PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

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ECONOMIC CONCENTRATION

RENT-SEEKING, PATENTS AND POLITICAL COLLUSION

PEAK BIG BUSINESS?

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ABOUT
Prosper Australia is a 127 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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At present, neither party advocates the tax code so elegant it can reduce inequality, mitigate poverty, stimulate productivity, prevent asset price bubbles, stem community-shredding gentrification and drain the distended Wall Street cabal of its ill-gotten gains – in just one tax.

Jesse Myerson, *End the 1 percent's free ride: Taxing land would solve America's biggest problems*

"Property rights are critical to our economy and our society. They determine who pays whom and who works for whom. What's more, they have staying power: once amassed, they are repositories of wealth and power that shape markets and societies for generations"

Peter Barnes, *How to Construct a New Invisible Hand (Evonomics)*

Editorial *by Karl Fitzgerald*

Recent Prosper news includes budget submissions to the Federal, Victorian and Northern Territory Governments. We have had meetings with the Grattan Institute and also the Dept of Environment, Land and Water. A certain highlight was hosting 20 tax officials from the Chinese province of Jiangsu. They came to discuss the intricacies of land policy in light of China's proposed streamlining of property charges from six to one annual charge. The most pertinent question? "Is land tax altered to make the land price go up or down?" If only, we laughed in reply.

This edition features a step inside the growing movement to address monopoly power. Recent Big Tech issues at Facebook regarding the Cambridge Analytica scandal raise concerns of economic might alongside surveillance rights. MP Andrew Leigh and Adam Triggs' work on Australian market concentration is alarming. Concentration levels are at least three times greater than the US in a number of industries.

This sets the scene for the UNCTAD report on *The Revenge of the Rentiers*. They run through defensive corporate strategies inherent in patent thickets, patent fencing, PPPs, corporate welfare, share buybacks, tax loopholes and revolving doors between business and government. Please study those figures on economic concentration and Return on Assets.

Polly Cleveland's *The Democrats Confront Monopoly* gives insight to the political and economic machinations undermining advocacy work in the area and the resultant concerns in public office.

The typical Georgist monopoly argument centers on the wealth concentrated in land. Transferring taxes off the productive sector and onto land rents has a multi-faceted effect. Lower land prices enable greater access to prime locations for small business. Big box stores face a comparative disadvantage to smaller, more nimble entities. Further, a simplified tax system encourages entrepreneurial risk takers to start business.

Remember that mergers and acquisitions typically peak at the top of the land cycle, with corporate raiders purchasing not on a company's operating prowess, but on the value of their land holdings.

Mason Gaffney's *Quantum Leap Effect* discusses the impact of land speculation in curtailing the efforts of labour intensive industry. Whilst the article discusses these impacts in the opposite direction to how LVT would affect the site, I place this seed here for you to visualise how a Georgist system helps restore prime locations to their original 'hive of activity' nature. What could be done to tax the privatised natural monopolies?

As discussed in my *Total Resource Rents of Australia* report (2013), natural monopolies such as Transurban would pay a yearly tollmaster's license fee based on their Earning Before Interest, Taxes and Depreciation (EBITDA) ie before the tax-trickery.

Geoists in History Patrick Edward Dove raises core issues of serfdom in "The land is for the nation, and not for the aristocracy." The future of smart cities as data mining hubs selling our every instinct for commercial gain brings into play Dove's concerns of a reign of justice.

Godfrey Moase starts us off with a detailed analysis of the ALP's urgent need to address rent-seeking handouts. He provides handy campaign tips on how this could frame the conservatives as the party of insiders in this election year. Godfrey discusses key Georgist policies to rebalance the advantage big business holds over the community.

Steven Lelham, Unsplash

How Labor Can Win Back Victoria's Love *by* Godfrey Moase

The point of a left-reformist administration of an inevitably limited tenure is to ensure that people can do tomorrow that which they cannot do today. This is its legacy – to leave office with people exercising more power collectively. This is something that no government of reaction can ever fully unwind. The evidence for this legacy can be found in the new rights ordinary people can exercise, the health of social movements, the strength of ordinary workers in the workplace (including trade union density), and relationships between people in relation to the resources they need to live their lives.

Herein lies the tragedy of selling off the commons – privatisation widens the scope of corporate control over the lives of Victorians while placing any countervailing good done with the funding at the mercy of a future Liberal government. Fundamentally it means that a future left-reformist government cannot do tomorrow that which it can do today.

To reverse this extractive approach to running Victoria, the first thing the government needs to do is halt its plans to sell off Land Use Victoria. Commodifying the very information the property market depends on will only worsen inequality in Victoria. It will be another tollbooth the corporate sector can set up to squeeze money from ordinary people.

There probably are not a lot of people losing sleep over the prospect of the 'asset recycling' of Land Use Victoria. But that is to miss the point: the sale of Land Use is not the ultimate goal, but rather a signal that the government is changing course.

A government looking to raise revenue to solve a problem or improve the lives of its citizens can do so in one of three ways – sell to the rich, borrow from the rich, or tax the rich. If the selling off of our public assets is to stop, it's time for Labor to tax the rich.

> *Fortunately, there is one source of wealth that is entirely dependent on the vibrancy and welfare of the community surrounding it. It's a source of wealth that cannot be offshored or outsourced. It's land.*

A state government's decision to rezone land can result in large increases to land values and, as a result, windfall profits to large landowners and property developers. This opens the potential for property developers to use their relationships within government to make sure they get the best outcomes with respect to rezoning decisions, either by pushing for favourable outcomes on parcels of land that they already own or benefitting from insider information as to which land they should purchase.

Rezoning decisions are a mechanism through which insiders and elites within Victoria use their positions of privilege to further entrench their status without giving back to the rest of the community. It is one way in which the economy is rigged. It, therefore, drives increasing inequality, corrupts our political system and perverts public policy-making. Some benefit while the rest of us pay for it.

It's a form of nepotism and corruption that sees insiders extracting billions of dollars from the population as a whole purely through rezoning decisions – and it's verifiable in the data. A statistical analysis of rezoning decisions in Queensland between 2008 and 2012 found those landowners who could be characterised as 'connected' owned 75% of land in rezoned areas.

Victoria might not have Queensland's white shoe brigade but it has its own brown loafer legion.

Victoria has only recently lived through a case study of how connected landowners obtain windfall profits: in 2012, Guy, who was then Minister for Planning, undertook a snap rezoning of industrial land in Fishermans Bend without factoring in height or design controls. This led to a multibillion dollar unearned land value windfall for the area's landowners, many of whom had close ties to the Victorian Liberal Party.

Rezoning decisions are easy money if you have the right connections.

A rezoning windfall profits tax, a form of betterment tax, would ensure the uplift in property values from government zoning decisions be diverted towards services and infrastructure, which would in turn benefit every Victorian.

A betterment tax has a part to play in a broader narrative, too – that Labor is about empowering regular people to take back control of their lives instead of being subject to the whims of the big end of town. This will be especially effective if the resources currently being extracted from the common good can be directed towards Victorians re-establishing agency over their lives and their futures.

This sound policy also makes political sense. It can help to establish the Andrews government as being on the side of regular Victorians. It places Guy's record of rigging the economy (when planning minister) firmly in the spotlight for the next state election, and it sets up a popular set of antagonists for the rigging of the Victorian economy – property developers.

The action is in the reaction and the brown loafer legion of the property lobby will react badly to this decision. They will gear up for a fight. Such a response should be welcomed, as it will draw the election away from the Liberal Party's set play on 'African gangs' and volunteer firefighters.

As much as possible, Guy and his conservatives need to be publicly positioned as spokespeople for property developers. That's why Victorian Labor will need a swift follow-up for the betterment tax – a follow-up that is squarely aimed at showing the party's desire to clean up the political class.

This might take the form of a ban on the political donations of property developers in Victorian state and council elections. Queensland Labor Premier Annastacia Palaszczuk banned property developer donations in October 2017 after the Queensland Crime and Corruption Commission reported on disturbing conduct in the 2016 local government elections. The ban was in effect for the subsequent Queensland election in November, when Labor went on to win and form majority government.

This ban could build on the Andrews government's proposed cap of $4 000 on donations over a four-year term. Once again, Guy is both on the public record as opposing the ban on property developer donations and has a dubious history of property developer donations. He will be forced into fighting on turf not of his choosing. In addition, his tenure as Minister of Planning – when he was known as 'Mr Skyscraper' – would again form part of the November election.

All of this, however, is set up for what should be the defining policy of the 2018 election and the central plank of Labor's re-election narrative: the establishment of a new Victorian public bank, which could help drive regional equality and build a fairer economy.

Given the 1990 Tricontinental merchant bank disaster and subsequent collapse of its parent, the State Bank of Victoria, there will be those who think this move is tantamount to political suicide. After all, Tricontinental's $2.5 billion collapse occurred in a context where it over-extended itself with high-risk loans free from any competent internal oversight. Moreover, the State Bank did not conduct any internal audits of its subsidiary. It was an epic failure of corporate governance. Its memory is wound up with the Pyramid Building Society depositor run, the performance of the Victorian Economic Development Corporation and the resulting downfall of the Cain/Kirner government in 1992.

The electoral trauma these episodes inflicted on Victorian Labor is in evidence in the Andrews government's economic strategy. The selling off of public assets to fund a progressive social agenda can be read as a maladaptive response to the Victorian economic crisis of the early 1990s.

The times, however, have changed.

Since Tricontinental and Pyramid collapsed in a wave of irresponsible lending, the Victorian public has witnessed the collapse of the entire global private banking sector in the 2008 Global Financial Crisis. The very survival of the Australian banking sector was only secured through the guarantee of the Australian state, and as a consequence a claim on the future revenue of taxpayers.

The Australian private banking system has taken this extension of public protection and acted in an entirely selfish manner. Bank profits are at record highs. Banking CEOs and senior managers are paid astronomical sums in salaries and bonuses. And yet scandal and public rip-offs continue apace from dodgy financial advice and breaching money laundering laws to conspiracy to rig financial markets. Since the financial crisis, Australian banks have paid over $1 billion in fines and compensation.

Australia's private banking system is awash with poor corporate governance, and the public knows it.

The popular anger directed toward the banking sector led the Turnbull government and the banks to run the white flag and accede to a banking royal commission. With the caveat that Turnbull and the banks have sought to escape with minimum damage through roping in the insurance sector and industry superannuation into its terms of reference, 2018 will pulse to a steady drumbeat of banking system outrages and crimes.

For all of this Westpac holds a $200 million contract to provide banking services for the Victorian government, its departments and agencies. It is a contract that is due to expire on 30 September 2020.

This is a bank that has been charged by the Australian Securities and Investments Commission, with rigging and manipulating an interest rate used to price business loans in its own favour. This is a bank that has been ripping off its own clients through questionable financial planning advice. This is a bank that has loaned $13 billion to the fossil fuel industry since 2008.

The Victorian government partly enables Westpac's behaviour by banking with it. Ergo, it is Victorian taxpayer money being used to guarantee loans to the fossil fuel industry and pay astronomical bonuses. This problem won't be fixed if the Victorian government simply chooses to use another major bank.

It can only be fixed by the founding of a new Victorian public bank. It should be a bank servicing the requirements of the Victorian government, its agencies and departments. The funds of the Victorian government should be managed by Victorian public servants with strict, democratic and transparent governance standards.

A thriving model for such a bank exists in the Bank of North Dakota. It is a state-owned bank with a conservative and sustainable model that has seen it through over 100 years that include wars, depressions and Republican administrations; adopting its structure would avoid any future Tricontinental scenario.

North Dakota's bank is not a public consumer bank as such, although it does also provide student loans. It only has one branch and minimal running costs. Only government departments and agencies can bank there. What it does is act as an anchor stone for a thriving cooperative and community banking sector in North Dakota. Part of its mission is 'to be helpful to and assist in the development of … financial institutions and public corporations within the state'. As a consequence, North Dakota is the state with the highest per capita number of community banking customers across the United States. Regular North Dakotans indirectly interact with their public bank through local and community financial institutions.

The advantage of a public bank, established consistently with the North Dakota manner, is that it would have a more secure structure compared with the former State Bank. The new bank would not own any subsidiaries as such. It would not have a separate investment arm but a set of networked and conservative relationships with other Victorian community and cooperative financial institutions spread throughout the regions. Thus, the new bank would only be exposed to the failure of any one community institution to the extent to which it had loaned money to that individual institution. The centre, therefore, would hold through the failure of a number of other periphery institutions.

At the conclusion of the Andrews government's contract with Westpac, it could simply take the sums of money it would have given to one of Australia's big banks and use it to found a new public bank for Victoria's tax revenue. The move would not have to cost the taxpayer any additional funds. It could set up one branch office to support it for its own banking needs with a supplemental relationship with Bendigo Bank, Bank Australia or ME Bank for any remaining government retailing needs.

This would mean Victorians' money could remain in the state and be used to support community development in urban, suburban and regional areas. Given the right policy settings, a public bank could provide a powerful boost for economic democracy – an institutional support for workers and communities to set up cooperative enterprises and services and take back control of our lives.

In the context of the banking royal commission, Victorian Labor taking taxpayer money out of Westpac to found a new public bank should be the peak of the story of the 2018 election. It's the Andrews government standing up for the rest of us against the big banks.

A Victorian public bank sitting at the centre of a network of community banks from Warrnambool to Wodonga investing in the regions and the future is a legacy any reformist government can be proud of. It is a concrete action which can help Victorians regain control over their lives and their communities. It can provide additional revenue to support Victorian services and progressive social change. Most importantly, it is a reform that future governments can use to widen the scope of what's possible for Victorians.

The Andrews Labor government can win a second term through denying Guy's parasitic politics the fuel it needs to burn. To do so, however, it has to find the confidence to apply the Labor values of solidarity, democracy and equality to its economic strategy no matter who it upsets in the big end of town. The upcoming state budget in May is such an opportunity to change course by stepping back from its planned selling off Land Use Victoria, and introducing a betterment tax on rezoned property as a more long-term source of revenue. A follow-up ban on property developers making political donations can further the public scrutiny of Guy's actions in rigging the Victorian economy in favour of his donors.

Finally, a new public bank should be the centrepiece reform taken to the November election. This is a reform that can show the Victorian public that they can elect a Labor government that will be strong enough to rebalance economic power away from capital and towards people around the state. It signals that this is a government worth voting for and defending despite the inevitable weak points and mistakes.

When the Victorian public feels like Labor is on their side against the Collins Street elite of bankers and property developers, and that in this struggle Labor is actively helping them to regain control over their lives and their communities, then the Andrews government will be back on course to safely reach a second term.

Eventually, however, government will be lost. The Andrews government shall pass and its legacy will be imprinted in the capacity of the next generation of Victorians fighting for change. The nature of that legacy is open to contestation.

This article is the final in a three-part series. Read 'Part One: Victoria's lost love for Labor', and 'Part Two: Victoria's lost love for Labor: firefighters and unions'.

https://overland.org.au/2018/02/how-labor-can-win-back-victorias-love/

Squeezing out the competition

Cross-posted from choice.com.au

It's one of the age-old verities of the free market economy: when a market for goods or services is dominated by just a handful of players, consumers pay more and have less choice. It's called market concentration, and it's a particularly big issue for Australian consumers.

As a recent paper authored by Shadow Assistant Treasurer Dr Andrew Leigh and Adam Triggs (a doctoral scholar at the ANU's Crawford School of Public Policy) points out, the well-documented lack of competition in the banking and supermarket sectors is mirrored by a similar degree of concentration in a number of other Australian industries, including newspapers, domestic airlines, health insurance, department stores, internet service providers, baby food, and beer.

According to the authors, over 80% of the market is controlled by the biggest four firms in each these industries.

And when it comes to petrol, cinemas, liquor retailers, telecommunications, bottled water and fruit juice, the biggest four providers control a similarly robust two-thirds (or 66%) of the market.

If concentration is defined by the four largest firms controlling one-third or more of the market, over half the industries in the Australian marketplace are concentrated.

Competition killer

Such outsized market share curtails the competitive interplay between businesses that drives down prices for consumers – one reason that consumer goods can be so expensive in Australia. It also tends to reduce the quality of customer service, since businesses have fewer worries about customers jumping ship.

The supermarket duopoly, which controls 73% of the market, remains the classic case in point (along with the big four banks). As Leigh and Triggs' paper points out, neither Coles nor Woolies ever really engage in long-term competition on price. If one drops prices, the other simply follows. And, despite the steady rise of Aldi (which now controls 12% of the market), there's often still nowhere else to shop.

Business bonanza

Market concentration clearly works well for the industries in question. The banking and supermarket sectors in Australia, for instance, are among the most profitable in the world.

And market concentration is a breeding ground for wealth creation – at least for those at the top. Leigh and Triggs touch on research from the 1990s that suggests a quarter of Australia's richest businesspeople made their fortunes in uncompetitive markets.

Do concentrated markets fuel inequality?

Lack of competition hurts consumers in a number of obvious ways, but it may also have more insidious effects. Leigh and Triggs cite earlier research in Australia which makes the case that most of the money in concentrated markets goes to a small percentage of players at the top. And as markets continue to concentrate, income inequality and wealth disparity widens.

"Modern-day market power tends to benefit shareholders and top executives at the expense of consumers," the authors write.

Earlier work by Leigh provided evidence that inequality in wages, household income, and investment assets has been widening since the late 1970s.

Australians in the 90th percentile (those who make more money than nine-tenths of other earners) saw their earnings rise by 72% between 1974 and 2014, according to the paper. For those at the middle of the income scale, earnings went up by 44%. By contrast, earnings rose just 23% over the same period for those in the 10th percentile (or those who make less money than nine-tenths of other workers).

"Never in Australian history has such a large share of our population owned private jets, private helicopters, Porsches and Maseratis. Yet at the same time, a significant share of the population is doing it tough," Leigh tells CHOICE.

"Nearly a quarter of Australians say that they could not raise $3000 in an emergency without doing something drastic. One in five families say that they cannot afford a week's holiday away from home once a year. One in eight cannot afford dental care. One in 20 cannot afford Christmas presents for family and friends."

The lion's share

How much do the four biggest firms control?

for 50% of lending, with credit unions, building societies and other home-loan originators making up the other half. By 2010, banks controlled 91% of the lending market.

Today that figure stands at 72.6%, with fees alone bringing in a combined half-billion dollars for the majors, or 45% of collective revenue as compared to 27% for wealth management. Excessive fees was a major theme of our Better Banking campaign and remains a focus for CHOICE.

We've also done extensive investigative work on the Coles/Woolies supermarket duopoly, providing information about heavy-handed tactics against suppliers to the ACCC and that led to an ACCC investigation into the issue and tracking the disappearance of brands and the rise of the duopoly's private label products.

What's the solution?

Leigh and Triggs suggest that competition law should be updated to keep pace with the continuing trend of market concentration.

Amendments should be made to the *Competition and Consumer Act* 2010, for instance, which would allow courts to impose higher penalties for marketplace conduct that disproportionately affects disadvantaged Australians. And the ACCC should be empowered to prioritise such investigations.

Three stark examples: the US vs Australia

Industry	Market share of top four AU firms	Market share of top four US firms
Commercial banking	94%	26%
Supermarkets	91%	31%
Liquor retailing	78%	10%

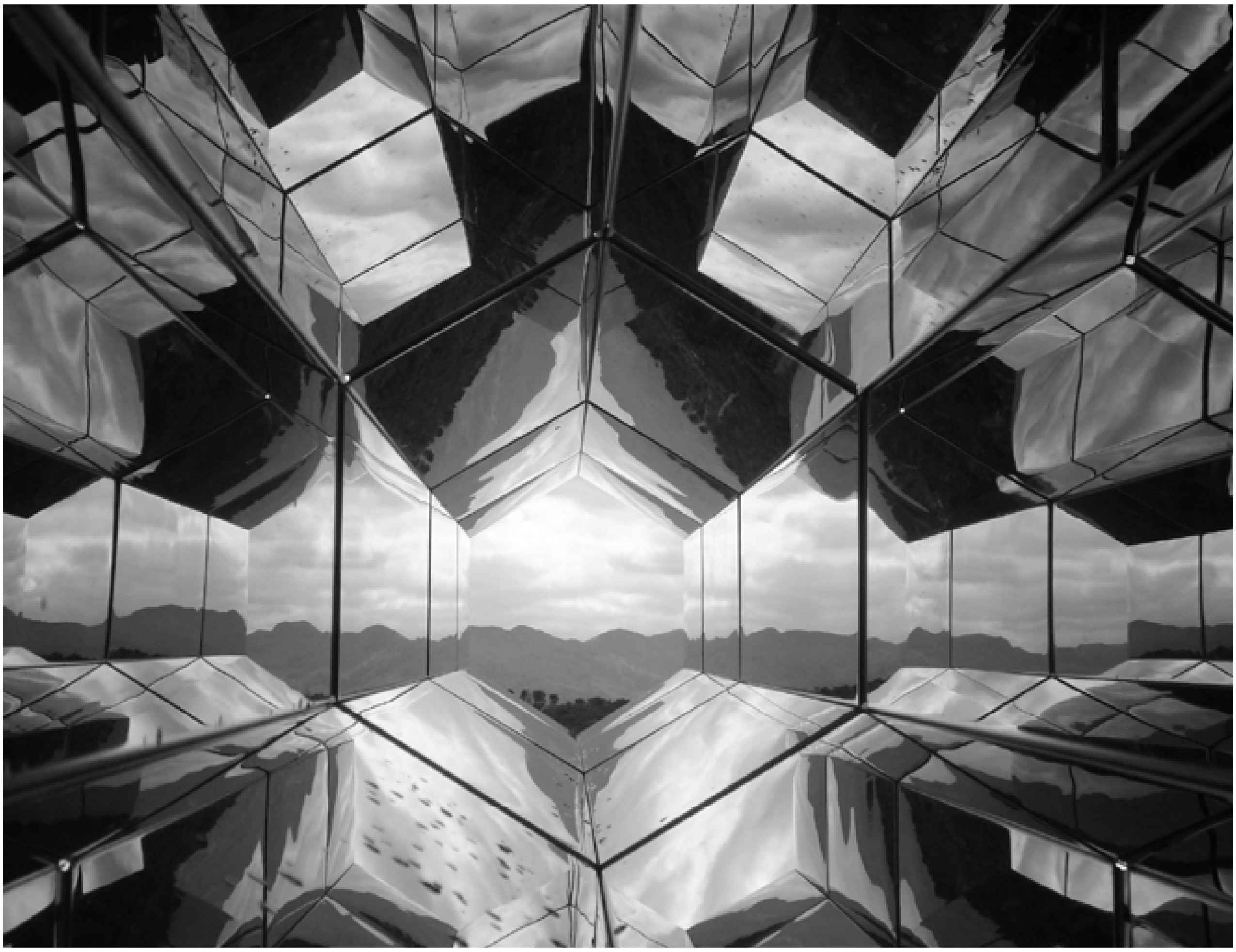
CHOICE research and related investigations over recent years have come to similar conclusions to those found in the paper. We laid out a case in our 2011 Better Banking report that deregulation of the banks in the 1980s has not led to the expected increase in competition, though the stranglehold of the big four has loosened slightly in recent years.

In the 80s, major banks in Australia accounted

"Encouraging more competition in Australia would not only have efficiency benefits, but most likely equity impacts as well," Leigh says.

"Competition laws will never be the only way in which governments seek to fight inequality. But tilting them towards the most disadvantaged might help reduce the rising gap between the rich and the rest."

The Revenge of the Rentiers
UNCTAD Trade & Development Report, (2017)



vdrmakete lab, Unsplash

The changing international division of labour, economic policy choices, political decisions and new technologies all help to explain persistently rising patterns of asset and income inequality under hyperglobalization since the early 1980s. However, achieving a more inclusive growth performance at the global level also requires an explicit understanding of how these inequalities have been nurtured by growing imbalances of economic power.

What is new in this debate is not so much a preoccupation with "bad apples" or the use of potentially abusive practices by individual firms in isolation; rather, it is the concern that increasing market concentration in leading sectors of the global economy and the growing market and lobbying powers of dominant corporations are creating a new form of global rentier capitalism to the detriment of balanced and inclusive growth for the many.

Rentier capitalism revisited

Keynes famously advocated "the euthanasia of the rentier, and consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital" (Keynes, 1936: 376). He put his faith in a monetary policy of low long-term interest rates that, in combination with "a somewhat comprehensive socialisation of investment" (Keynes, 1936: 378), would create a large enough capital stock to make rental income from capital non-viable, as well as ensure full employment. Many of Keynes' ideas to rein in financial rentierism were anticipated in the New Deal policies of the 1930s in the United States (discussed in the next chapter). Similar measures, covering regulations of the banking system, the stock market, labour relations as well as antitrust legislation, were adopted in most Western European economies in the period leading up to, during and after the Second World War. The result was a period of unprecedented growth (averaging almost 5 per cent annually) in these economies between 1960 and 1980, low – and often falling – inequality, and the virtual absence of financial crises. While there are a number of reasons for the strong performance of that period, the repression of rentierism was one of them.

The renewed rise of financial rentierism since then has been widely blamed on the reversal of regulations relating to the banking and financial sectors, such as the repeal of the *Glass-Steagall Act* in the United States in 1999. Until recently, less attention was paid to the pervasiveness of predatory rentier behaviour beyond the financial sector and financialized corporate investment strategies. A widely recognized consequence of these strategies has been the systematic favouring of short-term financial returns to institutional shareholders, which has biased investment patterns towards sectors and activities that promise quick returns at the expense of long-term commitments of financial resources to productive activities.

Fast-rising market power and concentration is at least partly another result of the reversal of New Deal-type measures, such as antitrust policies, financial regulations and fiscal policies that were designed to achieve full employment and strengthen labour's countervailing bargaining powers. New non-financial rent strategies, flourishing on and reinforcing vast market power, include the excessive and strategic use of IPRs (Intellectual Property Rights) to boost profits, as well as what Baumol (1990: 915) referred to as

> *"unproductive entrepreneurship [that] takes many forms. Rent-seeking, often via activities such as litigation and takeovers, and tax evasion and avoidance efforts seem now to constitute the prime threat to productive entrepreneurship".*

FIGURE 6.1 **Share of surplus profits in total profits, 1995–2015**
(Per cent)

Source: UNCTAD secretariat calculations, based on *CFS* database, derived from Thomson Reuters *Worldscope Database*.

In addition, abuse of privatization schemes, excessive public subsidies for large private corporations, and the systematic use or abuse of management control over investment strategies to boost senior management remuneration schemes have also been mentioned in the literature (e.g. Lazonick, 2016; Philippon and Reshef, 2009). Furthermore, it has been noted that ground rent is making a significant comeback in the context of housing policies and the expansive debt-financing of mortgages, which have driven up land values and facilitated real asset price inflation (Ryan-Collins, 2017).

Size matters: How big is non financial corporate rentier capitalism?

The methodology includes measuring the gap between actually observed profits on the one hand, and typical or benchmark profits on the other. A positive gap between these two variables means that some firms are able to accumulate surplus or "excess" profits. If this gap persists and grows over time, the measure provides an indication of forces at work that may facilitate the transformation of temporary surplus profits into rents.

To establish a benchmark for typical profitability, we use the median value of firms' rate of return on assets (ROA), or the ratio of their operating profits ("profits" hereafter) to their total assets – a widely used accounting measure of profitability. Since this can depend on sectoral factors, such as sector-specific technologies, the benchmark ROA is defined separately for each sector, rather than for the total universe of firms in the database. In addition, since ROAs can be affected by macroeconomic shocks, the benchmark ROA is calculated separately for three sub-periods within the overall period of observation – 1995–2000, 2001–2008 and 2009–2015 – as these periods are separated by two major financial crises: the dotcom bubble of 2000–2001, and the global financial crisis of 2008–2009.

The top 100 firms, ranked by market capitalization, also saw the growth of their surplus profits decelerate somewhat after 2008, but even so, by the latest period, 40 per cent of total profits in this group were surplus profits, and these firms had widened their lead over all other firms.

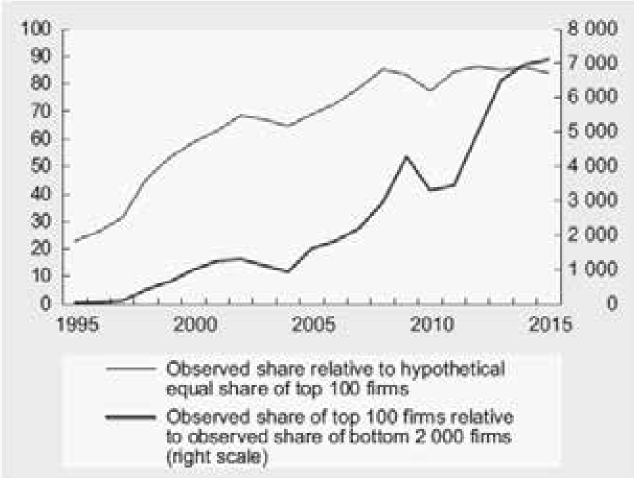
Both measures in figure 6.2 indicate that the market power of the top companies, as measured by their (relative) shares in market capitalization, increased substantially between 1995–2015.

> *For example, in 1995, the combined share of market capitalization of the top 100 firms in the database was 23 times higher than the share these firms would have held had market capitalization been distributed equally across all firms. By 2015, this gap had increased nearly fourfold, to 84 times.*

This trend highlights the growing domination of stock market valuation by a few leading firms. While there were many more publicly listed non-financial firms on global markets in 2015 than in 1995, the relative weight and ability of the bottom firms to pose a credible competitive threat to the top 100 firms, as measured by market capitalization, seems to have waned over time.

While the market capitalization of the top 100 firms amounted to around 31 times that of the bottom 2,000 firms in 1995, by 2015 the "winner-takes-most" firms were worth 7,000 times more than their smaller rivals.

FIGURE 6.2 Ratios of market capitalization of the top 100 non-financial firms, 1995–2015



Source: UNCTAD secretariat calculations, based on *CFS* database, derived from Thomson Reuters *Worldscope Database*.

Drivers of rising market power and concentration

While some of the observed steep increase in market concentration in recent years can be attributed to technical progress and concomitant technological or structural barriers to entry, institutional, political and strategic factors have played a significant role in enhancing lead firms' market powers, and consequent lobbying powers. This has further tilted the balance of power in their favour, and helped to turn what might appear to be temporary surplus profits driving innovation into rents.

Corporate non-financial rent strategies

Making knowledge scarce: Strategic use of patent rights

Two particular practices are worth highlighting in this context: patent thickets (the acquisition of overlapping patents to cover a wide area of economic activity and potential downstream inventions) and patent fencing (excessive patenting with the intention of cordoning off areas of future research). Both of these lead to expanded patent protection over entire technological domains, and guarantee continuing economic advantages to incumbent firms in technology sectors. In a well-known case, Google bought Motorola solely for its patent portfolio. Although it incurred a hefty loss from the resale of parts of the Motorola business, Google clearly thought that a cost of an estimated $2.5 billion–$3.5 billion for Motorola's collection of patents was a worthwhile investment (OECD, 2015a: 30). As noted by one observer, "The vast bulk of patents are not only useless, they don't represent innovation at all. They are part of an arms race" (Boldrin and Levine, 2012, quoted in Standing, 2016: 57). Given the obvious economic advantages of owning patent portfolios, patent trolling (i.e. the buying up of unexploited or undervalued patents by non-innovator firms for their anticipated value) has also been on the rise, and there is evidence linking increased litigation in software and chemical sectors in the United States to the presence of patent trolls (Miller, 2013).

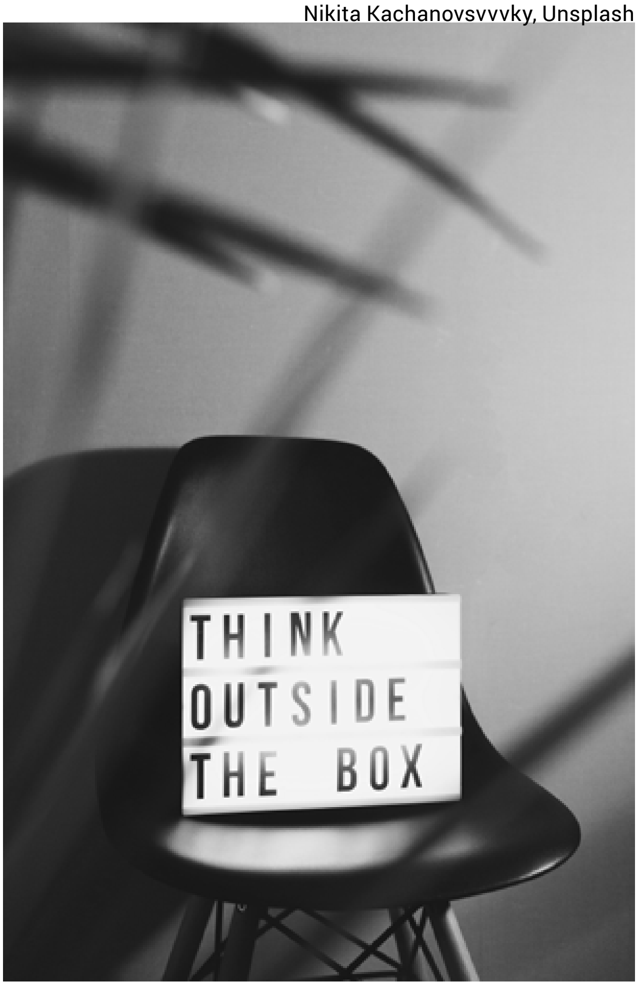
Patent power at work in developing countries

One way of gaining a broad insight into the role played by patent reforms in developing countries is to look at their impact on the economic performance of MNEs (Multi National Enterprise) in developing- country markets. If patents confer an unfair market advantage, the effects can normally be captured by examining growth in sales, rates of return, or other such variables at the firm level, after controlling for country and sector-level effects. A study undertaken for this Report used data for United States MNEs and their foreign afiliates in Brazil, China and India covering three sectors (ICT, chemicals and pharmaceuticals) that are perceived to be both patent-intensive and highly concentrated. The results show that in the United States market (including United States MNEs and foreign affiliates operating in United States markets), a growing concentration of patent ownership (rather than the number of patents per se) contributed significantly to product market concentration.

Raiding public sectors and manipulating markets: The "looting" business

Strongly encouraged by many international organizations, privatization was expected to improve

Nikita Kachanovsvvvky, Unsplash



management practices, increase efficiency and break monopolies, thereby generating net welfare gains.

However, instead, many privatization programmes became highly effective vehicles to boost corporate monopoly rents.

In some cases, the privatization of SOEs in monopoly industries such as oil, gas and public utilities was preceded by corporate debt restructuring and cost-cutting, and involved strong undervaluation of the assets put up for sale in order to attract buyers (Harvey, 2005).

Initially, many such privatization schemes produced new industry players and reduced market concentration by breaking up large State monopolies (Rocha and Kupfer, 2002). However, the widespread lack of a concomitant strengthening of industry oversight enabled the newly privatized companies to retain and grow monopoly power, at times generating exorbitant rents for their new owners. In some cases, this contributed

Wikipedia

to the growing internationalization of corporate ownership, with foreign investors taking control of major local beneficiary companies of privatization (Ferraz and Hamaguchi, 2002) and transferring rents back home.

A well-known example is the privatization in 1990 of the Mexican telecommunications company, Telmex. In addition to tax benefits, Telmex was granted a six-year exclusivity contract over the entire sector. It took more than five years for a regulatory framework and watchdog to be established in Mexico. Meanwhile, monopoly rents secured in the Mexican market allowed the new private owner to finance the expansion of its telecommunications group, America Movil, to an extent that it is now the largest provider of wireless communication services in Latin America (MarketLine, 2016) and the largest non-financial Latin American MNE (Perez-Ludeña, 2016).

However, this process has brought few benefits to Mexico, whose consumers were estimated by the OECD to have been overcharged $25.8 billion annually between 2005 and 2009, equivalent to 1.8 per cent of Mexico's average annual GDP during this period (Stryszowska, 2012).

Benefits for the wider public in terms of efficiency from such arrangements have been scarce. A recent study of the water industry in the United Kingdom (Bayliss and Hall, 2017), for example, found that end-users of water and sewage services were paying around 2.3 billion pounds sterling more a year to the private owners of water companies than they would have, had the companies been under State ownership.

Similarly, in France, it was estimated that in 2004, the price of water provided through PPPs was 16.6 per cent higher than that provided to communities by public municipalities (Chong et al., 2006).

And there is evidence that PPPs engaged in road projects across Europe are, on average, *24 per cent more expensive* than similar projects run by public agencies (Blanc- Brude et al., 2006).

In terms of subsidies, it has been estimated that around 75 per cent of total subsidies go to 10 per cent of farming companies, including Riceland Foods Inc., Tyler Farms and Pilgrims' Pride Corp., as well as to MNEs such as Archer Daniels Midland, Cargill and Monsanto (*The Week*, 2013), and just the top three recipients (all agribusiness companies) received more than $1 billion in United States government subsidies between 1995 and 2014. Similarly, almost all of the subsidies still paid to the United Kingdom under the EU's Common Agricultural Policy – around 3.6 billion pounds sterling annually – go to the 10 per cent richest farmers (Standing, 2016: 104).

As the case of the United States oil and gas industry illustrates, such subsidies have a habit of persisting beyond their original purpose. Most subsidies in this sector originated in the early twentieth century, when they were designed to attract capital to a sector with high risks of technological failures and accidents. But they have persisted to the present, long after technology has greatly reduced such risks (Hsu, 2015).

G20 countries spent, on average, $70 billion annually in subsidies for fossil fuel production in 2013 and 2014, with the United States being the biggest spender, at around $20 billion (Bast et al., 2015).

Despite clear evidence that the elimination of tax subsidies in this sector in the United States would have only a negligible, if any, impact on fossil fuel production (Allaire and Brown, 2009), those subsidies remain intact thanks to lobbying efforts and campaign contributions by corporate stakeholders.

There is a long list of recent subsidy deals for large corporations across a large number of sectors and developed countries, without obvious benefit to taxpayers (Young, 2016). In addition, tax breaks reduce companies' tax bills for certain types of spending, and are equivalent to direct transfers, but are less visible than increases in public spending. In practice, these tax breaks are often captured by powerful corporations, but have not induced significant changes in investment. For example, in 2010, tax breaks in the United States reduced the statutory corporate tax rate of 35 per cent to an average effective rate of 12.6 per cent, allowing corporations to capture more than $180 billion annually (United States Government Accountability Office, 2013).

This needs to be seen against the background of steadily falling corporate tax rates under hyperglobalization, from roughly 40 per cent in 1980 to below 25 per cent in 2013 (IMF, 2014), even as investment rates have declined.

Zucman (2014) found that the proportion of the profits made by United States firms domestically and abroad that were held in tax havens rose tenfold between the early 1980s and 2013.

The value-extracting CEO

With market concentration levels as high as described above, CEOs and top managers of large corporations have considerable power over the allocation of economic resources. Misuse of this power, for example to artificially drive up shareholder value in the short term through stock market speculation, rather than to promote productive longer term investment, can have adverse consequences for the economy as a whole (TDR 2016, chap. V). It has been argued that such stock market manipulation for rent-seeking purposes increasingly serves to line the pockets of not only rentier shareholders, but also, above all, of the "value-extracting CEOs" themselves (Lazonick, 2016).

> *The main vehicle of this form of managerial rentierism is the practice of stock buybacks that boost the compensation packages of CEOs (a large part of which is usually in the form of stock options and awards), but do little or nothing to improve innovation and, more generally, companies' productivity.*

As Lazonick (2016: 15–16) points out, this turn to (managerial) rentierism is anything but insignificant: "Over the years 2006–2015, the 459 companies in the S&P 500 Index in January 2016 that were publicly listed over the ten-year period expended $3.9 trillion on stock buybacks, representing 53.6 percent of net income, plus another 36.7 percent of net income on dividends. Much of the remaining 9.7 percent of profits was held abroad, sheltered from U.S. taxes."

Conclusion

In a context in which the "revolving doors" of economic and political power keep turning frantically (LaPira et al., 2017), it will not be easy to rein in corporate rentierism and cut through regulatory capture in order to promote inclusive growth. As a general starting point, there is growing recognition that both knowledge and competition are public goods (Stiglitz, 2016b), and that policies designed for their use need to take into account distributional objectives and impacts. But, as discussed in the next chapter, it will require the countervailing power of a well-functioning intergovernmental machinery to eradicate the "economic underworld" of global corporate rent-seeking.

This was an edited version. Read the full report with extensive footnoting at unctad.org

The Democrats Confront Monopoly *by Polly Cleveland*

In the 1970's when I studied microeconomics in grad school, we got to monopoly briefly in one of the last chapters of the text. We learned that monopoly really wasn't a such a problem. If a big corporation tried to raise prices to take advantage of a monopoly position, why, competitors would immediately rush in. So not to worry, it was in the interest of monopolists to behave.

Moreover, monopolists enjoyed economies of scale, allowing the likes of Walmart to deliver lower prices to consumers than the mom and pop stores they put out of business. By that measure, laws like the *Clayton Antitrust Act* of 1914, designed to protect small businesses from anticompetitive practices…were actually anti-social as they kept consumer prices high. There was no hint of the trustbusters' original concern for concentrated political power, or exploitation of workers. This was the Chicago School theory of benign monopoly.

Since I knew the brutal history of some of the great monopolists like Standard Oil, American Tobacco, or AT&T, I took this lesson with a grain of salt. But I didn't worry too much. Why? Because for the post World War II period, corporate concentration hadn't notably increased. Yes, some big firms had merged, but others had broken up. Antitrust seemed to be doing its job. Little did I know how the Chicago theory of monopoly was even then taking the legal world by storm. That was the work of Yale Law School professor Robert Bork, who published *The Antitrust Paradox* in 1978. (In 1987, the Senate would deem Bork too conservative for the Supreme Court.)

"*The Democrats Confront Monopoly*", by Gilad Edelman in the November/December *Washington Monthly*, tells the story.

Starting slowly in the Reagan Administration, then with gathering momentum, through both Republican and Democratic administrations, larger and larger mergers got the green light from the Justice Department and the courts. It was Bill Clinton after all, who took the Glass-Steagall shackles off the banks, allowing the disastrous merger of commercial and investment banking.

Meanwhile, economists began to notice growing inequality and wage stagnation. They came up with a variety of explanations: Maybe workers lacked skills to work with modern technology. Maybe it was competition with low wage workers overseas. Maybe it was just inevitable as machines took over jobs.

I focused on a different explanation: Starting in the Reagan Administration, the tax system—federal, state, and local—increasingly favored what was not yet called The One Percent.

But in 2009, a book knocked me over: Barry Lynn's *Cornered: The New Monopoly Capitalism*. Lynn, a business journalist, had seen a what we economists had missed:

growing monopolization was making the American economy more unequal, less innovative and more unstable. In fact, the same was happening internationally, as multinational corporations took over more and more of the world economy.

But Lynn didn't stop with an exposé.

Instead, he created a team of researchers at the New America Foundation, where he was a fellow. His team produced a whole series of eye-opening reports, published mostly in the *Washington Monthly*. Gradually the message got out, and was picked up by leaders on the left end of the Democratic Party, including Senators Bernie Sanders, Elizabeth Warren and Al Franken, and economists like Joseph Stiglitz and Paul Krugman.

Then, disaster, and a lesson.

On June 27 last year, Lynn's team released a statement welcoming a European antitrust action against Google.

Google, a major funder of New America, apparently complained. Two days later, Lynn's team were told to be out by the end of August.

As observed in hundreds of outraged editorials and articles, there could hardly have been a better textbook example of the dangers of monopoly.

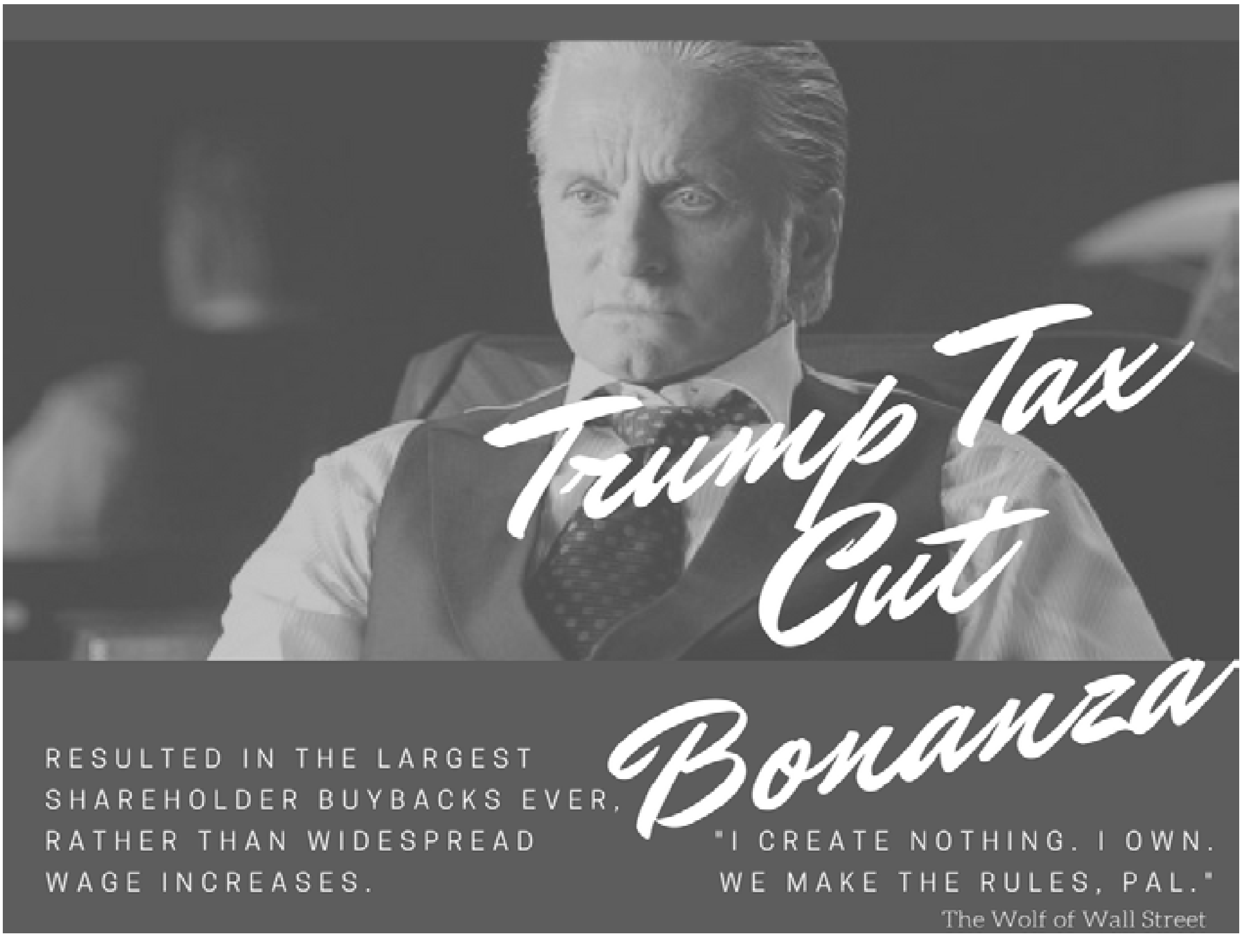
Lynn and his team have now set themselves up as the Open Markets Institute, but funding remains precarious.

Meanwhile, the team continues research and publication. In the same issue of the *Washington Monthly*, Phillip Longman explains *How Big Medicine Can Ruin Medicare for All*. Unless we address the growing monopolization of hospitals and their suppliers, Medicare-for-all or single-payer will resemble the Pentagon facing the defense contractors. (I can relate to the medical monopoly issue: In New York City, Mount Sinai Hospital has just taken over a number of other hospitals and medical buildings. Doctors practicing in these places were given a choice: sell their practices to Mount Sinai or get out. My gynecologist sold Sinai her practice; my shoulder surgeon angrily moved to an inconvenient midtown location.)

In June 2016, at an event organized by Lynn, Elizabeth Warren delivered a stunning speech on the damage of monopoly and the importance of reviving antitrust.

Shortly afterwards, I attended a New York presentation by Alan Blinder, Hillary Clinton's economic policy adviser. He focused on Hillary's positions on issues vis-à-vis Trump's and those of the median voter, complete with graphs. He suggested that Bernie had pulled her away from that median voter—a bad idea. Absolutely not a hint that Hillary should lead, rather than try to sniff out the densest patch of voters. One issue Blinder didn't have on the list was antitrust, so I raised my hand and asked. "Oh," he said, "that's not a priority at present, but maybe after her first two years…"

http://mcleveland.org/blog/



The Gaffney Quantum Leap Effect

by Fred Foldvary

Mike Wilson, Unsplash

In economics, the waste of resources caused by a tax has two names. One is the “deadweight loss,” a loss to the economy with no offsetting gain. The other name is the “excess burden,” since the burden on the economy is in addition to or in excess of the tax payment.

For example, suppose a bookstore has 20 employees, and has to pay taxes on the payroll as well as sales taxes on the books and taxes on its profits. These expenses are on top of the costs of the inputs that would be there aside from the taxes: the labor, the space, the books, and shelves. The store has to add the tax expense to the input expense, and pass the tax on to the customers. The higher price of books paid by the customers makes them buy fewer books, so the books that would have been produced and sold and enjoyed do not get made. This is a waste of resources, as the customers will shift to less valued uses for their incomes. The overall deadweight loss reduces production, investment, and economic growth.

The amount of deadweight loss depends on how responsive the customers are to the change to a higher price. If they cut back a lot on their book purchases, then there is a greater excess burden. The overall excess burden of taxation in the USA has been estimated at about $1.5 trillion dollars, more than 10 percent of total output. So roughly, our standard of living would be ten percent higher if the deadweight loss were eliminated.

But this loss occurs every year, so if there had been no excess burden during the past several decades, the economy would have grown faster and would now be twice as high per capita as it is now. So the cumulative damage from excess burdens is huge.

Geoclassical economist Mason Gaffney has discovered that the excess burden is even worse, much greater than the effect from higher prices. People can buy books from catalogs and World Wide Web sites. When there is a global price for a book, the local seller cannot raise the price, since buyers will shop elsewhere. The taxes come out of his profit, and if profit becomes less than normal, the owner shuts down the firm.

The land won’t remain empty, as the use would shift to something else, possibly a use that generates less output and employment. Suppose a gas station replaces the book store, and with self service, requires only one worker instead of the 20 who worked at the book store. Since one can’t buy gas from far away places, the tax on the gasoline can be passed on to the customers.

> *The 19 workers who lost their jobs would have paid taxes, so that revenue is now lost to the government. Those workers would have bought goods; now they have moved away, so there is less business in the area. The bookstore would have generated a greater market value of services than the gas station, and more taxes, so there has been a great reduction in output and taxes due to a shift in land use.*

That is the Gaffney quantum leap effect.

Possibly a firm that generates a high output but also has high costs is replaced by a firm that has much less output and employment, but a higher profit per item, so even if both firms cannot pass on the tax, the second firm with the higher profit will use the land. There is a quantum leap down to much less production, because the land use has shifted to one which has less output.

Quantum mechanics is a branch of physics that studies units of energy called "quanta." The amounts of energy in a particle such as a photon of light have particular numerical values rather than a continuum. The quantum effect in physics is a leap from one energy state to another, as when electrons jump to another orbital shell around an atom. Gaffney has adopted the quantum term in physics as an economic analogy when one land use replaces another, and there is a huge jump or fall in production.

The loss of production due to quantum leap effects is unknowable, but most likely enormous, and increasing. Any shift from market-based output to punitive-tax-induced output will be to a less valued and less productive use. In a global economy, goods sold world-wide impose a market price ceiling, making it impossible to pass on tax costs to the buyers. The taxes eat into profits, and those enterprises with lower profit margins get squeezed out. This could be happening on a colossal scale.

Taxes on gross revenues are especially destructive, as they squeeze out the profit more than taxes on income, which is gains minus costs. With taxes on gross revenue, costs are irrelevant to the tax. Sales taxes are on gross income, which makes sales taxes much more destructive than income taxes, due to the greater quantum leap effects.

But taxes on income also have quantum leap effects, since if a firm was only making normal profit before taxes, and it can't raise prices, the tax will squeeze profits below normal, and the firm shuts down. Only if the land rent the firm pays gets also reduced can the firm survive.

Thus with quantum leap effects, much of the tax is at the expense of land rent, since reduced profitability generates less land rent. The reduction in rent depends on how much of added cost they can pass on to customers and workers. The income tax also falls on wages to the extent that workers worldwide are not perfectly mobile, as they indeed are not.

The only way to eliminate the Gaffney quantum leap effect is to directly tax rent instead of indirectly taxing it via taxes on revenue and profits. A shift to land-value taxation would therefore not just eliminate the deadweight losses caused by a reduction of the quantity of goods produced, but also the much greater quantum losses due to shifts to less productive products.

With the elimination of taxes on wages, sales, buildings, and entrepreneurial profits, the economy would take a quantum leap up to dazzling productivity. The demand for labor would surge and wages would jump to now unimaginable levels.

That's quantum economics, not as difficult as the quantum mechanics of physics, but also far from obvious. The Gaffney quantum leap effect is the feather in the Georgist hat and should be taught in any enlightened economics course.

Thanks to Mason Gaffney, the theory of the excess burden of taxation has now taken a quantum leap beyond those little triangles in graphs that economic textbooks show as the deadweight loss. We need to think big! Gaffney has given us a quantum leap to greater economic understanding!

From Disruption to Dystopia: Silicon Valley Envisions the City of the Future *by Joel Kotkin*

The tech oligarchs who already dominate our culture and commerce, manipulate our moods, and shape the behaviors of our children while accumulating capital at a rate unprecedented in at least a century want to fashion our urban future in a way that dramatically extends the reach of the surveillance state already evident in airports and on our phones.

Redesigning cities has become all the rage in the tech world, with Google parent company Alphabet leading the race to build a new city of its own and companies like Y Combinator, Lyft, Cisco, and Panasonic all vying to design the so-called smart city.

It goes without saying, this is not a matter of merely wanting to do good. These companies are promoting these new cities as fitter, happier, more productive, and convenient places, even as they are envisioning cities with expanded means to monitor our lives, and better market our previously private information to advertisers.

This drive is the latest expansion of the Valley's narcissistic notion of "changing the world" through disruption of its existing structures and governments and the limits those still place on the tech giants' grandest ambitions. This new urban vision negates the notion of organic city-building and replaces it with an algorithmic regime that seeks to rationalize, and control, our way of life.

In reality, Google is entering the "smart city" business in no small part to develop high-tech dormitories for youthful tech workers and the cheaper foreign noncitizen workers in the U.S., including H1B indentured servants; overall non-citizens make up the vast majority of the Valley's tech workforce. Even as the tech fortunes have grown ever larger, the companies own workers have been left behind, with the average programmer earning about as much today as she did in 1998 even as housing costs in tech hubs have exploded.

The drive to redesign our cities, however, is not really the end of the agenda of those who Aldous Huxley described as the top of the "scientific caste system." The oligarchy has also worked to make our homes, our personal space, "connected" to their monitoring and money machines. This may be a multibillion-dollar market soon, but many who have employed such devices at home—appliances that track our activities and speak to us like loyal servants—find them "creepy," as they should, given that their daily activities are fed back to enrich the high-tech hive mind. Both the city and house the future may owe more to *Brave New World* than *Better Homes and Gardens*.

This is a vision of the urban future in which the tech companies' own workers and whatever other people with skills the machines haven't yet replaced are a new class of urban serfs living in small apartments, along with a much larger class of dependent persons living on "income maintenance" and housing or housing subsidies provided by the state. "Bees exist on Earth to pollinate flowers, and maybe humans are here to build the machines," observes professor Andrew Hudson-Smith, from University College London's *Centre for Advanced Spatial Analysis*. "The city will be one big joined-up urban machine, and humans' role on Earth will be done."

This new urban form is an extension of the notion—shared by most top internet founders—that their industry will exacerbate inequality between the rich and the middle class, while eradicating abject poverty by making cheap essential goods. Companies prosper in this model by avoiding the messy reality of paying higher wages through automating ever higher-end functions.

As the hoi polloi cluster in small apartments, the choice spots will be left for the extremely wealthy workaholics who create technologies. Everyone else will enjoy leisurely prosperity—playing with their phones, video games, and virtual reality in what Google calls "immersive computing."

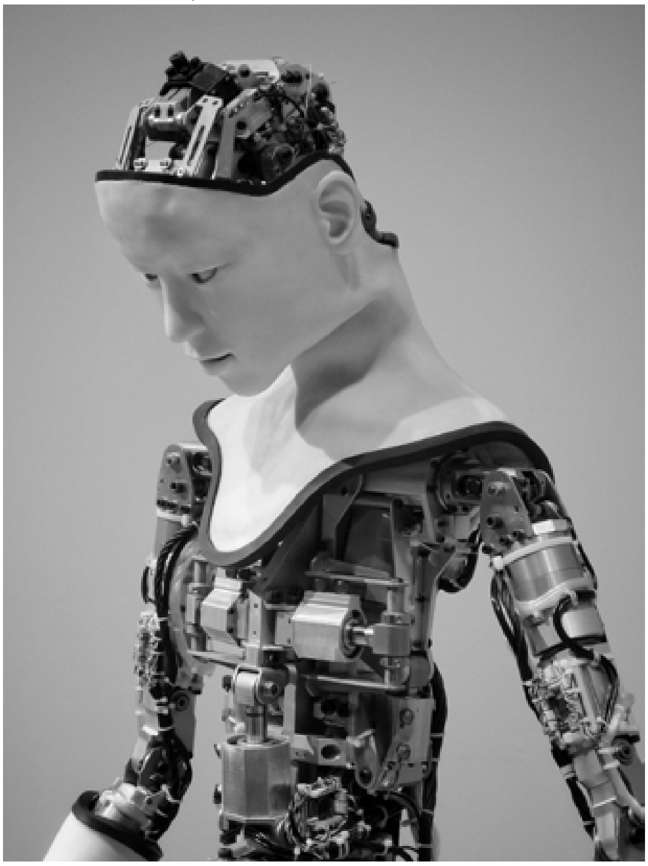
This is markedly different from the capitalist system that emerged after the Second World War, when large employers like General Motors or Lockheed did not so consciously monitor their employees' lives once they left work. The growth of these companies also allowed many working and middle class people to buy homes, primarily in suburbia, where they could separate corporate life from family life.

Silicon Valley remains stubbornly suburban in form, but the oligarchs now believe that "urbanization is a moral imperative," notes author Greg Ferenstein, who has interviewed them extensively. Conveniently for the new rulers sopping up a share of the capital unmatched since the gilded age, cramming people into tighter and heavily monitored spaces also discourages them from having large families, or any children at all, and thus fewer "excess" people without coding skills to be housed and fed.

Even as the suburban garage remains the Valley's preferred symbol, suggesting that anyone with a vision can build the next Facebook, in fact today's giants prefer to buy up emerging innovators and to build dense urban complexes inhabited by workers who will become ever more corporate, consolidated, and controlled.

Even as the oligarchs' apologists insist dense cities are "home to more innovation and income equality," research shows quite the opposite, with San Francisco, for example, recently ranked by the Brookings Institution as America's second most unequal city. Perhaps Facebook should look at what happens to its contract workers sleeping in their cars and working numerous jobs to afford to stay near the mother ship.

Franck Veschi, Unsplash



Unlike urban centers of the past, the new oligarchic city is not a mechanism that spurs individuals toward adulthood, family, or independence. Instead, the idea is to create a kind of extended adolescence or quasi-college experience, in which the tech giants or the government acting as their proxy gets to play dorm mother, encouraging people to behave and think in ways the oligarchs deem useful.

In this world, there is little room for home ownership. The oligarchs have endorsed Bay Area regulations that limit single family-home development and have helped created some of the world's highest housing prices and rents. According to Zillow, rent costs now claim upward of 45 percent of income for young workers in San Francisco, compared to closer to 30 percent of income in metropolitan areas like Dallas-Fort Worth and Houston. The average new mortgage for a home in San Francisco takes, on average, close to 40 percent of income, compared to 15 percent nationally.

Under this regime, the new generation of Bay Area residents seems destined to live as renters, without enjoying equity in property. The 2040 regional plan for the Bay Area calls for 75 percent of new housing development to take place on barely 5 percent of the land mass, all but guaranteeing high prices for those who can (barely) afford to live crammed into small apartments.

One well-used rationale for densification lies with the assumption that building more units on these pricey pieces of land will help solve California's severe housing affordability crisis. Yet in reality, construction costs for higher density housing are much higher—up to 7.5 times the cost per square foot of building detached housing. Nor will densification do much to address climate issues: Savings cited in a recent Berkeley study suggest that enforced densification would contribute less than 1 percent of the new emissions reductions the state has mandated by 2030.

Yet the CEOs of Lyft, Salesforce.com, Square, Twitter, and Yelp, as well senior executives at Google, all support densification, and have rallied behind a new bill by California state Sen. Scott Wiener to strip local communities of most of their zoning powers to allow significant densification virtually everywhere there is basic transit or rail bus service.

This shift in power from localities to the state follows the oligarch's preference for centralized power that avoids the messiness of dealing with the local peasantry.

Like your bucolic suburb or human scale neighborhood? Too bad. The oligarchs have spoken.

Instead of the lower density and relatively affordable post-war suburbs that "smart" planners and progressives have long mocked as cultural wastelands, the tech giants are pushing a 21st century high-tech update of the grim worker housing that dotted the Lancastrian and New England landscapes of the early industrial revolution.

In developing dense housing estates around their headquarters, the new "company town" for the 21st century will erase both privacy and financial independence. Firms like Google, Apple, and Facebook seek employees who embrace, as the New Yorker recently observed, "not only a life style but a fully realized life" based on a modernist version of "monasticism."

Mark Zuckerberg, even as he fought to expand his own sprawling suburban homestead, envisions his employees living in crowded dormitories close to work, including a planned 1,500-unit apartment development near Facebook's Menlo Park campus. Zuckerberg, like most oligarchs, prefers workers unengaged with the mundanities of family life.

"Young people just have simpler lives," he explained to the *San Francisco Chronicle*. "We may not own a car. We may not have a family. Simplicity in life is what allows you to focus on what's important."

The man preaching this diminished view of urban life, of course, has a car, a family and all the benefits that come with a vast fortune. He is not part of the "we" he's purporting to speak for.

> *The city that he is envisioning, that "we" are supposed to enjoy, will be organized not by civic loyalty but pools of constantly tracked personal information collected and sold by his company.*

One early indicator: Google is working to create a new, "smart" neighborhood in an undeveloped 12-acre portion of Toronto called Quayside. Sidewalk, the Alphabet unit run by former New York Deputy Mayor Dan Doctoroff, describes its vision for Quayside as the prototype for a city "built from the internet up… merging the physical and digital realms," with its residents acting in effect as the company's beta-testers.

This "smart" urbanity revolves around surveillance and relentless data-gathering. Swarms of monitoring sensors inside and outside buildings and on streets will be constantly on duty. Google would collect data about everything from water use to air quality to the movements of Quayside's residents, using that data to run energy, transport, and all other systems. In this controlled environment, consent over pillaging personal data "goes out the window straight away" says David Murakami Wood, an associate professor at Queens University who studies surveillance in cities.

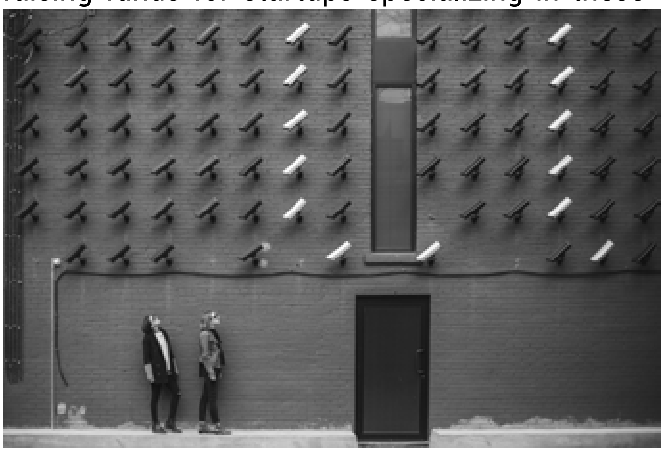
"The whole point of a smart city is that everything that can be collected will be collected," Al Gidari, the director of privacy at Stanford University's Center for Internet and Society in California, told the CBC. If smart cities really wanted to give people more control over their privacy, they wouldn't collect any of it unless people opted in.

Relentless monitoring, no doubt, will create some efficiencies for things such as trash collection, but at an enormous cost to privacy. Where people walk, what they do will all be fed into Google's advertising and marketing machine. Meanwhile, Google, Wired notes, will be gaining insights about urban life—including energy use, transit effectiveness, climate mitigation strategies, and social service delivery patterns—that it will then be able to sell to cities around the world.

While Canadians may still be able to object to attempts at this kind of control, citizens in Russia, India, and China are less likely do so. In China, tech firms are desperate enough for future profits to cooperate openly with the state's surveillance and censorship regime in exchange for market access.

China presents the oligarchic city builders with a real-life laboratory for surveillance. In western China, where Muslim dissidents are a problem, Chinese authorities are testing a facial-recognition system that alerts authorities when targets stray more than 300 meters from their home or workplace. The state is also working on the harvesting of biometric data, smartphone scanners, voice analysis, and compulsory satellite-tracking systems for vehicles.

The tech giants, who know a market opportunity when they see one, are already selling gear and software to expand China's surveillance state while the venture community in Silicon Valley is raising funds for startups specializing in these



Matthew Henry, Unsplash

Denys Nevozhai, Unsplash

intrusive technologies.

What is occurring in Silicon Valley, being proposed in Toronto, and now implemented in China all points toward efforts by tech companies and governments to create new dense and data-driven cities that shape what the British academic David Lyon calls a "surveillance society," where all of our data is shared with the governments and companies that use it to control us. In many ways these "cities" will be the opposite of the real thing, driven by a technological culture that, as David Byrne has suggested, substitutes spontaneous human interaction—the glory of the traditional city—with machine-driven interfaces.

The idea is not, to paraphrase the late William F. Buckley, to stand athwart the internet, yelling stop. But instead this is a call for urbanites and all citizens to rise up against the transformation of our cities into tech satrapies. One obvious step is enhanced anti-trust enforcement, something increasingly attractive on both left and right. Unlike in the internet boom of the 1990s, the current one has seen a dearth of new listings and a general decline in business startups, including in tech.

Another step would be to look toward Europe, which has taken an increasingly hardline stance against social media intrusion into personal lives, for ways to curb the tech oligarchs' ability to control content on the internet and the profits that flow through it.

This is not about rejecting technology, but regaining control of it and being sure that its advances, and the information culled from our individual and collective lives, is used for our benefit, not only the private profits of a handful of monopolists.

If giants aren't allowed to hoard our information that is the source of their great power and profit, the incredible technologies at our disposal now should allow all of us access to ever more sophisticated information that provides the basis for decentralized self-government.

The more cities genuflect to firms like Amazon, Facebook, and Google, the more our communities will be shaped not by our own preferences but by the controlling vision of oligarchs who know more than it's pleasant to imagine about each of our habits, inclinations, and desires.

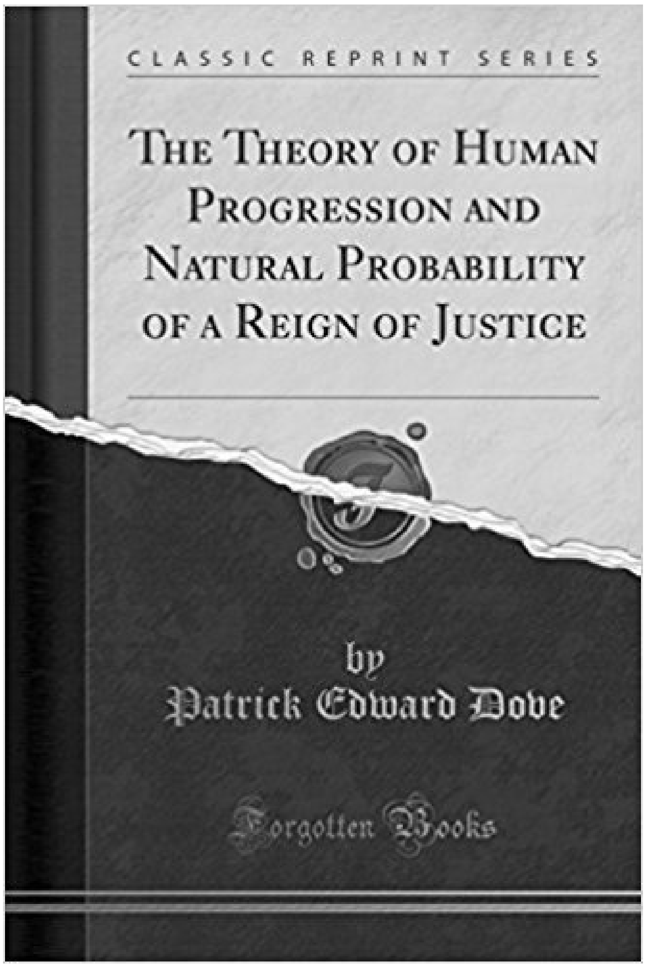
To maintain the freedom of the city requires that citizens, not the oligarchy, drive its development. Anything else undermines the very idea of democracy. When a city manager suggests that changes are dictated by data collected by the smart city operators, rather than popular sentiment, democracy itself has been unplugged.

This is the time to reclaim cities suited to human aspiration. We need to do this before control is ceded to a small tech elite that profits by shaping our future, stealing our privacy and nudging us toward a new era of mass serfdom.

Cross-posted from www.thedailybeast.com

Geoists in History
Patrick Edward Dove (1815-1873) *by Karl Williams*

"So long as the aristocracy have all the land, and derive the rent of it, the labourer is only a serf, and a serf he will remain until he has uprooted the rights of private landed property. The land is for the nation, and not for the aristocracy."



Henry George was not, of course, the originator of the economic sanity that some call Georgism, as one can trace these principles as far back as biblical prophets. Here we'll hear the fascinating tale of one of the greatest precursors to Henry George, Patrick Dove. But lean forward, dear reader, while I whisper a scandalous allegation …… it is said by some that HG might have plagiarized some of "his" greatest concepts from Dove - horror of horrors!

Patrick Edward Dove was born near Edinburgh into a family of distinguished Scottish clergymen, naval commanders and landowners. He stood out as a boy for his enormous energy, both physical and mental, and right from the start it seemed he was cut out for something very different from the typical privileged life of the lounging, loafing aristocrat for which he was being groomed.

For starters, Dove was disinterested in his formal education even though he was schooled in London, Spain and Paris. A revolutionary right from the get-go, he was shockingly expelled from the French Academy for leading his fellow students in an open insurrection against his tutors.

If Dove's restless energies were turned to the usual aristocratic role of defending their class privileges then the world would then have lost one of its great modern thinkers. Fortunately, he was able to break out of his aristocratic mould.

Still undecided as to his life's direction, from his mid-twenties to early thirties he took to the land and managed the extensive family property in south-west Scotland. But the life of a gentleman farmer entailed riding, shooting, fishing and sailing and Dove knew such an existence would be comfortable but an utter waste of his talents. Here Fate intervened in the form of the collapse of an investment that lost him most of his fortune. Thus, with his newly-married (and penniless) wife in tow, he shook things up and moved to Darmstadt, south of Frankfurt, where he reignited his voracious intellect by reading, writing and lecturing in a variety of philosophical endeavours.

Here in Germany and at the tender age of 35 was published the first of his mighty works, "The Theory of Human Progression", the opening part of a projected 3-part treatise on the so-called science of politics. It made a great impact on the intellectual class of the day in Britain and North America but never really grabbed the general public. In this work Dove sets out his philosophy that land should be in common ownership, with the economic rent on the land taking the place of other taxes. We'd call it Georgism 101.

After 5 years in Germany, he settled in Edinburgh in 1853 and then, in another five years, moved to Glasgow where he lectured at the highly-regarded Philosophical Institution and continued to write on philosophy, science and the arts.

"Private rent is historically misappropriated public taxation"

Let's put a bookmark here and examine Dove's evolution as a geoist which began to develop rapidly back when he was managing the family estate in south-west Scotland. To one with a sense of justice, the life of a landless peasant contrasted bitterly to that of the landed aristocracy, all due to the latter's claim to the ownership of the land. And no man ever created land himself!

Dove was said to be the most popular landlord in Scotland because this landlord did not believe in landlords! He maintained that the soil of a nation was the inheritance of its entire people and Dove was never weary of repeating that rent should go to the State for the benefit of all.

Also, he did not believe in the wretched game laws. He had no gamekeeper on his great estate and no "poacher" was ever interfered with or arrested. Another peculiarity was his friendship for Ireland as he stood up stoutly for the Irish peasantry and denounced Britain's treatment of it. During the potato famine he put his energies into providing work for his starving neighbours and acted as agricultural advisor to neighbouring farmers, many of whom took the game they needed from Dove's estate. Class traitors don't get much worse than Patrick Dove.

Dove's actions were mirrored in his writings. A generation before Henry George, Dove declared the invalidity of titles to land founded on the gifts of kings, and on war and despoliation of any kind. He damned the enclosures of the commons in Great Britain and exposed the outrages of Britain's land ownership by tracing the changes from the feudal form of land tenure to the present system. He exposed the origin of poor laws and national debts to be the monopolization of the land. He condemned the injury of indirect taxes to the poor and declared that equality before the law includes natural rights to natural resources. He maintained that the only just theory of property is that by which the labourer is given the full fruits of his toil. He drew a clear distinction between property in land and property in the products of industry, and he showed that social improvements result in increase of rent. He held that the attainment of full political rights must be followed by that of property rights, and he pointed out the insufficiency of every remedy for poverty save the tax on land values.

It was in 1856 that the second volume of 'The Theory of Human Progression' was written, but tragically the third was never printed and the manuscript was lost. Who was the dastardly villain who nicked it? The second volume employed the theological angle of its day, seeing the land as a gift of the Creator to all men, which should therefore be common rather than private property. As Dove put it, dividing the land into equal shares would be impractical, so the rent of land should be shared in common, effectively replacing all other taxes.

So what was the reaction to 'The Theory of Human Progression'? While many luminaries read it and strongly endorsed it, it basically bypassed the masses. On the positive side, the book was praised by Thomas Carlyle as the voice of a new revolution in education and economics, and the philosopher Sir William Hamilton spoke of it rallying mankind to great reforms. Charles Sumner had copies made and circulated them in the United States, subsequently persuading Dove to write an article opposing slavery titled 'The Elder and Younger Brother' which appeared in the *Boston Commonwealth* in September 1853.

"Place one hundred men on an island from which there is no escape, and whether you make one of these men the absolute owner of the other ninety-nine, or the absolute owner of the soil of the island, will make no difference either to him or to them."

Despite such praise the book was not a popular success, though some scholarly interest continued. To put it plainly, Dove was soon forgotten. An ember remained and faintly glowed again when in 1884 Henry George praised the book at a public meeting in Glasgow, and George made reference to Dove in 'A Perplexed Philosopher', Part I, Chapter VI. But exactly how much HG had read and borrowed from Dove is something that we'll never know in this world. Even amongst geoists today, very few have heard of Dove. OK, we have HG's elaborate and masterful works which have omitted nothing of great importance, but Dove himself has not received a tiny fraction of the credit he deserves. And perhaps HG's amazing works wouldn't be quite so amazing had not HG read Dove.

The remainder of Dove's life seems trivial by comparison. He lectured on a wide range of historical subjects, edited Glasgow's *Commonwealth* newspaper, and was involved in the arts and sciences on many fronts. His broad education and research led him to edit the *Imperial Dictionary of Biography* as well as writing for the *Encyclopedia Britannica*. His interest in engineering led him to invent a rifle with exceptional range and accuracy. He wrote on Christianity, military science, agriculture and more philosophy.

But all these other intellectual pursuits are but hobbies and trifles compared to the monumental economic intellectual advances Dove had made. For reasons we'll never really fathom, the world had turned its disinterested back on Dove.

> *"The allocation of the rents of the soil to the nation is the only possible means by which a just distribution of the created wealth can be effected."*

If you don't like unhappy endings, then skip this last paragraph. With Dove sitting on the key to economic sanity about which the world seemingly cared little, it's perhaps not surprising that something had to give. So in 1860, when Dove was barely 45, he suffered a stroke which left him partly paralysed as well as mentally affected. He lingered on as a shadow of his former self for thirteen years before finally dying from a series of brain haemorrhages.

Next issue: number 67, the real inventor of 'Monopoly', Elizabeth Phillips

GeoNews

Jon Tyson, Unsplash

Q&A's A Big Australia (March 12, ABC TV)

TONY JONES :John Daley, I'll start with you. Are we living in a Gordon Gekko type of world?

JOHN DALEY: Well, that depends how we manage it. And I think one of the issues is if you want your children to be able to afford to buy housing, you will need to build more housing. It is pretty simple. And so it is all very well to say, well, I agree that there should be more building, but just not in my suburb, in the suburb next door, and then my children can live in the suburb next door, then we wind up in a world that is not far from where we have been for much of the period between about 2007 and 2013 in which population growth got well ahead of building growth.

Now, that said, there are plenty of things that we can have a look at, so for example, a lot of the time at the moment we rezone land, we change the rules so that you can build a lot more on it and we, essentially, just give that away. And whoever happens to own it at the time gets a huge windfall, and some very elegant work has been done in Queensland that shows that very disproportionately it's property developers who own land at the time it gets rezoned which might just be coincidence, but I'm guessing not!

The ACT has actually solved this. What the ACT does is that it has a whole series of rules that says every time the land gets rezoned, we know that creates a big uplift in value and essentially we take a lot of that back in tax. And that is something we need to look a lot more at. When we are going to rezone places to accommodate this growth, we say that's not just a free kick for whoever happens to own it, that is something that we effectively take some of the value back so that it's not just a game for Gordon Gekkos to get rich, not by actually building houses, but by holding land in the right places at the time it gets rezoned.

No one can pretend Facebook is just harmless fun any more (The Guardian, March 5)

Facebook's massive data cache goes hand in hand with its acquisition of competitors. Nick Srnicek, author of Platform Capitalism, says, "Facebook is acting like a classic monopoly: it's buying up competitors like Instagram, it's blatantly copying rivals like Snapchat, and it even has its own app, Onavo, that acts to warn them of potential threats. All of this is combined with an unchecked sweeping up of our data that's being used to build an impervious moat around its business."

If ExxonMobil attempted to insert itself into every element of our lives like this, there might be a concerted grassroots movement to curb its influence. So perhaps it's time to start treating Facebook as the giant multinational corporation it is – especially because people with Facebook profiles aren't the company's customers: they are the product it sells to advertisers.

Peter Thiel: The vast majority of the capital I give companies is just going to landlords (March 17, Yahoo Finance)

Billionaire venture capitalist and entrepreneur Peter Thiel believes the high cost of living is stifling entrepreneurship in Silicon Valley.

"One thing I've been thinking about as a venture capitalist in Silicon Valley is the vast majority of the capital I give to the companies is just going to landlords. It's going to commercial real estate and even more to urban slumlords of one sort or another. And that's an odd thing to be doing as a venture capitalist. That's so disproportionate," Thiel said at an event on Thursday hosted by the Economic Club of New York.

He explained that when a one-bedroom apartment goes for $2,000 in San Francisco versus a one-bedroom in Austin for $1,000 that suggests that San Francisco is a better place to live. However, when the rent on that one-bedroom in San Francisco reaches $4,000, perhaps it's time to be open to other areas.

Housing crisis: 15,000 new Manchester homes and not a single one 'affordable'. (Guardian, March 5)

In Sheffield just 1.4% of homes approved by planners met the government's affordable definition, while in Nottingham the figure was 3.8%, a *Guardian Cities* investigation has shown

In Sheffield – where house prices grew faster last year than in any other UK city, according to property portal Zoopla – just 97 homes out of 6,943 (1.4%) approved by planners in 2016 and 2017 met the government's affordable definition. That says homes must either be offered for social rent (often known as council housing), or rented at no more than 80% of the local market rate.

Relentless disruption must drive us into the arms of a land tax (Alan Mitchell, AFR, March 7)

Unusually for a tax, raising land taxes boosts growth.

The disruption is relentless: from Asia's export-led industrial revolution and its web-borne competition for white-collar work; from increasingly mobile economic and political refugees; and now from the quickening march of our own robots.

The corporate tax cut proposed by the government is about increasing investment and national income, although economists argue that a substantial part of the benefit would flow to workers in the form of increased employment and wages. However, the taxation and expenditure measures necessary to offset the cost of the tax cut should include a new national land tax on high-value residential property. That would add to both the equity and efficiency of the taxation system.

Such a land tax could be quite popular, and hopefully the Business Council of Australia would find the courage to support it as a step towards a more efficient tax system and a demonstration of the nation's highly paid executives' readiness to pull their weight.

At a time of weakened political leadership, Australia needs a business Bill Kelty.

Affordable housing policy failure still being fuelled by flawed analysis (The Conversation, March 16)

Some commentators cite cooling house prices as evidence that the supply response is taking effect. Whether or not that is so (above and beyond demand-side factors like higher interest rates for investor loans), expect the pipeline to start slowing down. Private sector development is driven by profit and risk and, as we have seen over many years, is characterised by speculative booms and busts.

Developers can turn off the new supply tap much more quickly than they can turn it on. Falling prices, weak consumer sentiment and economic uncertainty mean many developers will not follow through on building approvals until the market recovers.

This means that high levels of supply output are rarely sustained. Recent housing data in Western Australia provide a case in point. WA recorded rising completions in 2014, 2015 and 2016. But 2017 completion figures are expected to show a drop of around a third as prices have shaded off since the end of the mining boom.

Put simply, the market on its own will never solve Australia's housing affordability problem. **Expecting developers to keep building in order to reduce house prices is pure fantasy.**

The Road Monopolists

Transurban
Traffic volumes up 1.4%
Net Profits up 280%

What's the Answer?

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