Japan net electricity generation by fuel 2009–15. Source: US Energy Information Administration

Coal consumption in China has dropped three years in a row, and in January 2017, 100 coal fired power plants were cancelled. China has announced that it is spending a whopping $360 billion on renewables through 2020, and this year is implementing the world's biggest cap-and-trade carbon market to curb emissions.

Blind to the reality of this situation, Australia is ramping up coal production while China commits to ending coal imports in the very near future in what can only be described as a last-ditch "dig it up now, or never" situation.



Coal Consumption in China, the US and India 1990–2040. Source: US Energy Information Administration

Coal exports rely on substantial investment by investors who build significant infrastructure, like

ports and rail, the cost of which is shared among users according to volume. If a coal company defaults then the remaining coal companies pay extra to collectively cover the loss. A single failure can significantly increase the cost to the other users and can in turn cause pressure on the remaining partners. As this happens, their bonds get downgraded causing balance sheet erosion that ultimately can impact project viability.

Moodys recently downgraded the ratings of several Australian coal ports - including Adani's Abbot Point - after U.S. coal miner Peabody Energy, which ships through these ports, defaulted on several of its bonds.

Despite all of this, some in government can't get their head around why the Big Four banks and major investment banks including, Citigroup, JPMorgan, Goldman Sachs, Deutsche Bank, Royal Bank of Scotland, HSBC and Barclays are not keen to fund the gargantuan Carmichael coal project in Queensland's Galilee Basin.

The (now former) deputy Prime Minister of Australia, Barnaby Joyce, a New Zealand-Australian politician who served unconstitutionally as the Deputy Prime Minister of Australia, wants Australian taxpayers to be the lenders of last resort to Adani, an Indian miner, for $900 million to build a rail line from their proposed Carmichael Thermal Coal Mine to the port at Abbot Point, where it would be shipped to India. Adani is looking for a handout because, unsurprisingly, the banks knocked them back because the project was too risky and the public backlash against the project has been overwhelming. If it does go ahead, it is likely to be a rail line to nowhere, because by the time it opens, there is a chance that the project will be unviable.

Unless the government steps in, it's increasingly more likely that the project will go the way of the Wiggins Island coal export terminal, the fraught development originally conceived by Glencore and seven other project partners in 2008, at the literal top of the market for coal. Since conception, three of the project's original proponents—Caledon Coal, Bandanna Energy and Cockatoo Coal—have gone into administration. Only one of the project's three stages has been completed, at twice the estimated cost. The five remaining take-or-pay owners have been left with more than US$4 billion in debt to repay and hope is fading on any chance of refinancing before it all falls due.

What makes the Adani project so absurd is that India has recently cancelled more than 500 gigawatts of planned coal projects and the Indian government has said, however realistic that may be, that it intends to phase out thermal coal imports- precisely the type of coal Carmichael produces- entirely by 2020.

It's even more perplexing when you consider that 2016 was the year that solar became cheaper than coal, with some countries generating electricity from sunshine for less than 3 cents per kilowatt-hour (which is half the average global cost of coal power) and by October 2017, wind power is now cheaper than coal in India.

Furthermore, global policy to limit the rise in temperatures by 2% could result in a 40% drop in the trade of thermal coal, which would cut Australia's exports of such by 35%, according to a study by Wood Mackenzie. In 2014, thermal coal was 51% of our coal exports by volume, and this is precisely the type of coal that will be mined by Adani at Carmichael.

Given that Baarnaby's service was ruled invalid, one can only hope that his actions regarding Government funding for the Adani project might also be invalidated and we can put this flawed project to bed.

Recent events have given manifest life to Mark Carney's landmark 2015 speech in which Carney, the Governor of the Bank of England, warned that if the world is to limit global warming to below 2 degrees, then the estimates for how much carbon the world can burn makes between 66% and 80% of global oil, gas and coal reserves unusable.

In an essay last year, David Fickling wrote

> *"More than half the assets in the global coal industry are now held by companies that are either in bankruptcy proceedings or don't earn enough money to pay their interest bills, according to data compiled by Bloomberg. In the U.S., only three of 12 large coal miners traded*

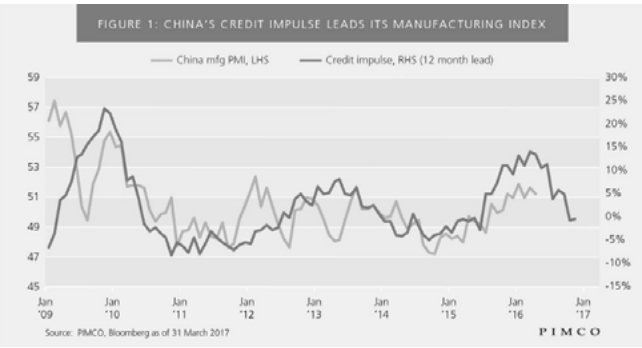
on public markets escape that ignominious club, separate data show".

Losing coal as an export will blow a $34 billion dollar per annum hole in the current account, and there's been no foresight by successive governments to find or encourage modern industries to supplant it.

What is more shocking is that despite the gargantuan amount of money that China has been pumping into the system since 2014, Australia's entire mining industry- which is completely dependent on China- has struggled to make any money at all.

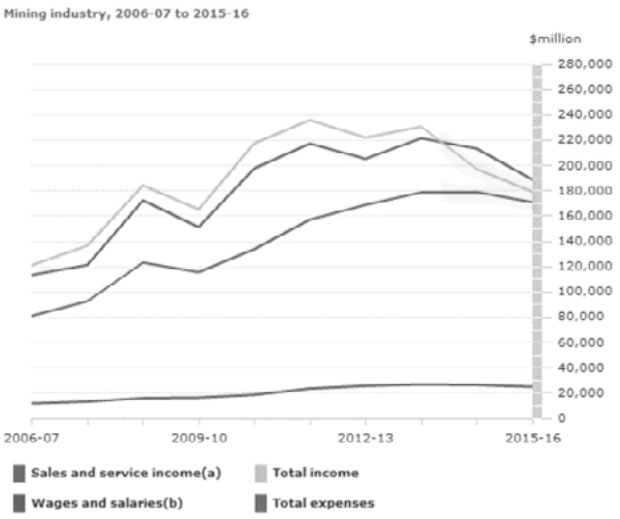
Across the entire industry revenue has dropped significantly while costs have continued to rise.

China credit impulse leads its manufacturing index (which in turn fuels commodities).



According to the Australian Bureau of Statistics, in 2015–16 the entire Australian mining industry which includes coal, oil & gas, iron ore, the mining of metallic & non-metallic minerals and exploration and support services made a grand total of $179 billion in revenue with $171 billion of costs, generating an operating profit before tax of $7 billion which representing a wafer thin 3.9% margin on an operating basis. In the year before it made a 8.4% margin.

Yes, the entire Australian mining industry.



Collectively, the entire Australian mining industry (ex-services) would be loss making in 2016–17 if revenue continued to drop and costs stayed the same. Source: Australian Bureau of Statistics

Our "economic miracle" of 104 quarters of GDP growth without a recession today doesn't come from digging rocks out of the ground, shipping the by-products of dead fossils and selling stuff we grow any more.

David Llewellyn-Smith recently wrote that this is unsurprising as "the Australian economy is now structurally uncompetitive as capital inflows persistently keep its currency too high, usually chasing land prices that ensure input costs are amazingly inflated as well."

With an economy that is 68% services, as I believe John Hewson put it, the entire country is basically sitting around serving each other cups of coffee or, as the Chief Scientist of Australia would prefer, smashed avocado.

Wider tradables sectors have been hit hard as well and Australian exports are now a lousy 20% of GDP despite the largest mining boom in history.

Successive Australian governments have achieved economic growth by blowing a property bubble on a scale like no other.

Read the remaining 60% of the article:
https://medium.com/@matt_11659/matt-barrie-australias-economy-is-a-house-of-cards-6877adb3fb2f

A BRIEF HISTORY OF MONOPOLY

by Andy Warner

The original version of Monopoly was the brainchild of a feminist radical ~~anticapitalist~~ woman from Washington, D.C., named Lizzie Magie.

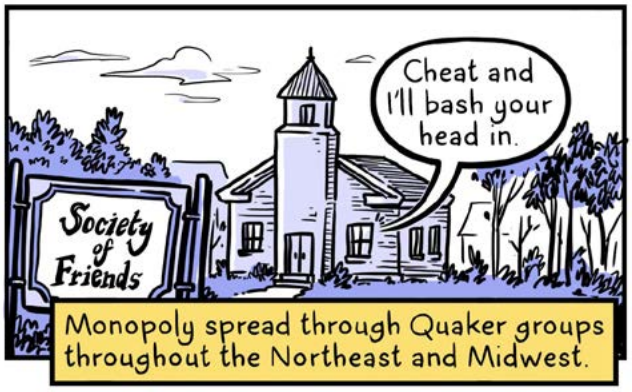
Magie was a big fan of Henry George, a Progressive economist who wrote about the negative social impact that land monopoly had on rent.

Magie had an unorthodox idea for how to teach George's economic theories to the masses.

In 1903, she created "the Landlord's Game," which had players running around a board gobbling up property and charging rents.

An economics professor and prominent socialist named Scott Nearing came across Magie's game and taught it to his classes.

At some point, one of these boards was introduced to a Quaker congregation.



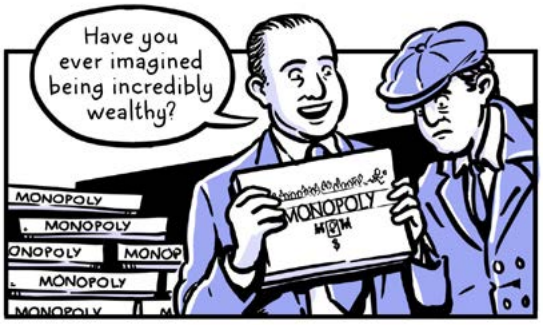
Magie patented the game and began distributing it herself.

His students at the University of Pennsylvania and the University of Toledo began making their own boards so they could play at home.

The Quakers made their own boards, changed the rules a bit and renamed the game Monopoly.

Homemade copies of the game continued to spread.

Darrow produced his own version of the Atlantic City board and marketed it as Monopoly.



Scrubbed of Magie's politics, Darrow's version came across as a celebration of capitalism, the opposite of its original intent.

Darrow sold his version of the game to Parker Brothers.

Americans were eager to get the grinding Great Depression off their minds and play at being wealthy. People bought the game in droves.

When Magie began to make noise about the rip-off, Parker Brothers quietly bought out her patents and pretended nothing ever happened.

BRIEFER HISTORIES

Magie's story was only uncovered in 1973 after Parker Brothers sued to stop a satirical game called Anti-Monopoly.

Parker Brothers lost the suit.

In 1904, Magie held a stunt auction where she "sold herself as a slave" to protest women's low wages.

thenib.com/brief-history-of-monopoly

Is the Queen a Georgist?

A transcript of Phillip Anderson from the 126th Annual Henry George Commemorative Dinner

An Englishman, an Irishman and a Georgist walked into a bar. They were in France and they promptly were arrested, the French Secret Service arrested the three of them for spying in France.

Now, of course, if you're arrested for spying in France and if it's proven that you're guilty, you get the guillotine. The guillotine was named after Mr Guillotine because it was a very effective method of execution. They were properly arrested and put into jail, French jail, not a really good place to be, and sentenced to execution with the guillotine. So the Englishman comes up first and he's there, he's lying on it, and the execution's all set to take place and the guillotine gets stuck. Now under French law if the guillotine gets stuck, if it doesn't come down and take your head off on the first go, you're set free, so the Englishman was set free. It's the Irishman's turn, so the Irishman gets onto the stage and the guy that's in charge puts his head into the dip and the blade doesn't come down again, so the Irishman is set free. So the Georgist gets up, the Georgist comes up, he's on stage, he's ready to be executed with the guillotine, he looks up at the guillotine and he says, "Wait, stop! I see the problem".

Now, all Georgists will get that because that is the quintessential problem, is it not? Yes, we can see the problem. You see the problem, you stand up for it and you are, in one sense, properly executed.

Before I go any further I will take the time to introduce myself a little bit for those who haven't heard me speak before, I'll go through a little bit of my history of what I've done, then we're going to ask the question about the Queen, then we'll do a little bit more about the whole economy, if we get time we might do some forecasting. I'd like to leave a good bit of time for questions.

Is the Queen a Georgist? I have a suspicion that for some Georgists in the audience you might be in for a paradigm shift this evening, we'll see how we go. You can judge me about that at the finish.

To give you just a little bit about my history, it must have been back in about 1990 or thereabouts, a few years after I had travelled the world. I spent nearly two years travelling around the world. I resolved when I was travelling that I would not come back to Australia until I had worked out why things are as they are and why we get the

politicians that we do. I really didn't have some of the answers when I came back, but I resolved still that I'd find them. I spent a good deal of time in India and I came back a fairly angry young man, so I did probably the dumbest thing you could do and I stood for parliament because I wanted to change a few things. I joined the Australian Democrats because they were pretty much centrist you could say, I also thought because they were moderates. I also really, really liked what I used to hear from Don Chipp in those days and also Janine Haines.

I stood in the seat of Hotham, which is where I both lived and worked, and I was standing against Simon Crean. When you stand for a political party or when you stand and do some of that stuff in politics, there are lots and lots of groups that send you their political paraphernalia. One of the groups that sent me some material was the Henry George League in about 1990, thereabouts, and they sent me a little brochure by Winston Churchill. I threw it immediately in the bin. There was absolutely no way I was going to read anything by that right-wing Tory, as such. Now, in those days I was so far left of centre that I was in the Anarchists' Society really, if you could call it that anarchists had a society. We'd meet at Ross House and I'm still there in Ross House. They were some of the most interesting meetings I've ever been a part of really, it was fantastic. So for me to get something from Winston Churchill was a bit of an offence I thought.

Anyway, three months later, after politics was over. I was at the family property down at the beach and the Winston Churchill booklet fell out again and I thought, "Oh okay, synchronistic, there's got to be something about that" so I started reading. I got to the little piece in Winston Churchill's book about where the bridge across the Thames …. there was a toll on the bridge to get from one side to the other and the poor people were complaining that they had to pay the toll every day to get from one side to the other, so the politicians scrapped the toll.

Winston Churchill wrote this - one month later it was found that the rents on both sides of the river had gone up by the exact amount of the toll.

That was an absolute astounding revelation for me. It completely changed my life. I saw everything in an instant and then I knew what I had to do after that. So I immediately went down to Prosper, read all the material, signed up and the rest is, as they say….. I was very fortunate that somebody back then gave me a book from Fred Harrison. Now my beat, I've always been interested in economics, my beat's been largely to do with cycles as well because the business that I was in at the time, it was a family business, we employed about 300 people. It was in ladies' lingerie.

Now for some reason, don't ask me why, ladies tend to buy more lingerie and lipstick in a downturn, hence the business that we had was a cyclical business, certainly in the fashion field. It was often actually countercyclical, our business tended sometimes to have a good idea if there was a downturn coming because suddenly the embroidery market would pick up, which was what we were in. So that gave me a good cyclical background.

Somebody handed me Fred Harrison's *The Power in the Land*. I've been greatly interested in cycles. Fred's book greatly impressed me - it's a book I think you should read - because Fred wrote the book in 1983 forecasting for the world, particularly the UK, to go into a severe depression in the very early 1990s, 1990/91, at least after 1989. Fred called that depression seven years in advance.

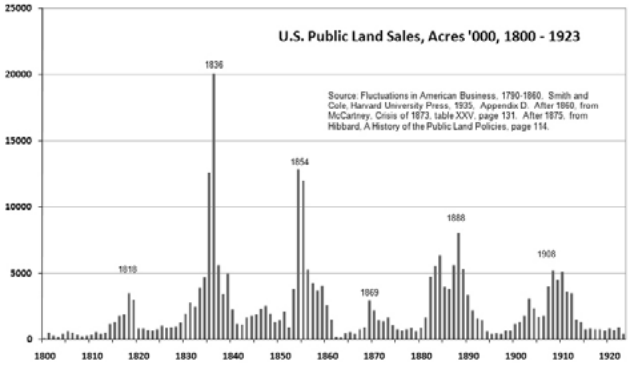
Now, a bit more of my history. I started an interest in the stock market when I was 14, I used to pull up the papers before I was off to school or afterwards. I'd get *The Herald* in those days and I would just briefly jot down the prices of some of the stocks that I was interested in. One of the stocks in those days was a stock called Renison Goldfields and I'd noticed that some days Renison Goldfields had traded 20 cents, some weeks it would trade at 25 cents, sometimes 30, back down to 20. I thought to myself if I could buy at 20 and sell at 30 I wouldn't have to work for the rest of my life. That was my goal. Of course, as we've all known since then, it became far more common to be buying at 30 and selling at 20 and I lost a bit of money.

Needless to say, Fred's book came up at a very, very intriguing and interesting time for the family because as a family we had a couple of decisions to make because it was now 1991. Most of Australia was in recession if not in Melbourne, if not depression by that time. We had a business that was still had a positive cash flow, it was still going well. The banks knew that and the banks were looking for people to offload property to that could then continue to pay the interest on the loan, which meant then the banks had performing property on their loan book. So at that time I was reading this book. My family had a difficult decision to make. Do we buy these properties? We're not talking chicken feed here. We're talking significant commercial buildings, more than 20. So we bought on the knowledge that real estate, according to Fred Harrison, has a rough 18 to 20 year cycle.

After that, things kept moving. I decided I wanted to work and run my own business. After having finished Fred's book I knew then that I could probably make a business out of economic forecasting, because once I'd cottoned on with Henry George I was absolutely certain I wouldn't have any competition because, after all, which of the mainstream forecasting houses are going to come out and understand land and then start promoting land taxes? It was unlikely to happen.

I thought if Fred could write about the UK, I'd write about the US. So I went ahead and researched the US and here's what I found.

You have a chart there of public land sales instituted by the Federal American Government after 1800. Now, just to put some context to that chart, after the Americans thrashed the British and threw them out of the country, the 12 American states got together to form a Federal Government. To give the Federal Government something to do, the 12 states ceded all the land that they owned to the Federal Government and



the Federal Government then began selling it off to all of the United States citizens and anybody who would come to America to live there. So, as in typical American fashion, the Americans record absolutely everything.

From May the 10th 1800 their Federal Government started selling off the real estate. So you can see where I started - you have to remember that we're talking here 1993/94, that research, when I was trying to find land sales, it's pre-internet and it's pre-Google. I mean, we are talking dinosaur age now, yes? Eventually, I found that book which I've referenced there. I had to go up to the public library, which was up in the top end of Swanston Street in those days, and I'd sit under the dome and I'd try and get a list of books I could see that might be of interest regarding land sales. I'd then go to the librarian and she would contact the Library of Congress or wherever the book was in the United States. The book would be posted out here, I'd read it, send it back.

To illustrate how far we've come with the technology, I was the other day watching a bit of a kid's show, a film called *Zootopia*. I don't know

if anybody's seen it, but I find often the best adult jokes are in kid's movies and this was no exception. At the end, one of the singers comes on and sings a song. I didn't know who the singer was and I wanted to know. I just pulled out my iPhone, I hold the iPhone to the TV and the iPhone tells who it is. And the singer happened to be Shakira. I mean, how cool is that? That's happened in 20 years. I mean, you think about all the stuff that had to happen to make that happen?

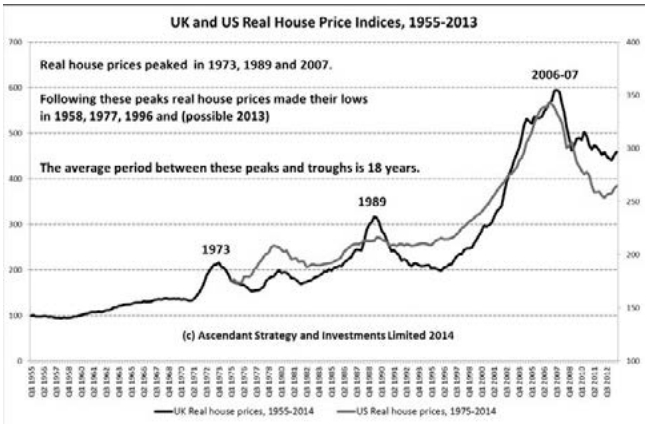
As I've tried to show you within the *Cycles, Trends and Forecast* newsletter, I try to show it and it's something that absolutely nobody tends to get. Ultimately those productivity gains in the end must flow through to land price. It's the iron law of economics. There's just no other way around it. We'll come to a bit of that in a minute, because I want to finish off telling you what I've been doing.

So you can see when I plotted the figures for US public land sales, the United States experienced a land boom every 18 years: 1818; 1836; 1854; 1869, it was 1872 in Chicago; 1888; 1908. The next one from there was 1926, which involved Florida. Here you had it, after Fred had said every 18 years there's a real estate bust after a big boom and here we had the figures again that I'd assembled. That's when I thought, "Yes, I have a business here. I can go out on my own" so that's what I started to do since 1995.

I ended up in France and the UK for good and interesting reasons. I ended up meeting a very good friend of mine, Akhil Patel, who has been interested in the same research as me and he's also seen a lot of Fred's work. So he and I put together some UK and US real house price indices and you can see there since 1955, which Fred so neatly showed was the land price low point in the US, we had a boom, a peak in 1973, 1989, and then as I was putting things together what odds were you going to get for 2006/7 as a top?

We've since come down there and you know the story after that. What odds do we have if the cycle's to repeat, which I'll show you why it will. What odds do we have for another boom going into 2026, which is just the 18 year cycle, if history's to repeat?

Akhil put that in another way. He stylised the 18 year real estate cycle this way, which you can see. We've put the lows at 1955, 1975, 1993, and now from the data it shows the lows in 2012. You can break down that 18 year cycle and you get 14 years up, four down. That's been year perfect since 1955. From the lows, and so from 2012, you get seven years up, that's going to take you to 2019.



I've been showing this since 2009 - it created great controversy in 2010, '11 and '12, but this is starting to look pretty good now, isn't it? Yes, seven years up taking us to 2019.

We've just seen a great real estate man elected President. He's going to cut taxes shortly, where's that going to go? It's going to go straight into land value.

We're going to get a big boom at the peak to take us into 2019. Then we'll get a pause. If history's to repeat, we head up for another seven years. Fred Harrison spoke beautifully about a "winner's curse" phase and it's the last two years of the real estate cycle. It's in those two years that you just never should be over-leveraged because the people that get over-leveraged in the last two years of the cycle go bust, they break completely. Then from there, 2026 it will presage, if history's to repeat, a severe depression in 2028, if history's to repeat.

Everything you see around you (The Docklands), all the wealth and certainly since 1991 all that you see out there has been built from the ground up. There was nothing there before 1991, in fact, even before 1996 really. That is wealth. You need land, labour and capital equipment to get that wealth. But it is all about earnings and the earnings are rent, wages and interest, but for the sake of the argument we'll call it profit. Earnings are the key, that's what you've got to study. The question then gets asked what do you pay for

earnings? This is a question that all the analysts in the stock market ask themselves every minute of every day - earnings.

Now let me give you an example of this so I can prove to you over the next three or four minutes why the real estate cycle must repeat, and it's easiest to explain this way. Let us say, for example, that you own a hairdressing business and you've been earning a good wage and a good salary, the hairdressing business has been earning well for the last couple of years, but for some particular reason, whatever it is, you decide to sell that business. How do you decide what to sell for? What price do you put on your business? I don't know. What price do you put? It's a bit of a rhetorical question there from me, some people say, "Well, it's demand and supply, it's whatever somebody will pay". But there is an accounting method to work out the price of something and the price of something is always a multiple of the earnings. A hairdressing business is usually priced at two times earnings, so if the earnings for the year are $50,000, if you go to sell your business and you get a valuer or an accountant to do that for you they are going to say your business is worth, somebody will buy it from you for $100,000. Does that make sense for everybody so far? Yes?

Now remember, going back one - the earnings. If you've got land you collect rent, if you've got labour you collect wages, capital equipment you're collecting interest or profit. Let us assume for a minute Karl Marx has been reincarnated and decides to stand for government. His policy manifesto is to scrap all taxes, except a tax on business earnings and corporate profits. So he is going to tax business earnings at 100%. Now imagine, just try to recall what I'm suggesting about earnings. The price is just the capitalisation of the earnings, so in the stock market the price of all the banks in the stock market for instance, the price of the Commonwealth Bank, the price that you pay for one share, usually the market will value Commonwealth Bank at about somewhere between eight to 11 times earnings. If you wanted to buy a retailer of some sort, for some particular reason, I don't why this is, the market will generally suggest retailers are valued at about 20 times earnings. Now it goes up with various things, but that's about the average. Let us say that our Karl Marx has been elected and his policy is put into practice, from now on all corporate earnings are taxed at 100%. What would be the price of most businesses? What would be the price of their shares? The businesses would still be there, they're generating earnings, but what's the price of the shares? Nothing, zero pretty much, yes? Okay.

Now let us suggest I decide to stand for parliament again and by some wildest dream or wildest imagining's I get elected on a platform of getting rid of all taxes except one.

> *The only tax we're going to have is what I would call a rent resource tax, a site rent, but my opposition would say, "Oh, that's just a land tax". So let's call it a land tax, for want of a better word.*

That means that there's going to be no GST, no payroll taxes, no taxes on wages of any sort, there'd no taxes on corporations anything like that, it's just going to be a tax on land value. Now, we need to know that as a general rule, you may not have thought of this, you may not have considered it, land is generally priced at 20 times earnings usually. That will go up in good times, comes down a little bit in bad times, but the land price will be 20 times its earnings.

If I get elected and the policy is put into practice, what would be the price of land? Zero because the earnings are being taxed, the earnings cannot be capitalised into a price. The use value does not get affected, but the price would be zero.

It's a concept most people understand when you talk about stocks, but when it comes to land most people cannot get this concept of a society where land price is zero.

Now these days, the only way I can show you that we must get a real estate cycle is because we don't have land taxes.

I've got to reach carefully into my pocket here. If I was to put this pen here and if I let this pen go, which way is it going to fall? Downwards. Absolutely nobody in this room would argue with me about that because it's clear we know the law of gravity. The law of economic rent is to economics what the law of gravity is to science.

So if the economic rent, if the earnings of land are not collected through some sort of mechanism, then those earnings are going to capitalise into a price. It's a price people will chase and we will get a real estate cycle, it's as simple as that.

It just staggers me, it's a concept so many people outside this room just don't cope with, but I'm okay with that because all of my *Cycles, Trends and Forecast* readers, that gives you an astounding advantage in the market, it really does, because you can use it to do all sorts of wonderful things as far as investment goes. It gives you a theoretical, well it's more than that, it gives you a structure with which to have a look at the world around you and to judge what's happening and when. So it was just absolutely no surprise to me, President Trump, Donald Trump, he's been elected at the exact sweet spot, a real estate man, at the exact sweet spot of the real estate cycle. If Trump wanted to make himself immortal, he won't because his ego's too big, but if he wanted to make himself probably the best President of all time he simply doesn't have to do anything at all because the economy will do it for him. It really will and it's astounding what's happening in America at the moment, some absolutely amazing productive forces.

Is the Queen a Georgist? Here she is, she's on the $5 Australian note. I have a couple of notes. The Queen owns 19,000 acres of real estate around the UK, mostly. The Duke of Westminster owns 133,000 acres of land around Great Britain, 300 acres of which is in Mayfair. I did some digging around and you can see there are basically six owners of London land. You have the Cadogan Estate, the City of London, the Crown, which is the Queen, the Grosvenor Estate, the Howard de Walden Estate and the Portman Estate.

So you can see there the Grosvenor Estate, which takes in 300 acres of Belgravia and Mayfair - that's a nice 300 acres to own. Just that 300 acres generates about £175 million a year, that goes straight into the pockets of the Duke of Westminster in his business; the Cadogan Estate (Knightsbridge, Kensington, Chelsea area), £121 million of rental income and so on.

But it's the Queen I'd like to talk about, because I have a suspicion very few people in the room

Ownership of Central London

Source: The Economist.

probably understand much about what the Queen does. Now, I'm going to read a quote here because I think this is the best way to explain it, and this comes from *The Times* in the UK. It's in the business section and the title there is headed *Crowning Glory for 'the Queen's Property Firm'.* So if you could just bear with me while I explain it, it's only about 100 words, 150 words, but it explains the Queen's system.

> *"Timing, they say, is everything and a decision taken four years ago to redevelop a large tract of St James in London has paid off handsomely for the Crown Estate. The Estate, which is often called 'the Queen's property company', said it had delivered a record £328 million to the Treasury last year, this is up 8% on 2015. In the past decade, the Queen's property company has returned more than £2.6 billion to the Exchequer."*

Are you starting to get an inkling of whether the Queen is Georgist or not?

Now this is the important bit - now this is printed in the paper I might add, so I'm not making anything up. The Crown Estate essentially dates from 1066, but in 1760 George III surrendered crown revenue to the Treasury as part of a deal that relieved him of his personal debts, relieved him of the national debt, and relieved him of responsibility for the cost of civil government.

The Queen's surplus income goes to the Treasury. In return, the Treasury pays the Queen every year a citizen's dividend. The Treasury pays the Queen £40 million every year for her to carry on her work.

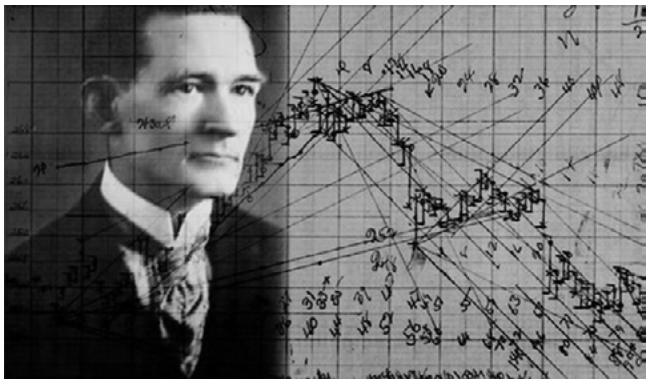
I'm sure she's probably, definitely, she's definitely worth it, £40 million a year, because she would generate far more than that in the tourism industry of all the people that go to see the House of Windsor and all the attached properties. Now, fellow Georgists, you tell me if that is not pure Henry George? Is it not? The income from every piece of property that she owns goes to the Treasury. The Treasury then collect it and then pay her a dividend.

One of the fastest growing businesses of the Queen is offshore wind energy. The Crown Estate has control of 30 wind farms and it's helped to build a well-established wind farm industry for the United Kingdom. She added that during the past year, the Estate's strongest rise in valuation had come from the energy, minerals and infrastructure division where values had risen 18% to more than £1.1 billion.

So the Treasury is managing those assets on behalf of, firstly, the Queen, but also the people. The sector is now meeting over 5% of the UK's electricity demand and is on course to meet 10% by 2020. The Crown Estate also generated record surplus income of £12.1 million from its assets in Scotland, which include the rights to salmon fishing, wild oysters, sites such as Kings Park at Sterling. Now shouldn't the government be collecting that sort of revenue?

But it's the last year that the Crown Estate will be managing these assets because those assets - that's the salmon fishing, the wild oysters, sites such as Kings Park at Sterling - have been transferred to the Scottish Government under devolution. I bet the Queen was not happy about that. The Crown Estate Scotland will manage the assets and profits will go directly to the Scottish ministries and not to the Treasury. The more that the income is collected by the Scottish and UK Treasuries, the less that the people of England have to pay in taxes. So you tell me, is the Queen a Georgist or not? Now, would she have any understanding of Henry George? I doubt it. Do you think she's happy with the arrangement of all that money going back to the Treasury and she only sees £40 million? I doubt it either, they're always asking for more money. But the UK Government could, if it wanted, do the same thing for the Duke of Westminster and simply say, "Duke, that revenue belongs to the people and we'll pay you back a citizen's dividend". Do you think the Duke would be happy with that? This is why we've got the system we've got today, which is why we are where we are.

So there we have it, that's pretty much what I wanted to cover. For the next couple of minutes we can talk about the economy in general. Because we must get a real estate cycle you see the situation as we've got it out there and around people having to work, couples having to work a 40 hour week to afford one particular house where it used to just take one income, all the problems you see.



In the early 1900s there was a chap named WD Gann, he happened to also believe in cycles. Gann in his study of time rediscovered that time moves in sets, for want of a better word, vibration or frequency and Gann suggested that if you could get the birth date of something or if you can get a major top or a major bottom which is easy to spot in the stock market. He was then able to calculate backwards and forwards using specific time counts when the next top or bottom should happen in the stock market. Now I think you'd agree this would be very useful information to know if you like trading stocks like I do, yes? I've since come to see a little bit about what Gann was doing.

Gann essentially used time in a circle, with 360 degrees in a circle, he divided the circle by two, which gave you 180, by three, which gave you 120 (a triangle), by four, which gave you four equal

divisions of 90 degrees being a square, by five which gives you 72 and so on around things and he found that history tends to repeat in set timeframes. If we stop talking a little bit about real estate and we move to the stock market, I've shown you how real estate has a 14 years up and four down cycle and it is exactly 18.6.

The brilliance of Gann, somehow Gann cottoned onto a timeframe, and he released this in what he called his financial timetable. That financial timetable since 1909 has accurately forecast what the US stock market would do year in year out. I know that sounds really hard to believe.

If you were part of my *Time Trader* service you'll have seen that financial timetable and so far it's been very impressive. The financial timetable breaks the 18 year cycle down year by year according to what the US stock market will do year by year. It repeats every 18.6 years.

Gann also had what he called a decade cycle where he felt the US markets will repeat from year one to year zero. What you have in front of you is the rough outline of what Gann called his decade cycle shape. If you go and study the Dow back a hundred years you will find the Dow consistently bottoms in years one and two, it consistently starts rising in year four, it always has a positive bullish year five, and it usually goes sideways upwards year six. Then in year seven we get to the 84th and the 90th month, which brings us to August, where the US stock market tops out. If you're following markets at the moment we have a very interesting situation where after 90 months from the bottom, August, the US market is starting to top out. Years ending in seven, normally around about October you tend to see a bit of a top again and then you get a bit of a reaction, one or two months downwards, back up years eight and nine. I'm very bullish about the world economy, as all of you know, despite the odds, despite everything that's been happening, and I'm bullish because if you go back 30 years, from 1982 to the beginning of 1990, the US stock market was very bullish, with a correction in the year ended in seven. If you go back 60 years, from 1952, 1951 really, the US stock market was very bullish right up until January of 1960. Now you have a repeat timeframe going there. If you count forward 60 years from January 1960 that will take you to January 2020, with very good odds that the US stock market will continue up until about December of 2019.

Can you see how that rough shape 60 years ago and, again, we had a bounce in October of 1957, that's when the Russians launched Sputnik and it caught the Americans by surprise? Ninety years back was the 1920s, a very bullish decade, again. Can you see the lows in years two and three, going.up to a bit of a bounce in 1927? It was serious at the time, but they got over it pretty quick, up to the top in 1929. 30, 60, 90 years back, which are the typical timeframes Gann would have talked about. Again, the decade cycles, the Dow has followed that. You could overlay the Dow on that almost perfectly and that's the 2017 curve.

Dow Jones Industrial Average 2017 Forecast Chart

Black - All Years Grey - 10,20,30,40,60,90,120

So my forecast, which I've been doing for a number of years now and this slide was at the ATAA in Melbourne some years back, back in 2015, topping out August 2017 for a reaction in October, we'd be up with a mid real estate cycle peak in 2019. It's in that year, 2019, you're going to see a lot of tall buildings open up, they'll be big ones and then the usual mid cycle slowdown in 2021, and then the real estate cycle is really going to let loose because after 2021 into 2026, that's when everybody's got a lot more money. We've been through the hard stuff. The speculation really starts to take over, all of the financing, all of the ponzi stuff all comes out after 2021. It's going to be amazing to witness this time. In my opinion it's going to be bigger than ever. It's going to be absolutely massive and I think we're on the forefront of what will be one of the biggest real estate booms of all time, especially in the US, but certainly in other places. Thank you.

http://phillipjanderson.com/

Geoists in History
David Ricardo (1772-1823) *by Karl Williams*

"The interest of the landlord is always opposed to the interests of every other class in the community."

The father of classical political economy, David Ricardo, was more than a theoretical economist for his economics armed the reformers attacking the agricultural aristocracy's obscene economic privileges. While his days on Earth were few, his impact still ripples down the ages to this very day.

Both political extremes drew on his work for its pioneering formulations - those who favored his laissez-faire capitalism, and those who opposed it. As a politician, Ricardo was given a stage to present his opinions regarding a wide range of issues, and his stature in the newly emerging field of economics enabled his writings to influence some of the great thinkers of his day.

As so many historians have said, "the nineteenth century belonged to Britain", and Ricardo's promotion of free trade gave an incalculable boost to British industry and global influence. While some of Ricardo's theories have been modified and superseded, his foundational role in the development of economics is secure for all time.

Born in 1772, Ricardo was the third of seventeen children. His family was descended from Iberian Jews who had fled to Holland in the early 18th Century with Ricardo's father, a stockbroker, having emigrated to England shortly before David was born.

Economics seemed to be in Ricardo's blood, even though economics itself was only a nebulous emerging discipline at the time. He joined his father's stockbroking business at the tender age of 14 and immediately showcased his exceptional business acumen in dealing with financial matters.

If Ricardo's life had stayed on track, he would have carried on the family business with great success, immersing himself in family matters and the family's orthodox Judaism..... but the world would never have heard of him. The Universe would have to drop a bombshell to shake things up, and did so in the form of a young Quaker woman for whom Ricardo fell head over heals. In the wake of his decision to elope with his darling Priscilla at the age of 21, he was immediately disowned by his family with his mother never speaking to him again.

Never mind! Ricardo left orthodox Judaism behind, followed his own star, and never looked back. His impressive performance in the stock exchange thus far had meant that he could continue operating as a member without his father's support, and he soon received the backing of a banking house.

At this point, Ricardo had two key qualifications to shake up the world … (1) a brilliant mind, and (2) his escape from restrictive family influences and stifling religious orthodoxy. It didn't take him many years to attain the third requirement which would enable him to develop breathtakingly original intellectual discoveries - namely, the massive wealth which would allow him the freedom to retire from work and follow his educational interests. After making a few killings on the London Stock Exchange (by today's standards, around US$100 million), he was off and running.

How can a person make so much money that quickly? "Only by dodgy means!" comes the

chorus. It is reported that Ricardo made the bulk of his fortune as a result of speculation on the outcome of the Battle of Waterloo. Prior to the battle, Ricardo posted an observer to convey early results of the outcome. He then deliberately created the mistaken impression that the French had won by initially openly selling British securities. A market panic ensued. Following this panic he moved to buy British securities at a steep discount. *The Sunday Times* reported in Ricardo's obituary that during the Battle of Waterloo Ricardo "netted upwards of a million sterling", a gigantic sum at the time. When word got out about his market manipulation, his position on the floor of the stock exchange no longer tenable and so he immediately retired. He then purchased Gatcombe Park, an estate in Gloucestershire (now owned by Princess Anne), and withdrew to the country. He eventually had eight children or, as they preferred to put it in those days, "he had three sons".

Ricardo had become interested in the emerging field of economics after reading Adam Smith's *The Wealth of Nations* when he was 27, but after he had begun to make his fortune he was able, in the style of an English gentleman with no need to work, to follow his intellectual interests. In oak-paneled studies, his ideas were fuelled by conversations with friends who were some of the world's great intellectual giants. These included the utilitarian philosopher Jeremy Bentham and the influential thinker Thomas Malthus.

It wasn't until 10 years after reading Smith that Ricardo wrote his first economic article, which only left another 14 years before his time was up. While his style was rather abstract, he is still greatly regarded for his ability to arrive at complex conclusions without any of the mathematical tools now deemed essential.

His interests spanned all areas of economics - nay, in many instances he pioneered economic theory. He was an early advocate for the quantity theory of money, or what is known today as monetarism. He articulated what became known as the law of diminishing returns and developed many theories of wages and profits.

Our understanding of the advantages of free trade is greatly indebted to Ricardo. He challenged the prevalent idea that the purpose of trade was merely to accumulate gold or silver. With "comparative advantage" Ricardo argued in favour of industry specialization and free trade. He demonstrated how industry specialization combined with free international trade produces positive economic results. Ricardo's novel illustrations showed how that there is mutual national benefit from trade even if one country is more competitive in every area than its trading counterpart and that a nation should concentrate resources only in industries where it has a comparative advantage.

Ricardo fearlessly took on Britain's landed aristocracy. In 1815 a controversy arose over the Corn Laws, when the government passed new legislation that was intended to raise the duties on imported wheat.

Ricardo immediately responded to the Corn Laws by publishing his Essay on the Influence of a Low Price of Corn on the Profits of Stock, in which he argued that raising the duties on imported grain had the effect of increasing the price of corn and hence increasing the incomes of landowners and the aristocracy at the expense of the working classes and the rising industrial class.

He argued that the abolition of the Corn Laws would help to distribute the national income towards the more productive groups in society.

In 1817 Ricardo published the ground-breaking *Principles of Political Economy and Taxation* in which he developed theories of wages, profits and rent (with rent being the benefit that accrues to scarce resources). Ricardo demonstrated that, because of the unique qualities of land, the interests of landlords were not only antithetical to the rest of the community, but landlords and capitalists were adversaries.

Ricardo's *Law of Rent* and his identification of the singular behaviour of rent is perhaps his greatest contribution to economics. In contrast to the Property Council of Australia which still today dishonestly proclaims that they'll pass on any geoist charges on land onto tenants, Ricardo demonstrated 200 years ago that a tax on rents falls wholly on the landlord.

It's worth restating the Law of Rent here in succinct modern terms.

RICARDO'S LAW OF RENT

WHO GETS THE COCONUTS?

Robinson Crusoe finds himself alone on a desert island. Rob naturally settles on the best available land which, for argument's sake, can produce 20 coconuts per hectare per week. Along comes Man Friday, who gets the second-best land producing 18 coconuts per week. This best, freely-available land of Friday is called the marginal land and, as we'll see, determines both the level of wages and that of rent.

For how much could Rob rent out his land – 2 coconuts or 20 coconuts per week? Friday would only be prepared to pay 2, because he can already get 18 from his. So here's our first definition, that of the Law of Rent: The application of labour and capital equipment being equal, the rent of land is determined by the difference between the value of its produce and that of the least productive land in use. If Man Saturday comes along (the next day?!) and finds that the best available land can only produce 15 coconuts per week, then anyone who had been renting a hectare of the best 20-coconut land will suddenly find that their rent will rise from 2 to 5 coconuts per week.

What then determines the level of wages? When Friday came along and could work land yielding 18 coconuts per hectare in a week, then he wouldn't accept wages offered by Rob for less than 18 coconuts. But when Saturday arrived, suddenly Friday could only command 15 per week, because Rob knows that the going rate (that applicable to Saturday at the margin) is only 15. So here we have the Law of Wages, which is the corollary of the law of rent: Wages are the reward that labour can obtain on marginal land, i.e. the most productive land available to it without paying rent.

Ricardo held that individuals have no right to seize and monopolize scarce natural resources, such as land, minerals, water, and forests. He wrote that because these resources are both limited and essential for human survival, they should belong to the public. He termed unearned income from land as a pernicious anomaly "that portion of the produce of the earth which is paid to the landlord for the use of the original and indestructible powers of the soil". Henry George was greatly influenced by Ricardo and often cited him, including in the preface of his most famous work, *Progress and Poverty* (1879). George showed how Ricardo's Law of Rent applies not just to an agricultural economy, but even more so to urban economics.

With his writing largely over, Ricardo devoted the last part of his life to politics in an attempt to influence policy. How did a gentleman enter politics in those days? Whatever the question, money seems to be the answer. In 1818 he bought Lord Portarlington's seat in Parliament for £4,000, as part of the terms of a loan of £25,000. His time in parliament saw him campaign on many issues besides direct geoist reforms, including the abolition of slavery, paying off the national debt, currency reform, abolition of the Corn Laws protecting British wheat, poor laws, military reform, the secret ballot, Catholic emancipation and the condemnation of political repression.

Ten years after retiring and four years after entering parliament Ricardo died aged a mere 51 from an infection of the middle ear that spread into the brain and induced septicemia.

If climate chaos doesn't roast this planet and humanity still exists in a thousand years, the name of David Ricardo will still be etched in the Economists' Hall of Fame. When it comes to economics, discoveries don't get much bigger than the Law of Rent.

> *"A land-tax, levied in proportion to the rent of land, and varying with every variation of rent, is in effect a tax on rent; and as such a tax will not apply to that land which yields no rent, nor to the produce of that capital which is employed on the land with a view to profit merely, and which never pays rent, it will not in any way affect the price of raw produce, but will fall wholly on the landlords."*

Next issue: No.66, the 19th century Scottish philosopher and reformer, Patrick Dove.

National land prices up $594 billion

Prosper's press release on the ABS' key annual data release - 5204, Table 61.

Wage growth suffers from record increase in Australian land prices.

"The $593.7 billion uplift in land prices announced today is thirty times larger than total banking profits. The average annual gain has been around $180 billion, so to have an increase some $400 billion higher than normal shows just how much money has been made in real estate in the last year. Such significant increases are detrimental to the economy. This is the second largest increase on record." said Prosper Australia President Catherine Cashmore.

"The ABS quantified Australian land values at $5.76 trillion. This is more than three times the size of all companies listed on the ASX. Few talk about the effect of rising land prices on wages or consumer demand."

"Small businesses need to recognise that for every extra dollar spent on housing, there is less money feeding the productive sectors of the economy."

"A return on investment of 11.5% for average landholders is triple what many small businesses earn. Wage growth is limited when rising rents have to be paid."

"The $593.7 billion increase in land values is equivalent to some 90% of the taxes required for all levels of government spending. Taxing income and employment more than land results in an economy dangerously skewed towards land speculation."

"The saying 'the harder you work, the luckier you get' has been replaced by 'the more property you own, the less work you need to do.'"

"The Federal government should be doing all they can to encourage the states to replace stamp duty with land tax – an important first step towards more realistic land costs. This would put downward pressure on land prices."

"Australians need to understand that rising land prices do not benefit the Australian economy as a whole" finished Cashmore.

Listen: http://www.earthsharing.org.au/2017/11/grand-final-day/

Barnflakes.blogspot.com.au

Cashmore on Ed Milliband's show

E*d Milliband is a British politician who was leader of the Labour Party and opposition leader between 2010 and 2015. He describes himself as a new type of politician – looking to move beyond divisiveness. He is a socialist who calls for 'responsible capitalism'.*

Recently Ed started a podcast with radio host Geoff Lloyd to talk with smart thinkers from around the world. They've already exceeded 200,000 downloads.

Not surprisingly, when it came to talking about the very smart idea of introducing land tax – even though they're in the U.K - our Prosper President Catherine Cashmore was the person they thought of for comment. They also spoke with Joe Sarling, a UK based housing economist.

Ed: Today on the show we are talking about the Land Value Tax and how we tax land in this country. Now I want to make a confession here. I am a nerd, and yet I've always found it incredibly hard to get my head around this idea. It's been around more than a hundred years, It started with Adam Smith and Henry George. But I've always found it hard to get my head around, but this is the week of the break through. Today we'll be speaking with Joe Sarling who knows more about this topic than most people and can explain to us why taxing land might be a good idea. But then also an Australian called Catherine Cashmore, because they have land taxes in Australia. I hope that by the end of this discussion I completely grasp land tax, because I'm beginning to now.

Geoff: Is the basic premise of land tax about taxing wealth rather than income?

Ed: That's the basic thing behind it, but I think beyond that; at the moment, there is no penalty for sitting on land and not doing anything with it. But here is the other thing: in the late 1800's we knew who owned 98% of the land in England. We now only know who owns 75% of the land in England!

Geoff: So, it's become more shadowy?

Ed: It has. But fundamentally this is about taxation of wealth, the housing market and the shortage of affordable housing in England. We're now joined by Joe Sarling, a consultant on land and tax issues and an economist who has written extensively on land value taxation. Joe, its great to have you on the program – can you start by describing, very basically: what is a land tax?

Joe: Yes, absolutely. It's an annual charge based on the value of the land. Not the property or asset that sit on top of it – just the value of the land. And the owner pays the charge, not the occupier or tenant.

Ed: Just explain that distinction between the value of the land and the value of the property on top of it.

Joe: Yeah sure. It's really about locational value, because land has a locational value. An asset like a property has value in and of itself, because it can be used productively – whereas land has a lo-

cational value. So, an example of this, land in the middle of nowhere has a lower value compared to land that is right by a station or a road, but that has lower value than land in the centre of the city. So locational value is expressed as access to services - this increases the value of the land.

Ed: So then why might it be preferable to have a land value tax compared to our current system of property taxation?

Joe: Well there are lots of different types of property taxation at the moment, some of them try and claim some gains in asset value, but a lot of them are unfit for purpose. Some examples are the council tax or the capital gains tax and stamp duty. If we took council tax for example, that's a charge to the occupant – not the owner, based on the value of that property in 1991. Now that's fine when markets don't change, but the London market has changed dramatically since 1991. This is clearly not fit for purpose. Stamp duty is another example, where your adding another charge to the buyer of a property. You don't want to restrict the transaction of properties in an open market, you want people to buy and move quite freely and frequently to best allocate those resources. Stamp duty doesn't necessarily do that.

What land value tax does, is try and capture some of the unearned value or locational value as it's known. So, an example of this – imagine the house in the middle of nowhere and the state comes along and invests in road and rail, right by the house which now has access to the city. The value of the area rockets. So, what you're trying to do is capture some of that gain in locational value that's stimulated from public investment that would normally go to the private individual.

Ed: So, it's an ongoing tax? A yearly tax?

Joe: Absolutely, it's an annual charge on the owner of the land.

Ed: So are there other reasons for this tax. Is it more progressive for example?

Joe: Yes, you're right.

There are actually loads of reasons economists love land value tax. It's known as the ideal tax. For example, it's very efficient, it doesn't harm economic activity. It doesn't incentivise people not to invest in something. It's fair and significantly more progressive because wealthier people tend to own more land than poorer people.

It has a revenue raising potential - because you can't hide land tax, avoidance is minimized. It rewards public investment, because as the state invests in infrastructure, land values rise, which in turn generates more public revenue. Perhaps most importantly, it shifts the burden of tax away from earned income toward unearned wealth.

Ed: So, you've just described a tax that people from across the political spectrum can get behind. It's an idea that's been around for 150 years or so. Why don't we hear more about it? Why isn't it a thing?

Joe: A good question and there a few reasons. It can be very difficult to implement.

Ed: In terms of the transition to it?

Joe: Yes – there is a transition period which is very important, but there are three main reasons I'd like to point out:

1. Public perception – people don't like new taxes and fear mongering by tabloids is easy to incite opposition with lies about 'the big land grab' or 'garden taxes' etc.
2. The general perception of increasing taxes with regard to property, because property ownership is so aspirational. People work hard to

buy homes and now they have it, you're taking a chunk away from them. People have come to view their homes as a pension fund. So, they may not be saving today, because they've got a house and they believe they can sell it at a higher value. This is a really difficult implication because the question is "why are you taking my pension?".

3. In terms of application, how do you value the land? Which mechanism do you use, so that when you buy a house you can get an accurate value of the land. At the moment, no one gets a price for the house and a price for the land separately, so what you need for a land tax is a valuation system that prices the land on its own.

Ed: Is that doable?

Joe: It is. There are two ways to do it. The expensive way is to have an army of valuers up and down the country constantly valuing land, day in day out.

Ed: What about Google maps and all the data we have at our fingertips these days?

Joe: Well yes, you could use an algorithm and estimate land values, but the other way to do it is with 'self-valuations' – which sounds completely ludicrous but hear me out. If you were going to have self-assessed valuations you wouldn't have an incentive to put a high valuation on your land, because you'd be paying more tax. But if the policy was in place that the state could buy the land from you at the price you've listed, you certainly wouldn't put the value too low. In a Utopian world, this is the system you'd use, because it is the most efficient, but it doesn't really fit into the world we live in right now. The financial system is so entwined with the land market that if we introduced a system like this immediately, leverage would collapse and cause a crash.

Ed: Given there are so many advantages to land value taxation, what is a version that is likely to work? If you were an advocate for this tax, what proposal would you championing?

Joe: A transition period would be useful. So, I would start with land that the public understand could be put to better use.

Ed: Could you start with the big land owners?

Joe: I would start with incremental policy change, for example if you owned land that was used as a carpark in the city centre – is that the most efficient use of that land? Sure, you can keep it as a carpark, but you're going to pay tax on it as if it were the highest use.

Ed: The way to generate support for the policy is to use it to solve a very big or very obvious problem. We've got this massive housing affordability crisis in this country. Presumably this policy could be used effectively?

Joe: Economists, including myself certainly believe land value tax would incentivise more homes being built and better use of land. I think the most important factor is that it would incentivise densification. In the city centre, if you own a three-story block – in order to recoup enough money to cover the tax – you'll certainly consider going up to six stories.

Ed: A side effect then might be protecting green belts, and you might stop sprawl?

Joe: Right. Land tax is very much a market intervention and it becomes very interesting to consider the role of planning with this system in place. If it was the case you needed to build twenty story buildings in the centre of the city, as opposed to five from an economics perspective, that is absolutely what we want in terms of efficiency. But is that what the public wants? From a human perspective, there needs to be balance.

Ed: Bloody humans interfering in economics! Thank you so much Joe, you are now our official land tax explainer at 'Reasons to be Cheerful'. Now to hear about how the land tax might work in practice – so we're joined by Catherine Cashmore, president of an NGO called Prosper Australia that was originally founded as the Henry George League, one of the early proponents of the land tax. She works in real estate as well and is joining us from Israel today. Let's start with the basics Catherine, I'm trying to use this as my education – land tax exists in some parts of Australia. Tell us about your view of the Australian experience and what we might learn from it?

Catherine: Australia has a rich history of land taxation, although the history is probably a little

better than what we have at the moment. We do have land tax for investors, where properties over a certain value threshold have to pay a land tax. During Australia's history though, we had a federal land tax that was implemented specifically to break up large estates. These were people who owned acres and acres of land that was unused and effectively locking small farmers out of the market on the outskirts of cities. The federal land tax was implemented and was very successful at breaking up the large farming estates. So, Australia does have a land tax, and we've also got that historical structure in place if we wanted to use it more widely again.

Ed: As the President of Prosper Australia, why do you think land tax is the right policy measure for the public to support?

Catherine: Right, well land taxation is absolutely essential if you want to create a market of affordable housing. Land tax is the only tax that has no deadweight loss. The reason for that is land is fixed in supply. When you tax goods you either reduce supply, or increase the cost of production. With land, it is always fixed in its locational supply so you can't reduce it. So what happens when you tax land? You reduce its price. Also, because you're paying the charge annually you can't really afford to leave the land idle. So not only will it reduce the price people will pay for the land, and what the banks will lend for the land, it stimulates the market for development and increases supply so that the rental market comes down (as well) as more properties are offered for lease.

There are only benefits to the economy with land tax, as there is no deadweight loss.

Ed: I've listened to you, I've listened to Joe, you both make very compelling cases for land tax. But then – in different ways you basically say it's a political nightmare. This show is called *Reasons to be Cheerful*, but I'm struggling to find one here. What is the way forward?

Catherine: The reason it's incredibly difficult to implement is people are used to buying a house, they're used to it going up in value each year and they're using that money to retire on. This is where you have a problem changing policy. If you want to create a fair and just society, then you don't tax peoples' earned incomes, working hard at jobs or investing in business, from their innovation and the small start-ups. You don't tax earned incomes and instead you tax money they don't earn. The government builds a station near your property and the value goes up. This is where you have a problem in the economy.

Ed: Which country could you point to and say, 'they're doing it pretty well' in regard to this policy?

Catherine: I would point to Singapore. The most income tax you'll have to pay is around 7% and you'll get most of that back. Singapore finishes each year with a surplus and they have a 90% home ownership rate. Of course, no country is perfect, you can always find problems within them, but what they have been able to do is create affordable housing and affordable land and that is absolutely vital if you want a thriving economy.

Ed: Catherine thanks so much for joining us!

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6. Location, location

Land Tax is a thank you payment for living in a community.