PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

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Impeding the Market

Speculative Vacancies - Why Subsidise?

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ABOUT
Prosper Australia is a 128 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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"It is necessary that there should be rent, but it should be paid to the State or to some body which performs public services; or, if the total rental were more than is required for such purposes, it might be paid into a common fund and divided equally among the population. Such a method would be just, and would not only help to relieve poverty, but would prevent wasteful employment of land and the tyranny of local magnates. Much that appears as the power of capital is really the power of the landowner – for example, the power of railway companies and mine-owners." (pp.134-135)

Bertrand Russell, *"Why Men Fight: A Method of Abolishing the International Duel" (1917)*

Editorial *by Karl Fitzgerald*

The ninth Speculative Vacancies report was released in early April and received significant media coverage. From drivetime mornings with Jon Faine, to half-hourly ABC new bulletins to prominence in the *Australia Financial Review*, the report promotes the need for a better understanding of land use. Mainstream analysis of housing vacancy only looks at 'advertised' vacancy, ignoring the growing role of speculative vacancies held off the market by investors.

The report brings us into contact with the Australian Bureau of Statistics, the State Revenue Office and the Victorian Treasury. Behind the scenes we work to educate policy wonks alongside the general public that the role of property investment has forever changed the way we treat a place to call home. Now more than ever we need to ensure the maintainance of Australia's progressive Land Tax system.

We are concerned at recent trends such as the privatisations of state land titles offices, the Victorian loophole allowing the site values of heritage buildings to be valued at $1 (despite $14 million rental incomes) and the indexation of NSW state land tax thresholds to median land values. Attacks on Site Value Rating continue. Alongside these sits the policy fraud behind the Victorian regional first home buyer scheme and FHB stamp duty discounts.

With the property lobby recently complaining about paying an additional $8.5 billion in property taxes - despite national land values increasing by $2.18 trillion post 2012 - we need your support. Please consider becoming a member via prosper.org.au/join. One of Australia's rising comedians recently commented that we provide housing analysis 'unlike anything else out there'. Donations gladly accepted.

Please read these pages with an eye on housing supply. If supply is the cornerstone of government affordability policy, then one should be concerned at the plummeting numbers of houses currently entering the market. Just when supply is set to deliver affordability, defeat is snatched from the jaws of victory. Or perhaps this core design flaw is part of the plan?

Poor economic analysis has allowed rent-seeking to flourish. Perhaps buying and selling property from a phone whilst on holiday was what Thorstein Veblen had in mind when writing '*The Theory of the Leisure Class*'. John August delves into the anthropological perspective of this provocative thinker.

Tony Graddon then gives insights on the extent of tax subsidies for real estate speculation. He writes "The Federal government is providing a real estate tax subsidy that has grown to $10 billion per year. This has driven the total value of residential real estate to increase by $100 billion per year in excess of disposable income."

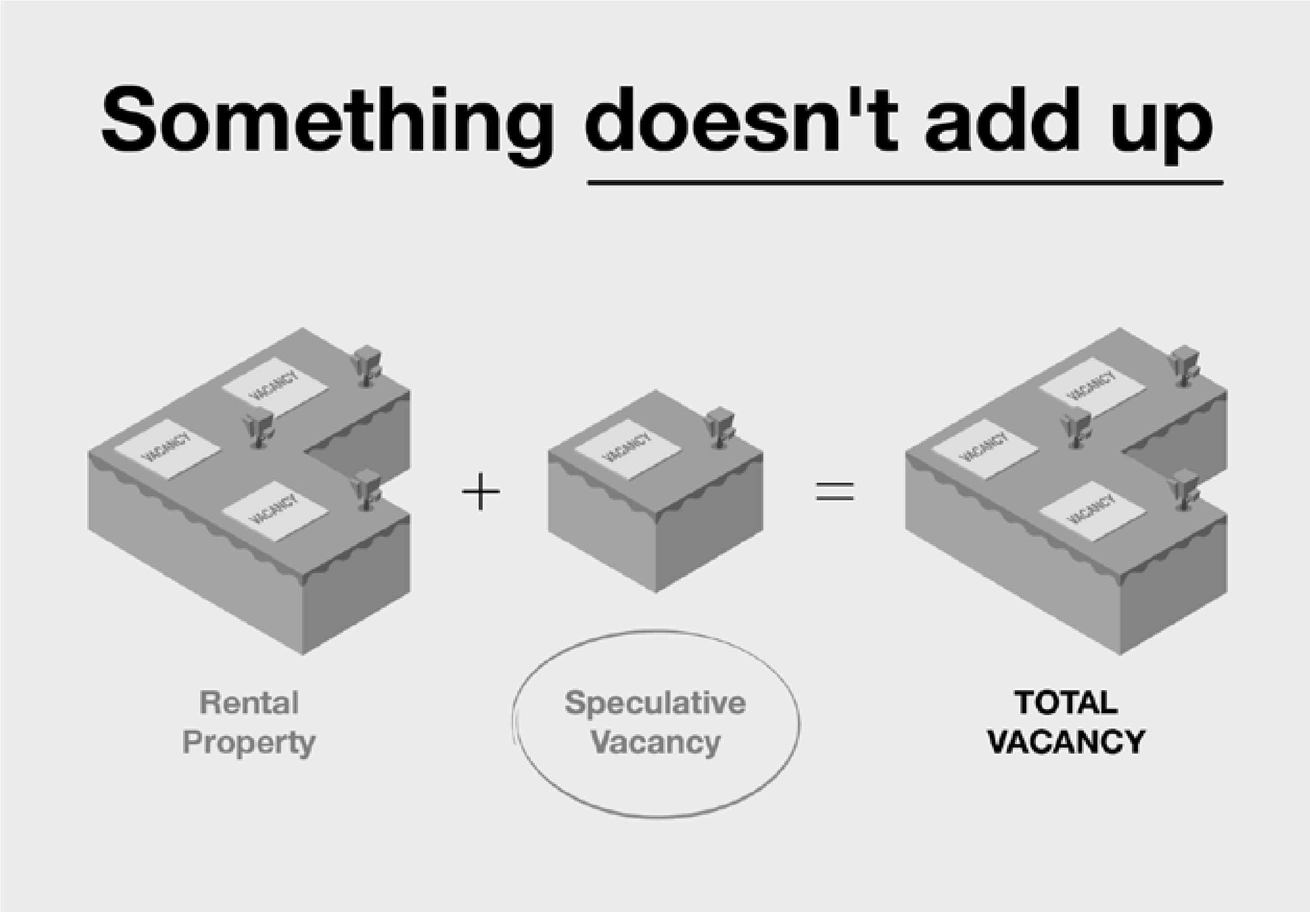
New Zealand's George Grey was a powerful figure during the birthing of the progressive nation. Karl Williams provides another compelling insight in his *Geoists in History* series, including observations from the famous 1890 meeting between Henry George and Grey.

The Georgist movement has been shocked by the passing of Lindy Davies (*Henry George Institute*). Thousands have undertaken his online Georgist course over the years. He was such a decent Georgist that when he sent through the article *A Moral Structure to Address Climate Change* just a few weeks ago, I gladly accepted.

Unfortunately Lindy and his family were victims of America's privatised health system, such that his wife Lisa Cooley set up a fundraiser to cover the $79,000 in related debts. Please give if you can - www.gofundme.com/lindy-davies-and-his-family-need-your-help

We also pay tribute to one of the region's most stoic Georgists in Bob Keall, who likewise passed away in April. Bob always impressed in his ability to critique global institutions such as the World Bank long before it became a catch cry to denounce neo-liberalism.

Our Monthly Discussion is 'Who Owns Outer Space?' with writer Angela Dennis, Wednesday May 29.



Speculative Vacancies 9 - Impeding the Market

Since 2007 Prosper Australia has investigated the role of vacant land and housing on housing affordability in Melbourne.

Water data indicates 60,901 residential properties were vacant in 2017. This equated to a speculative vacancy rate of 3.9% for all residential property.

Absolute vacancies using zero litres of water revealed 21,326 residential properties at 1.3%. The absolute vacancy finding of 21,326 using zero litres per day (LpD) demonstrates that more than $20 billion in vacant property existed at the height of Melbourne's property boom.

As a percentage of investor-owned rental properties, a deeper vacancy analysis would see an increase from the advertised 3.3% vacancy rate to 7.8% (for 0LpD properties). If this was extended to include those properties using less than 50LpD, the vacancy rate could reach a disturbing 16.2% of all rental properties.

An unemployed labour rate of 7.8% would make headlines. So should it for the underutilisation of land during extended periods of unaffordability.

Abnormally low water consumption is used as a proxy for vacant land, housing and commercial premises. Fifty litres per day (LpD) has been identified as our threshold for a speculative vacancy (SV).

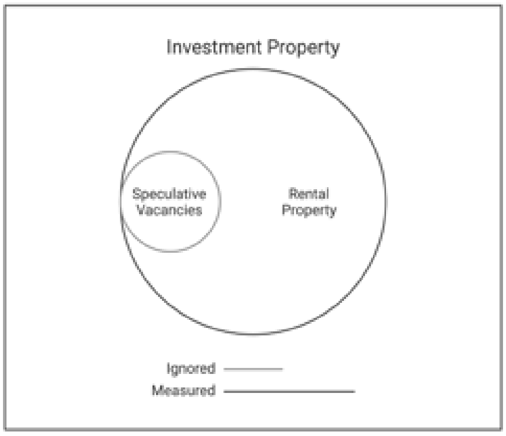
In 2017 residents used on average 161 LpD per person. Data is analysed from Yarra Valley Water (YVW), South-East Water (SEW) and City West Water (CWW). The 2017 data is averaged over

12 months of consumption on a postcode by postcode basis.

Over our decade of analysis, we have seen improvements in vacancy measures. We welcome the evolution of the headline vacancy metric from a voluntary survey submitted by real estate agents (the REIV vacancy measure) to data scraped from online real estate ads promoted for longer than three weeks (the SQM vacancy measure).

However, both measures still exclude a key segment of the property market. Neither metric captures properties that are held vacant off-market.

Residential land & housing



A truly useful vacancy measure must include these vacancies. Without off-market properties, ‘vacancy’ statistics can provide only surface level analysis.

If supply side issues are held to be the core issue in housing affordability, effective use should be a measurement criterion. It therefore follows that all land usage must be measured in terms of its effective use.

A more thorough and meaningful measure must be recorded by an objective government body.

This Speculative Vacancies report is timely in its analysis of vacancy at the peak of the Melbourne property cycle. During the period of this study, vacancy taxes had not been enacted at a state level.

The Speculative Vacancies analysis for 2017 includes 1,579,906 residential properties across 258 of Melbourne’s suburbs. This constitutes 95.1% of total properties available.

For commercial property, our analysis reveals a 9.1% vacancy with 10,693 properties consuming zero LpD. This occurred during a time of tightly advertised commercial vacancies.

Low vacancies encourage higher prices, and thus rents. As rents increase, the margin for profit and wages falls. Higher rents mean less reinvestment, less jobs, and lower wages. The figure represents a significant increase of 34.7% since our 2015 report.

Underutilised and vacant property is a community blight. Vacancies affect property values and increase the tax burden upon family homes.

As in previous reports, we hypothesise that many lettable or developable properties are held vacant to augment capital gains. By impeding the market, land hoarders economise their efforts - earning more by doing less. For the rest of society, the term economise demands that we produce more with less inputs. This inversion puts the public interest directly against the interest of property speculators. Inaccurate and often highly expensive property data effectively hides this from proper analysis.

With investors constituting 40% of all housing loans in recent years, we need to be alert to the fiscal and monetary policies that make it a viable investment strategy to hold property vacant - to impede the market. If Government is serious about housing all Victorians, it should avoid policy that encourages further commodification of the place we call ‘home’.

In 2017, 123,469 Victorian property sales occurred. If the 21,326 speculative vacancies were recognised as a supply-side issue and encouraged onto the market, a 17.3% increase of auctionable properties could result.

The Victorian government recognised this issue by announcing a vacant residential property tax in March 2017. The report recommends further policy reforms to reduce the hoarding of vacant property. Land Value Tax is the most appropriate policy as it acts as a holding tax penalising poor land use.

Prosper Australia contends that current property tax settings are too low, inaccurately targeted, and encourage lightly taxed windfall gains.This has encouraged record high housing prices and undermines the state's financial stability.

Key findings

1. Water data indicates 60,901 residential properties were vacant in 2017 at a rate of 3.9%.

2. Absolute vacancies using zero litres of water revealed 21,326 residential properties at 4.6% of the total rental market.

3. The short term vacancy rate of 3.3% (SQM Research) could equate to 7.8% of investment properties if absolute vacancies were added.

4. Up to 16.2% of investor owned rental properties were potentially vacant.

5. Absolute vacancies had the potential to add 17.3% to housing for auction in 2017.

6. The Australian Bureau of Statistics must take a more active role in measuring vacancy.

7. The top 20 commercial vacancies (based on 0LpD) averaged 13.6%.

    - Such vacancy placed undue pressure on small business, curbing their ability to compete, to provide wage increases.

8. With a three year lag since our last report, we note that speculative vacancy numbers were down 35.1%. This is commensurate with profit taking at the peak of the property cycle.

    - Vacancy is expected to increase over the coming years as speculators behave in a classic counter-cyclical fashion to snap up properties at the bottom of the market.
    - Speculative vacancies increased by 49% during the 2010 -11 low point.

9. Historical evidence points to the repeated occurrence of housing supply being turned off just at the point it could deliver affordability ie just as the market corrects.

10. Land speculators impede the market to economise their efforts - earning more by doing less. Enforcing scarcity adds additional pricing pressure to the market. This inversion puts the public interest directly against the interest of land speculators.

11. Speculative Vacancies are unethical and should not be encouraged. An urgent review of policy that contributes to increasing land and housing commodifi cation is needed at both State and Federal levels..

12. Vacancies detected fall into three cohorts:.

    - Gentrification patterns
    - Cultural attractors
    - Land banking 'in the path of development'.

13. Land supply is a fundamentally flawed affordability strategy unless a counterweight to the market power of land banking is enacted.

14. A number of international policy responses have been implemented due to the pressure property speculation places on the wider community.

    - Many of these have focused on the taxation of foreign investment, which inadvertently protects local investors. Public education must continue to broaden such imposts..

15. Victoria's Vacant Residential Property Tax should be reformed to include:.

    - All vacant land within the UGB
    - Charges on Site Value for non-strata titled sites
    - An escalating, sliding tax scale over time: the longer vacant, the higher the charge
    - Significant fines introduced for investors who fail to self-declare

16. A reformed State Land Value Tax (LVT) must be broadened to replace Stamp Duties. This is a more holistic technique to discourage vacancy, actively countering the market power land bankers enjoy. Such a policy switch will signal that both lazy land use and property flipping are no longer valid market activities.

Findings & Analysis

Water analysis from Victoria's three main suppliers Yarra Valley Water, South Eastern Water and City West Water covered 95.1% of residential areas across 258 suburbs.

The headline numbers include 21,326 residential properties using zero litres of water at a 1.3% SV rate. This is a 16.7% reduction from our 2015 report. For the 50LpD threshold, 60,091 sites were detected over the 12 month period at a rate of 3.9%. This constituted a 35.8% fall - commensurate with the state of the property cycle in 2017.

Analysis of non-residential property found a 9.1% vacancy rate, with 10,693 properties demonstrably vacant - consuming zero LpD. As there are approximately 25,000 commercial auctions conducted nationally per annum, vacancies clearly signify additional pressure on productive business.

We expect that many of these vacancies will re-enter the market during the 2019-20 property cycle downturn, further accentuating the correction in prices. This is the inherent risk of vacancy hold-outs - they broadcast prices upwards during boom times and weigh them down in the correction phase.

If absolute residential vacancies were expressed as a share of the rental market (arguably a more accurate measure), Melbourne's vacancy rate would reach 8.2%.

With 123,469 auctions occuring during the year, another 49.3%% of supply may well have been available if all SV's entered the market. It must be noted that many of these sites will be subdivided, inferring dormant supply could in fact be two to three times greater.

Something doesn't add up when $20 billion (21,326 @ $900,000) in residential property is held vacant during the peak of the Melbourne property bubble. Yearly capital gains regularly exceed rental incomes. Under these conditions, some property investors prefer to keep sites empty.

Top 20 Vacant Residential Suburbs

No.	Postcode	Suburb(s)	Total	0L/day	Ratio	<=50L/day	Ratio
1	3128	BOX HILL/BOX HILL SOUTH	9,863	943	9.6%	1,521	15.4%
2	3125	BURWOOD	6,369	409	6.4%	758	11.9%
3	3055	BRUNSWICK WEST	7,421	396	5.3%	715	9.6%
4	3081	BELLFIELD (GREATER MELBOURNE) /HEIDELBERG HEIGHTS/HEIDELBERG WEST/	6,321	314	5.0%	581	9.2%
5	3131	FOREST HILL/NUNAWADING	9,339	428	4.6%	731	7.8%
6	3070	NORTHCOTE	11,273	499	4.4%	956	8.5%
7	3085	MACLEOD/YALLAMBIE	5,339	221	4.1%	298	5.6%
8	3108	DONCASTER	10,398	419	4.0%	1,173	11.3%
9	3047	BROADMEADOWS/DALLAS/JACANA	7,47	294	3.9%	484	6.5%
10	3078	ALPHINGTON/FAIRFIELD	5,201	172	3.3%	338	6.5%
11	3071	THORNBURY	8,82	282	3.2%	590	6.7%
12	3144	KOOYONG/MALVERN	4,863	142	2.9%	255	5.2%
13	3073	RESERVOIR	21,839	629	2.9%	1,249	5.7%
14	3076	EPPING	11,524	330	2.9%	524	4.5%
15	3754	DOREEN/MERNDA	15,573	426	2.7%	1,053	6.8%
16	3049	ATTWOOD/WESTMEADOWS	3,599	97	2.7%	187	5.2%
17	3046	GLENROY/HADFIELD/OAK PARK	14,743	395	2.7%	882	6.0%
18	3064	CRAIGIEBURN/MICKLEHAM/ROXBURGH PARK	27,227	714	2.6%	2,004	7.4%
19	3056	BRUNSWICK	11,89	311	2.6%	820	6.9%
20	3150	GLEN WAVERLEY/WHEELERS HILL	22,922	583	2.5%	1,069	4.7%

Table 4

The twenty suburbs with the highest absolute vacancy rates are listed in Table 4. Only suburbs with total dwelling numbers greater than 1000 were included. Box Hill was ranked at number one for the first time in the history of our study, with a 50LpD SV rate of 15.4%. Absolute vacancies were at 9.6%, suggesting significant underutilisation in this real estate hot spot.

An analysis of the Top 20 suburbs reflects a number of investor strategies designed to maximise speculative profits with the least effort.

Speculative vacancies in Brunswick West, Northcote, Fairfield, Thornbury, Reservoir and Macleod/ Yallambie may reflect an investment strategy leveraging demographic change and cultural attractors. Investors purchase in areas where, as one property spruiker recently explained, 'we wait for the cool crew to turn up with their fancy pizza shops, cafes and bars'. The art of speculation is to hold land and wait as demographic change gentrifies the area. This is consistent with the 'rent gap' theory of gentrification.

Gentrification theory works something like:

- Property investor researches areas where artists searching for cheap rents are most likely to move to next.
- Buy and wait
- Potentially offer cheap rent to artists
- Have property lobby local council to engage in cultural festivals.
- Lobby state government for infrastructure upgrades, late night licensing in the locale.
- Aspirationals move in.
- Land prices increase.
- Rents increase over time.
- Apply for Development Approval (DA)
- Sell with rezoning potential for a sizeable profit.
- Artists move further out …. And so the cycle repeats.

One could reasonably deduce that the suburbs of Brunswick West (9.6%), Reservoir (5.7%), Heidelberg (9.2%) and Macleod/ Yallambie (5.6%) are locations where this cultural development is in play. They are emerging markets.

Brunswick (6.9%), Northcote (8.5%), Fairfield (6.5%) and Thornbury (6.7%) are mature demographic holdings which over time will deliver "unearned incomes" (income derived from passively holding an appreciating monopoly asset; income that requires no productive economic contribution) due to their scarcity.

For the eastern suburbs of Box Hill (15.4%), Glen Waverley (4.7%), Burwood (11.9%), Nunawading (7.8%) and Doncaster (11.8%), it is possible SVs are being held by families hoping to attain permanent residency.

SVs in these suburbs may be held as part of an investment portfolio for those who understand this particular niche in the housing market. Box Hill has a large proportion of residents born in the People's Republic of China, 35.4%, Doncaster 26.6% and Burwood 22.1%.

Strategic holdings in peri-urban locations Broadmeadows (6.5%), Craigieburn (7.4%), Mernda (6.8%) and Epping (4.5%) all fit the profile for land holdings 'in the path of development'. Under current policy settings, it is perfectly rational to purchase sites with the primary intention of land banking. This strategy withholds land supply from the market in order to achieve a higher price. No other industry allows such an abuse of market power.

Yarra Glen (6.6%), Wallan (6.8%) and Warburton (10.2%) were additional areas where hoarding in the path of development appeared in our findings.

The strategy of buying in the path of development underlines the monopolistic nature of property markets.

This is fundamentally why we ask policy makers to look at speculative hoarding as a root cause to the ensuing affordability issue. The Speculative Vacancies report advocates such behaviour is unethical and should not be encouraged. A reformed land tax could make hold-outs engage in a more competitive property market.

It is this process that makes 'more land supply' an unsatisfactory answer to housing affordability pressures.

In the case of growth area land banks, properties may not have been water metered at all. Once rezoned and developed, they may have thousands of water meters. The vast majority of land banks that are rezoned and characterised as "development ready" do not appear within our water consumption data. Water meters are not turned on for new lots until the 'point of sale'. Lots are slowly released to the market in what is known as 'staged releases'. Prosper Australia sees the use of 'staged releases' to drip-feed lots to the market at ever higher prices as a key concern.

Interestingly, the 2013 Speculative Vacancies report revealed SV rates of 46.7% reported over the 12 months in the Clyde region. This level of vacancy has not been recorded in any greenfields growth area in any subsequent report.

This outlier may be due to an error in the data. Such high vacancies may also have been caused by the developer inadvertently turning on the water meters too early.

The blue-ribbon suburb of Kooyong/Malvern is the only postcode that does not fit into the speculative cohorts listed above - of demographic, cultural or land banking strategies. With its prime location close to the city, beautiful parks and wealthy neighbors, landholdings here simply fit the classic 'buy and wait' real estate strategy.

Cyclical Analysis

Speculative Vacancy findings since 2008 provide an opportunity to investigate how investor incentives align with oscillations in vacancy. Potential landholders should be aware of these market drivers.

The state of the economic cycle has seen SV's fall by 35.8% since our previous report.

Some of this decrease is due to the noted changes in methodology, but the fall in vacancy numbers could be akin to profit-taking in the sharemarket. Many investors holding prime locations for speculative gains rather than rental returns may have cashed out at the peak of the market, while the new buyers have a longer-term focus on rental returns.

As the land and housing correction unfolds, we expect speculative vacancies to rise over the next 12-24 months. Savvy investors can be expected to buy in a classic counter-cyclical manner. Their strategy - to patiently wait for land price inflation to deliver substantial windfalls with very little effort. During the last downturn, SVs jumped by a sizeable 49% between 2010-11 as investors bought at the low point.

This is contrary to standard static economic theory, where higher prices are expected to result in greater supply. In the light of land's monopolistic nature, Dr Cameron Murray challenges such a simplistic approach. "Instead of housing supply responding to prices, it responds to the rate of return of different asset classes."

Dr Murray has demonstrated how in a rising market rational investors maximise returns not only by facilitating additional housing supply but augmenting this with additional land banking. There is no motive to sell in the short term when prices increase over time. Then when conditions change, and higher rates of return can be earnt in other fields, the market is flooded with property, accentuating the correction.

Fiscal policy has the potential to flatten the peaks

Year	Number of SVs using <50LpD	Percentage of SVs using <50LpD	Mainstream vacancy rate
2008	18,070	7.0	1.4
2009	69,636	7.0	1.7
2010	61,000	4.9	1.7
2011	90,700	5.9	2.3
2012	64,465	4.4	2.3
2013	64,386	4.4	2.3
2014	82,724	4.8	3.0
2017	60,901	3.9	3.3

and troughs in the property cycle by removing the potential for capital gains. The preferred tool is a land value tax, which not only taxes away potential windfalls but also improves behaviour by making it uneconomic to hold property vacant.

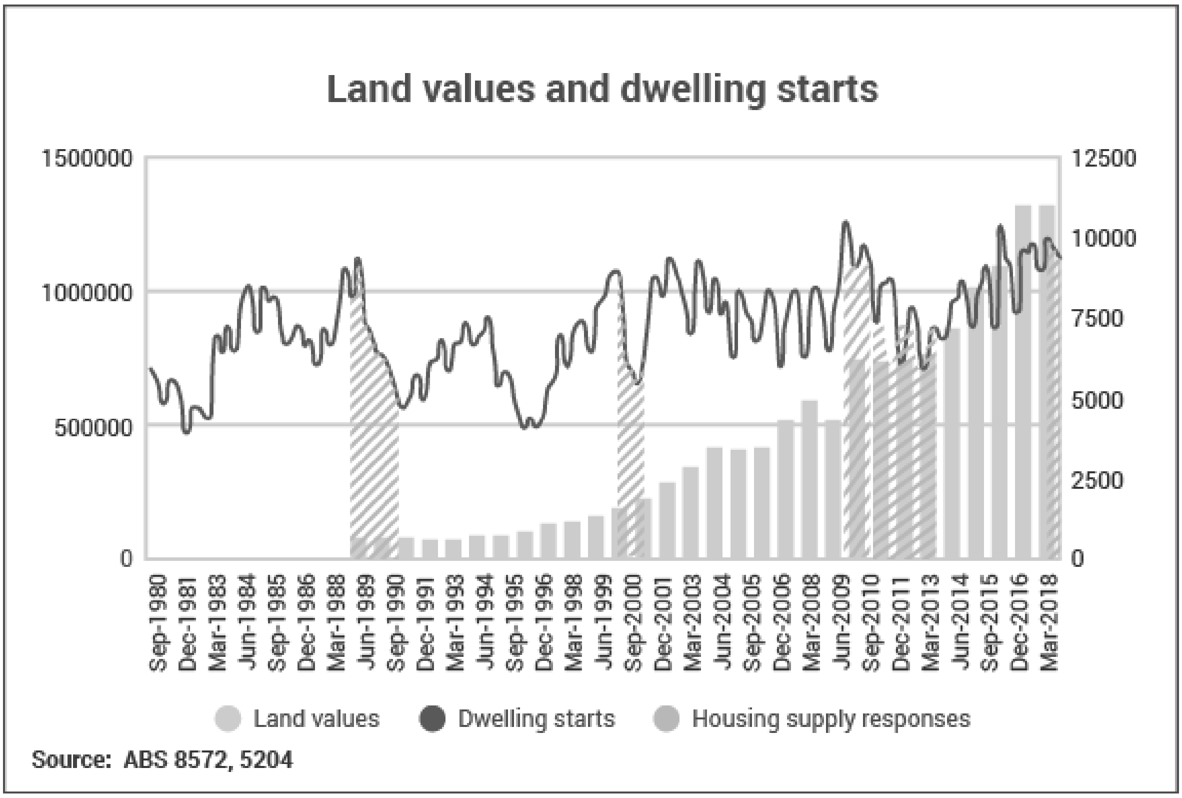
With interest-only loans set to roll over in extraordinary numbers in the next few years, we might expect downward pressure on prices. Macro-prudential reforms which tightened interest-only lending in March 2017 are widely cited as a cause of the property market downturn. These reforms were expected to continue, but with the December 2018 announcement that ASIC will loosen the 30% cap on interest-only loans, the ability for investors to buy and hold at minimal cost may well remain.

Will the continuation of cheap, interest only loans place additional pressure on vacancy levels? This will be determined by the extent of the expected fall in housing construction. After decades of lobbying, industry advocates have made much of 'record land supply shortages'. Planning delays and other supply-side obstacles such as environmental regulation were emphatically linked to the affordability crisis. Industry peak bodies such as the Property Council of Australia, the Urban Development Institute and the Housing Industry Association repeatedly lobbied for government to rezone and deregulate.

It is worth noting, however, that as soon as housing headwinds are felt, the private sector supply spigot is turned off and scarcity reinforced. This reflects the fundamental imbalance in urban development and housing policy. The private sector has few incentives to supply housing if that supply erodes the profitability of their product.

Figure 4 demonstrates in diagonal markings how Victorian housing supply is affected by the constraints and interests of private housing providers. In 1989-90 dwelling starts were nearly halved as the recession accelerated. We can't blame the property industry for doing this - it makes perfect economic sense. In 2000 supply was again significantly impacted due to the GST on housing and the resultant house price uncertainty. National land prices soon accelerated on the back of the 1999 Capital Gains Tax discount.

In 2008-09 supply was wound back in response to the Global Financial Crisis. The Federal stimulus package included the First Home Owners Boost, the Christmas bonus of $900, the ability of Self Managed Super Funds to invest in residential real estate, and a record jump in immigration saw the government act aggressively to stave



off recession. Accompanying this was the $14.7 billion Building the Education Revolution package for new school halls and extensive 'nation-building' infrastructure projects. These factors acted to underpin construction activity and bolster housing market confidence. Additionally, interest rates were pushed to record lows. Once these property handouts were digested, supply was quickly ramped up.

By 2011-12, as the Australian economy faced its post-GFC hangover and land values fell, housing supply levels also fell.

By mid-2013 the windback had its desired result and Victorian land prices boomed all the way-through to late 2017. This turning point was highlighted by a slowing of the rate of credit growth as prudential reforms tightened amidst the looming Financial Services Royal Commission. Foreign investment reforms also started to take effect. Somewhere in the psyche of the Australian home buyer sat the recognition that the housing bubble had run its race. Accordingly, housing commencements were again wound back. This supply roll-back occurred despite thousands of cumulatively rezoned sites by obliging state governments.

Record low interest rates, immigration, the Chinese economic boom, SMSF residential investment and foreign investment controls were all contributing factors to prices on the way up. However, policy makers ought to look more closely at the dynamics of private sector supply when market conditions waver. Specifically, the constraints and incentives that manufacture scarcity: drip feeding developable lots onto the market or otherwise managing supply.

Greater analysis is paramount when housing affordability policy focuses almost exclusively on supply side remediation. Expecting developers to keep building in order to reduce house prices is irrational. Policy makers should not rely on industry to act in a pro-cyclical manner during boom times and a counter-cyclical manner during corrections.

Developers cannot afford to behave altruistically.

Developers cannot announce price reductions at will. Heavily leveraged developers are also heavily constrained. Banks are quick to lean on developers who discount prices, calling in the difference of the margin loan. Revaluation of the land assets on a fi nanciers balance sheet can bankrupt a project. It also presents important credit constraining implications for the bank, which can no longer lend as much without the benefi t of land price inflation. For this reason developers willingly offer free landscaping, kitchen fitouts or a cash cheque, but not a drop in price during a market correction.

Our prudential regulators do not go so far as to promote land banking, but they do not condemn the practice. ASIC warns: ”Land banking is a real estate investment scheme that involves buying large blocks of undeveloped land with a view to selling the land at a profit when it has been approved for development. You may think land banking is a way to expand an existing investment portfolio or get into the property market, however, there are some things you should be aware of before you hand over your money.” They warn about the dangers of property spruikers massaging headline numbers and emphasise the need for potential investors to exercise due diligence.

According to our macroprudential overseers, while land banking can be risky, it is not problematic. While much attention is paid to systemic risks in the banking system, who is guarding against the systemic risks posed to orderly development by land bankers?

The Consumer Law Act provides “[a] general ban on unconscionable conduct in trade or commerce and specific bans on unconscionable conduct in consumer and some business transactions”. “Conduct may be unconscionable if it is particularly harsh or oppressive. To be considered unconscionable, conduct must be more than simply unfair—it must be against conscience as judged against the norms of society.”

At this point in time, the excessive profits delivered by rezoning windfalls are not seen as a driver of ‘harsh’ mortgages against the norms of society. Neither ASIC nor APRA have the mandate to investigate this practice, unless financial products such as property options are offered. Therefore land banking falls outside the scope of regulation. For an industry representing a $6 trillion asset class, the property sector are in urgent need of further oversight.

Read the full Speculative Vacancies 9 report - Impeding the Market (including footnotes):
www.prosper.org.au/wp-content/uploads/2019/04/Speculative-Vacancies-9.pdf

Thorstein Veblen and "The Theory of the Leisure Class" *by John August*

I've long been a fan of Veblen, who had some *very* interesting economic perspectives - I've read "*The Theory of the Leisure Class*" (TOTLC), and also an anarchist commentary, "*Thorstein Veblen and the American Way of Life*" by Louis Patsouras.

You can look at the ruling class (what Veblen called the "Leisure" class) in power with their injustice and abuses. But, for TOTLC, Veblen had a different emphasis. While the wealthy justify themselves through the energy and initiative they show, which supposedly benefits us all, Veblen looked at what it *meant* to be wealthy.

Rather than being the "enterprising", worthy, noble people they claimed to be, they were a hybrid of the "upper class twit" from the UK, together with the vain superficial elements of the French Royal Court. They were portrayed as a bunch of inane, superficial, stupidly competitive idiots.

Veblen came up with "conspicuous consumption". They were consuming for show, not use, in competition with others who were doing the same. This sort of commodity has become known as a "positional good". Rather than fist waving against the injustice, his analysis was more anthropological, with a moderate amount of distance and some wry amusement. Because it was not "fist waving", and a bit subtle, it had all the more impact.

It undermined some ideas about consumption. For example, the more you have of something, the less you want more. Diminishing returns and all that. But, if you're putting together a collection, or trying to show off, more is better. Having 100 prestige cars is a significant improvement over just 99.

The leisure class also made a show of distancing themselves from manual labour. Women were ornaments, and it was important that they consume for show, reflecting the status of the husband. Veblen called it "vicarious consumption". Importantly, women should not do anything useful, for that would look too much like work.

These matters of taste - the wealthy looking down on workers with an "oohh - yuk" attitude spread further. Violent crimes of the working class were looked upon more harshly than financial crimes of the upper class, and capitalism itself was seen as "more worthy".

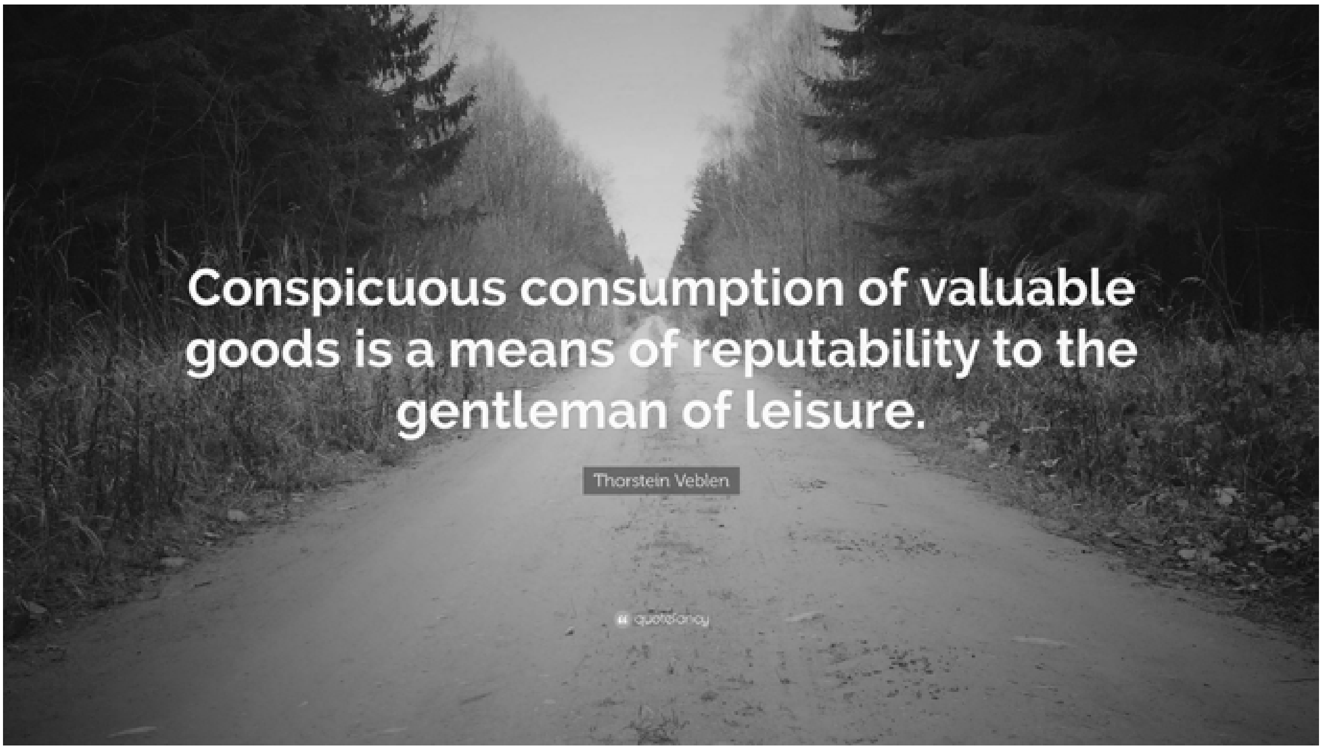
The effort in *selling* as compared to *making* also undermined the "productive economy". This echoes Galbraith, where the economy is about making and selling useless stuff people don't actually need in order to keep people employed.

You have "planned obsolescence". Sure, things can stop working before they need to, needing replacement. But, you can still replace something *before* it has stopped working, because the replacement is more "modern" ... or perhaps even, just "more trendy". In using something better, you've thrown the old one away. Have you *really* progressed that much?

Veblen undermined many economic principles. A first was that commodities were *useful* and *worthwhile*, produced - and consumed - because of this. Marx did talk about "use-value". However, when something is only socially appreciated rather than "useful" - how "useful" is it, really? Was it *really* worth making in the first place?

Of course, you can abstract away from this and emphasise that people *perceive* something to be worth consuming. The sovereignty of the individual - their wants and desires - trumping all other considerations. However, you really are denying an underlying promise - that objectively we are doing something worthwhile. It underlies a look of economic hand-wringing. I mean, if the economy is just churning out a lot of fairy floss, why bother getting emotional about it?

But, looking at other issues, Veblen considered the push towards standardisation and mass pro-



duction, in pursuit of greater profitability, would eventually be self-defeating. This is to be contrasted with today's emphasis on "customisation".

The pursuit of profits meant the development of better production machines and squeezing competitors out of business. Monopolies would form, and then ultimately depressions. Production does not necessarily generate its own demand - here there's an echo of Keynes as against Say's law.

From a very broad view, you could say the economy is not "productive" - it does not live up to its promise of providing people with useful goods. Given this underlying waste, there's a certain muddle headedness in trying to make the economy more "productive". You're not generating more happiness - just more waste.

Of course, even with this in the foreground, people still live in poverty, and there's a concentration of wealth. Nevertheless this "underlying waste" does discount efforts to "reform" the economy in pursuit of "greater productivity".

Just as we might argue that "potential" virtuous growth in society is "absorbed" into land values, Veblen tells us that "production" is wasted in useless stuff that doesn't really make much of a difference. So, Georgist reforms will be "wasted" in this "useless" part of the economy, much as reforms in other areas might be "wasted" in Georgist absorption into land values.

There are of course other aspects. Some economic developments do benefit us objectively, like better medical technology and more affordable restaurants and holidays. And I certainly endorse Georgist reforms - I can see the benefits. Still, the reforms assume that if we fix *this* part of the economy, the rest of the economy will operate smoothly and deliver a proportionate benefit. But, because of the Veblen inefficiencies, Georgist reforms would be diluted. Not useless mind you, but not as effective as they would otherwise be, either.

Still, Veblen was concerned about land ownership; George's writings were an inspiration for him and he defended George during his career, in particular against claims land ownership was "sacred", unions an anathema, and so forth. He said land possession arose through military conquest; in agreement with George, there was really no such thing as a "right" to land price. Veblen did write about the bounty of the land being captured : "the 'free income' derived by the leisure class that privatised through its 'absentee ownership' the natural resources of the nation, like 'gold and other precious metals, timber, coal ... petroleum, natural gas, water power, irrigation' and of their wasteful expenditure.

For Veblen, absentee ownership and forcing others to labour for you were bad things, though it was reasonable for you to own land which you directly worked and occupied. Catholicism developed the idea of “distributivism” - that lots of people would own stuff, but it would be the place they worked and lived as a network of artisans/ farmers, with no *concentrations* of ownership, a different intellectual thrust, but railing against people owning “too much”.

Now, we might take a look at Patsouras’ commentary in “*Thorstein Veblen and the American Way of Life*”.

While the book does consider Veblen, Patsouras seems to use it as an excuse to delve into his favourite passions in US economic history and other areas. You had the whole “robber barons” thing, there’s Veblen’s contemporaries, and intellectual, political, economic and world developments since. There’s also a review of US imperialism, and its pursuit of economic interests with military force, along with a consideration of ideas about human nature.

I don’t want to complain too much - I suppose it was going to be an anarchic commentary, that was the whole point. At times these excursions are interesting. In many cases there was something that was new to me, but I could imagine it being tedious and familiar for some readers. Then at other times it became a daze, with a string of one such-and-such thinker after another. These discursions can be interesting in their way, but Patsouras does seem to struggle to link them to Veblen’s original ideas, and struggles to put Veblen in an anarchic context.

Patsouras does note the worth of Henry George’s perspective, where the privilege of ownership would form a tax base, so “absentee ownership”, would at least mean the absentee owners were paying it. The tax was levied on owner/worker/ occupiers as well for consistency, but all land ownership was a privilege. But the point seemed to be that absentee owners would be more strongly hit.

George was considering an “injustice” - of people reaping an undeserved - an unearned - bonus, and the worth of fixing this. However, into the bargain, there were other hoped for outcomes - workers would obtain higher wages, enabling them to assume cooperative style ownership of industries. If this is true, it was an aspect of George I was not previously aware of.

Patsouras is skeptical about taxing land, preferring to think that “capital” and “profits” should be taxed similarly. Still, I side more strongly with George. An issue is how much “central” and “different to other capital” land is. Much as a concentration of ownership of wealth - something that includes more than just land - is an issue, land is used for both production and living, and because people need a place to live, land-owners have relative power. Yes, concentration of wealth is not good, but owning capital does not stop other people from having their own capital in the same way as occupying land stops others from living there. It is also easier for competition to keep the use of capital in check - land is not made any more, so there’s less competition in its supply.

In any case, I hope I’ve persuaded you that Veblen has some worthwhile perspectives. There’s many ways in which our economy is “inefficient”, broadly defined. Veblen shines a light on some of that. I’ve always reacted strongly to stuff being bought for show, the nature of advertising, and things being thrown out before they need to be - with the interest of people selling stuff perhaps not being the interests of the whole economy, while one promise that of course, people left to themselves in a market will mean it all works out. But Veblen’s approach did resonate with me. I hope you can see why, and perhaps it will also resonate with you.

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https://johnaugust.com.au/

High real estate prices are caused by federal government policies

by Tony Graddon

I love being an Australian and I love living in Australia.

I am really concerned that our Australian way of life is being destroyed by excessive real estate prices.

Bad for the Economy – So much of our wealth is being consumed by the cost of real estate that our economy is sluggish. Households and businesses are spending so much on real estate that spending on goods and services has been constrained. Jobs and growth will always be elusive in this context.

Bad for our Society – Poverty and homelessness are increasing. When house prices grow so much faster than income, people with low incomes experience hardship. Pensioners with fixed incomes are in deep trouble unless they own their house, and so are people who depend on other government benefits. The younger generations are facing a lifetime of paying rent or decades of mortgage stress.[1]

All this has happened in the last 20 years while inflation and interest rates have been low and employment has been robust. Australia should be booming, but instead we are seeing the rise of inequality and hardship and bullying.

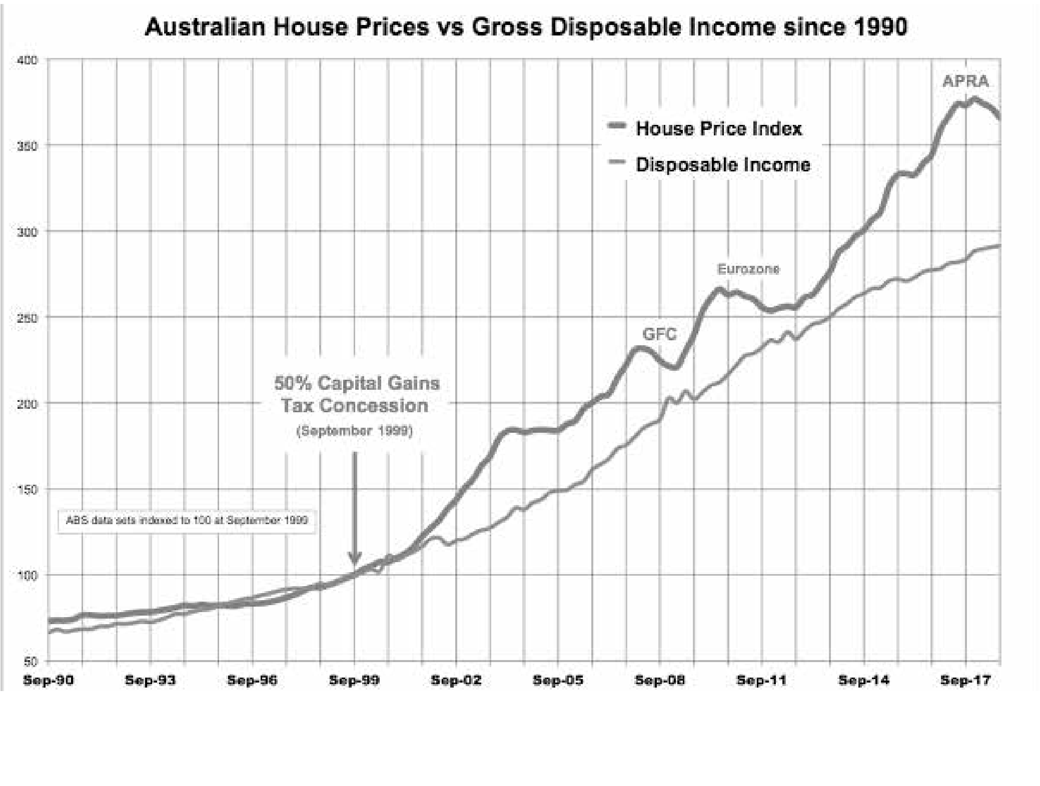
This price hike started in year 2000 caused by tax policy

The federal government introduced 50% Capital Gains Tax Concession in September 1999.

They said that this would simplify the arithmetic and encourage investment in small innovative businesses.

A recent report by Anglicare indicates that the

1 www.abc.net.au/news/2017-11-29/poorer-australians-bear-brunt-of-rising-housing-costs-charts/9202804



50% Capital Gains Tax Concession now costs the federal government about $10 billion per year in revenue foregone, which is equivalent to 0.8% of Australia's GDP.[2]

Said another way, the federal government is subsidizing the trading of real estate by $10 billion per year.[3]

This is equivalent to 10% of all revenue collected from the Goods and Services Tax, **or 4% of all income taxes.[4]**

The chart reveals what has happened and shows the trigger that caused our real estate crisis.

Real estate prices and disposable income were closely aligned for many years before 2000. Housing was affordable. House prices began their extraordinary ascent when the benefits of the new tax concession started to flow into the real estate market – 12 months after the 50% Capital Gains Tax Concession commenced.

Since 2000, the ascent of house prices has been relentless whenever debt has been available. The chart shows that the rapid ascent of house prices was halted briefly only by debt limitations – first by the Global Financial Crisis in 2008 and then again by the Eurozone crisis in 2012-2014 and then again from 2017 by APRA's restrictions on bank lending.

If the 50% CGT concession remains in place, then house prices will rise strongly again when debt is available.

Impacts on our economy and society since 2000

- Housing costs consumed 20% of household spending in 2015 (even higher now), up from 13% before 2000.[5]
- Sydney, Melbourne and Brisbane are now in the top 12 most unaffordable cities for real estate worldwide.[6]
- Rental accommodation for students and pensioners has become "Extremely Unaffordable" in these cities.[7]
- Commercial property rents are also higher, affecting business profitability.[8]
- Real estate is the preferred asset for accumulation of wealth. This does not benefit our economy or our society.
- Dollars consumed by rents and mortgages have reduced the ability for consumers to spend in other sectors.
- It has become normal for Australians to be landlords – owning another house and earning income from rents.
- We are seeing the separation of our society into landlords and renters. [9]
- Homelessness is in the news headlines.

Tax subsidies for real estate speculation

Before 1999 the rate of Capital Gains Tax Concession was linked to the Consumer Price Index (CPI). Since 1999 the 50% CGT concession has provided a tax subsidy almost 40% higher than the CPI-based tax concession would have provided over the same period.

The attractiveness of any investment depends on the level of risk. Changing to a flat 50% tax discount reduced the risk of investing by removing the link to the rest of the economy, making investment in real estate much more attractive.

Yes, other types of assets are eligible for the 50% CGT discount, but the house price boom has

2 www.anglicare.asn.au/news-and-media/latest-news/2018/03/25/landmark-report-on-the-cost-of-privilege-shows-our-tax-system-is-unfair

3 www.anglicare.asn.au/news-and-media/latest-news/2018/03/25/landmark-report-on-the-cost-of-privilege-shows-our-tax-system-is-unfair

4 www.abc.net.au/news/2018-05-08/chart-of-the-day-budget-tax-expenditures/9737378

5 Australian Bureau of Statistics Household Expenditure Surveys 2015-16 versus 1998-99

6 14th Annual Demographia International Housing Affordability Survey: 2018 page 11, Figure 4, demographia.com/dhi.pdf

7 SGS Rental Affordability Index May 2018 pages 22-30, www.sgsep.com.au/application/files/2215/2661/5595/RAI_May_2018_-_Press_Quality.pdf

8 www.news.com.au/finance/economy/australian-economy/commercial-real-estate-is-australias-other-big-property-risk/news-story/94e9bcbcb647d9f040a438ec8f5a2fdf

9 http://www.abc.net.au/news/2017-11-29/poorer-australians-bear-brunt-of-rising-housing-costs-charts/9202804

been fueled by debt and banks will always give priority for loans that are secured by mortgages on urban real estate.

The real estate sector benefits from interest rates that are lower than loans for other assets or for business investment. Real estate investment has an advantage in both the cost of debt, the availability of debt, and big tax concessions.

In the periods when house prices have fallen slightly due to restrictions on bank lending, the real estate investors still benefit from negative gearing as an additional type of tax subsidy.

How much money is involved?

In the last 4 years the total value of dwellings in Australia has increased from $5.2 trillion to $6.8 trillion – about $400 billion per year. That is the equivalent of 22% of Australia's GDP going into real estate prices for dwellings.

Since September 1999, if house prices had grown only at the same rate as gross disposable income, the chart shows that the total value of dwellings would be about $5.1 trillion. The excess is $1.7 trillion dollars – or $100 billion per year on average. If we include commercial and industrial real estate the numbers are even higher.

In summary, the federal government is providing a real estate tax subsidy that has grown to $10 billion per year. This has driven the total value of residential real estate to increase by $100 billion per year in excess of disposable income.

What if we could channel this wealth into education, hospitals, social services, small business and infrastructure instead of into real estate prices? $100 billion per year is enough to make a big difference.

Stop the real estate tax subsidies before more damage is done

This real estate price boom must stop and there is no doubt that our federal government can make it stop.

They pretend it is out of their control, but federal government tax policies are actually causing the real estate boom.

Prices appear to be out of control because the real estate sector is receiving an indirect tax subsidy of $10 billion per year. The federal government has direct control of this economic lever.

The government considered cutting the CGT Concession in the 2017 budget, but failed to go ahead.[10]

The 50% Capital Gains Tax Concession was touted as a mechanism to encourage investment in small innovative companies, but someone forgot to exclude real estate. Maybe that was an accident? It has certainly been a disaster.

What does our society and economy need?

Australia desperately needs many years of static house prices to allow our economy to find a productive balance.

We are only half way through the current 18-year real estate cycle. If the 50% CGT Concession remains in place, then real estate prices will double again in the next seven years. If our government allows this to happen there is a grave risk of severe recession when the next real estate crash arrives towards the end of the 2020s.[11]

If we truly want jobs and growth and we truly want our economy and our society to prosper then the tax subsidy for trading of real estate investments must be ZERO. We have 18 years of evidence to prove this is true.

We must stop the tax subsidies for real estate right now – before the next wave of easy debt revives the boom.

Instead, let us have policies that encourage productive innovation as promised by our government back in 1999.

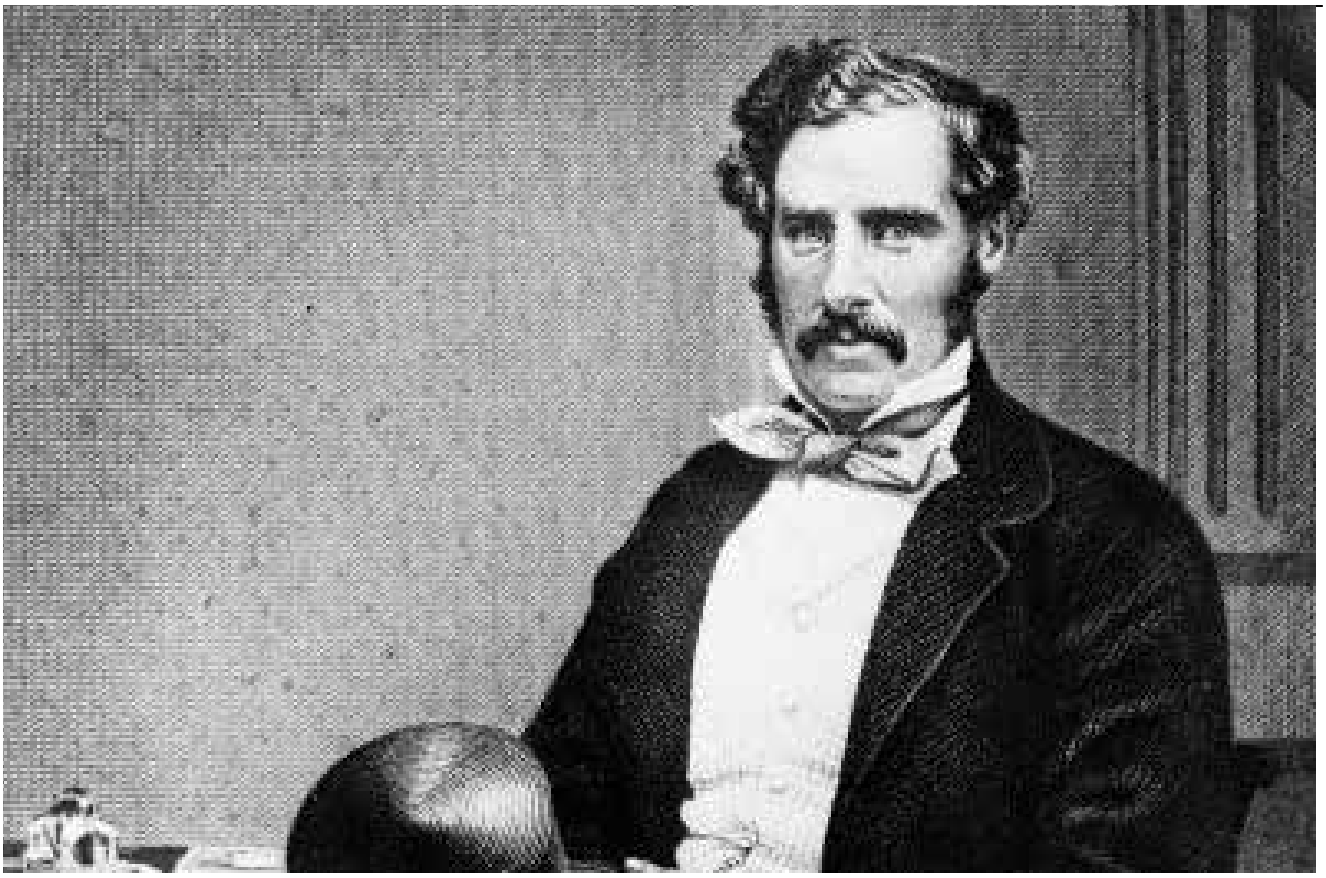
End tax subsidies for the trading of real estate

10 www.afr.com/news/policy/plan-to-cut-capital-gains-tax-discount-for-property-investors-20170215-gudwdc Australian Financial Review February 2017

11 Phillip J Anderson: "The Secret Life of Real Estate and Banking". Book published in 2008 and various online publications.

Geoists in History

George Grey *(1812 - 1898) by Karl Williams*



It is written in the stars that only a few souls are destined to change the course of history. In a multitude of wildly-diverse fields, George Grey impacted the world for his whole adult life and, as so often is the case, made almost as many enemies as friends. How shall we label George Grey – soldier, explorer, governor, politician, orator, scholar or philanthropist? Or perhaps the most fitting label is that he was New Zealand's most commanding historical figure, framing its constitution and in great measure shaping its future.

Grey was born in Lisbon, Portugal, the only son of English Lieutenant-Colonel George Grey, who was killed fighting Napoleon's army in Spain just a few days before his son was born. His mother remarried well 5 years later and so there was enough money in the family to send him to board at Royal Grammar School in Surrey. But it soon became evident that Grey was his own person, cut from a very different cloth. He ran away from the confines of standard aristocratic schooling and, as Fate would have it, was instead given private tutoring by a notable liberal idealist, Rev. Richard Whately. An important geoist seed was planted.

But when a young English aristocrat was not meeting the expectations of his family in those days, he would be sent to military college, which is what occurred to Grey at age 14. Four years later, serving as a junior officer in brutally-colonised Ireland, it became evident to his peers that this strategy was not working for here he developed much sympathy with the Irish peasantry. Grey saw that their misery was inflicted upon them by their landlords and it made a deep impression and would sow another geoist seed in his heart that would later burst into full expression. This sympathy for Irish peasants led to his interest in systematic colonization as a cure for their distress, where land had not been confiscated and monopolized by a class of landlords. Before Henry George had even been born, Grey was determined to make it his life's work to prevent land monopolization from occurring in newly-settled countries.

The course of his life turned dramatically when his attention was drawn to the Australian discoveries arising from Charles Sturt's bold explorations. In 1836 he left Ireland and wrote to the Colonial Office offering to lead an expedition to seek a site for settlement in north-western Australia where it was thought (wrongly, as it turned out) that a great permanent river might make the area suitable for agriculture and settlement. With support from the Royal Geographical Society, Grey's plan was approved and he sailed in a schooner with 13 men and in late 1837 reached Hanover Bay in the unexplored north west of the Australian continent. A month later, ill-equipped and inexperienced, they undertook an adventurous and calamitous 3-month expedition of discovery in which Grey was speared and almost killed by local aboriginals. The following year he made another 3-month expedition with 10 men further south that was just as bold and chaotic.

These exploits led Grey in 1839 to be promoted to captain and to be appointed resident magistrate at Albany in South West Australia. Here his knowledge of and affection for local aboriginals deepened, and his remarkable ability to learn languages resulted in him publishing a book on aboriginal dialects.

His courage and mounting achievements were noted in London and in 1841, while Grey was still only 29, he was offered and accepted the governorship of South Australia, and so he resigned from the army. In South Australia he walked into a financial crisis but, maintaining the strictest economy, he managed to balance the S.A. budget in three years. Grey's successful policies of encouraging wheat cultivation and mixed farming made the colony self-sufficient in food and the pastoral industry developed rapidly. By 1845 the government had ceased to be dependent on British grants.

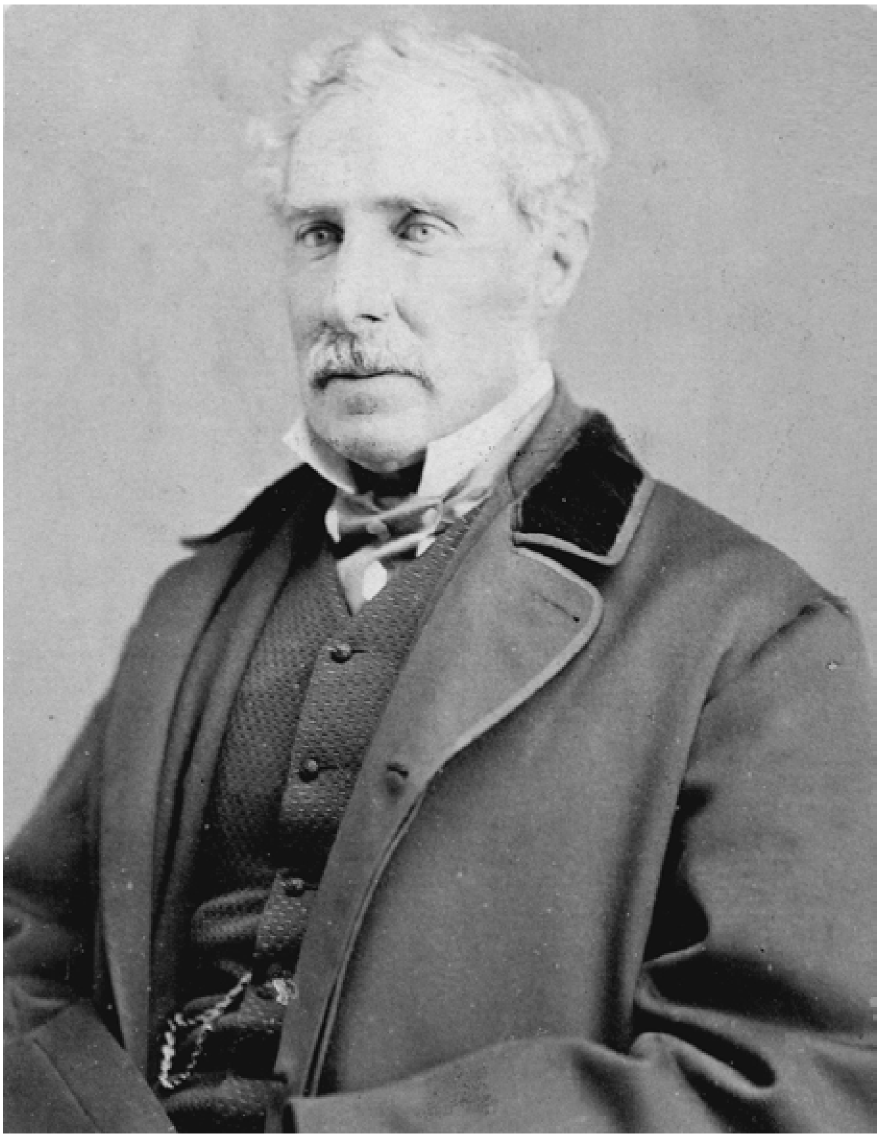
Grey's inherent sympathy for the oppressed turned to the local aboriginals. By today's standards his attitude would be considered patronising, but it was light years ahead of his time in the way he tried to stop the settlers from retaliating against aboriginal reactions to white invasion. Despite the appointment of special police and protectors of aborigines, the murders continued on both sides. He helped to provide schools for aboriginal children, but they generally rejoined their own people after a time, and refused to work for Europeans.

When war broke out in New Zealand (also on the brink of financial ruin) between the Maoris and British settlers over land rights, London appealed to their troubleshooter and so Grey was named New Zealand governor in 1845. In his first term he established peace by balancing the rights of natives with the demands of land-hungry settlers. After defeating rebellious Maori chiefs, Grey embarked on a policy of assimilation and controlled land sales. His successes earned him a knighthood three years into his posting. He was the chief author of the 1852 constitution which set up provincial and national representative assemblies. Just for good measure, he became a pioneer scholar of Maori culture, writing a study of their mythology and oral history.

> *"What I am resolved to maintain is this, that there shall be equal justice in representation and in the distribution of land and revenue to every class in New Zealand … equal rights to all — equal rights in education, equal rights in taxation, equal rights in representation … equal rights in every respect."*

In 1854 the situation in New Zealand had been turned around, and one could be forgiven for assuming that Grey might want to retire to a comfy estate in rural England to write his lengthy memoirs. Wrong. From 1854 to 1861 Grey was governor of the deeply-troubled Cape Colony as well as being made high commissioner for South Africa. In addition to preventing a Kaffir rebellion, he acted as arbitrator between the Free State Boers, who wanted more land, and their Basuto neighbours. His achievements were much more limited in South Africa, as he found himself caught in the middle of a growing rivalry between the eastern and western halves of the Cape Colony as well as a movement for greater independence from British rule.

In 1861, in the midst of much unfinished business in South Africa, there was a Maori uprising



sailed back to New Zealand as a private citizen in 1870. From 1874 to 1894 he was a member of the House of Representatives and, as premier in 1877-1879, he introduced a radical program of reform. This was too much too soon, and Grey was driven from office by the landocracy. He was a man ahead of his times but some of his key objectives—manhood suffrage, triennial parliaments, and government purchase of large estates—were later realized.

His remarkable personal virtues and sweeping life experiences led Grey to edge closer and closer to geoist reforms. At the age of 30 he had given two-fifths of his salary to private charities. He had a deep appreciation of and interest in nature, ceaselessly collecting geological and biological specimens for the Kensington Museum, Kew Gardens and elsewhere. His African collection was unique and he gained scholarly repute for his studies of native languages and customs, and for his published collections of Maori and Polynesian legends. An ardent book collector, he gave valuable libraries to both Cape Town and Auckland. A patron of education, he founded and developed many schools and colleges in South Africa and New Zealand. He was a devout Anglican, and helped to form the New Zealand Church Constitution. He pondered all the great questions with some leading thinkers, which included a personal friendship with Robert Louis Stevenson. Not surprisingly, British authorities marked him as a "dangerous man".

and so London once again turned to their man down under and reappointed Grey governor of New Zealand. This time Maori nationalism undermined Grey's efforts at conciliation, and he failed to pacify the natives. Having to resort to a period of open warfare from 1863 to 1866, Grey assumed personal command of the armed forces and launched an invasion to take control of the heartland of the conflict zone. The war brought thousands of British troops to New Zealand with 18,000 men serving in the British forces at some point during the campaign, peaking at about 14,000.

Because of their Eurocentric land policies, Grey could not work harmoniously with local politicians and he was dismissed in 1868 for defying British military orders and so he returned to England. Restless to return to the action, he

Henry George's *Progress and Poverty* wasn't published until 1879, but there were other geoist thinkers that guided Grey before then. In the 1840s in South Australia, Grey was already keenly aware of land grabbing and did his best to either prevent it or impose charges on the landholders. In New Zealand he taxed the unimproved value of land (1878) and later supported bills for breaking up large estates in the interests of the smallholders. As a progressive liberal Grey was no doubt familiar with the new reformist ideas being discussed in the early 19th century. David Ricardo had published his *Principles of Political Economy and Taxation* in 1817, and expounded his theory of economic rent, an idea that Grey no doubt took with him to New Zealand. Prior to his term of office as New Zealand premier he met up with the great geoist John Stuart Mill.

Attempts to introduce a national property tax based on land values was a protracted affair which began in 1878 with the Land Tax Act introduced when Grey was Premier. In 1879 his finance minister John Balance, also an advocate of land value taxation, introduced a General Property Tax based on the selling value of land only, but this was soon repealed by the succeeding National (Conservative) government.

When *Progress and Poverty* exploded in the intellectual world like a supernova, Grey's efforts had already come to the attention of Henry George who sent Grey an author's edition in late 1879. On January 27, 1880. Grey wrote back to Henry George:

> *"I have already read a large part of the book. I regard it as one of the ablest works on the great questions of the time, which has come under my notice. It will be of great use to me… It has cheered me much to find that there is so able a man working in California, upon subjects on which I believe the whole future of mankind now mainly hangs."*

The two men carried on a correspondence for the next decade until Fate determined that, if only for a few short hours one day in February 1890, these two great souls would meet in person. Henry George was sailing to Australia for his barnstorming lecture tour of 1890, and his ship docked in Auckland for barely an afternoon. Oh, to be a fly on the wall that day to witness that meeting!

On setting foot ashore, a party of geoists took Henry to George Grey's nearby residence to receive a hearty welcome and to be told that he had prepared a public gathering that day to hear Henry. Let's hear what happened straight from Henry's pen,

> *"I was especially glad to meet him [George Grey] and to find his eightieth year sitting on him so lightly. It is worth going far to meet such a man, soldier, scholar, statesman and political leader – an aristocrat by birth, who when hardly thirty wielded the powers of a dictator; who has been four times governor of important colonies in the most important crises of their affairs, and then premier of the colony in which he made his home; who is yet an intense democrat, and who, unsoured by disappointments and undaunted by defeats, retains in the evening of life all the faith and hope that are commonly associated with youth…. What struck me particularly in his conversation was not merely his wealth of information of European as well as colonial history and politics, but his earnest, religious tone, his calm, firm conviction that this life is but a part of the larger life beyond, and his deep interest in the well-being of those who are yet to come."*

After the public gathering (which of course dwelt on the subject of land value taxation), George Grey and Henry George conversed until the very last moment of Henry's stay, walking on the wharf together while the captain considerately held the ship somewhat beyond her scheduled departure time. Henry was to later say that nothing had given him greater satisfaction than meeting George Grey.

After a meeting like that everything might seem an anti-climax, yet the old warhorse Grey battled on in various ways. In 1891, as a New Zealand delegate to the Australian Federal Convention in Sydney, he advocated a "one man, one vote" policy. After the convention he toured the east coast of Australia giving lectures and was, by all accounts, given a tumultuous reception.

He finally returned to England in 1894 and, not yet done, became a privy councillor and fought the good fight almost to his last breath. He continued his long and affectionate correspondence with Henry George but, while he was Henry George's senior by 27 years, he outlived him by a single year and died in 1898. He was given the honour of a burial in St. Paul's Cathedral.

Next issue: No. 70, the German sociologist, physician and political economist, Franz Oppenheimer

A Moral Structure to Address Climate Change *by Lindy Davies*

Harrison Moore, Unsplash

It seems to us that the climate-change issue should have a moral aspect to it. After all, we're messing up our world. We're helping well-connected resource-grabbers to exploit poor people and vulnerable natural habitats. We feel that it shouldn't go on this way. The world is losing hundreds and hundreds of species. Innocent island nations are disappearing without a trace. Floods and storms and fires are unleashed on the undeserving, while the well-to-do shelter behind high-quality insurance and well-provisioned rescue departments.

Yes, it seems like it ought to be fairer, but how can we make it so without destroying the Western economy? We wring our hands over carbon-tax proposals, none of which seems even remotely sufficient. When it comes right down to it, aren't we caught up in a perception that things have gone too far; they're out of control, the most drastic steps we can take won't be enough, it's too late for sensible policy proposals!

Simple fairness seems a quaint idea at a time like this. Too many entrenched systems vying for dominance.

Yet doesn't there have to be some guiding element of fairness to it? Otherwise aren't we just banging around in chaos?

In 1879, Henry George was the first person in English to write about a "spaceship earth,"in Progress and Poverty: "It is a well-provisioned ship, this on which we sail through space."

Some would accuse George of quickly turning this cosmic observation into a prosaic one: "If the bread and beef above decks seem to grow scarce, we but open a hatch and there is a new supply, of which before we never dreamed. And very great command over the services of others comes to those who as the hatches are opened are permitted to say, 'This is mine!'" But I don't think George was saying the ship just had so many supplies, all of which were owned by the captain and his friends. A ship on the sea has various ways of finding food and water, and getting to port, more easily done if they share their supplies rather than fight over them. A well-provisioned ship isn't infinitely provisioned.

There is a moral framework that applies to climate-change policy. It is symmetrical and comprehensive — but it has just one drawback: it may be seen as impracticably unfeasible. But it can't be. If it is, we're screwed.

I'm referring to the moral basis of ownership described by Henry George in *Progress and Poverty*. This is a basic, organic, conception of things. It says that the value of natural resources and opportunities, land sites, everything provided by nature, belongs to the community. And there's one other big part of it. Any harm caused by some "productive" effort — such as, say, a plastics manufacturing plant just off of New York's East River, which spews fumes into the air and wildlife-killing effluvia into the water, owes the community the full cost incurred by that pollution. Chances are, if those costs were part of doing business, such a plant would not locate there in the first place (or it wouldn't be that sort of plant).

It has always been a strong feature of "the Georgist Remedy" or "the Single Tax Solution" that it can be implemented effectively at a municipal level. It would be good if whole societies would do it, but cities can get started just fine, and reap most of the benefits. What benefits? Efficient use of space and infrastructure. Infill development. Use-appropriate development. The list goes on; talk to the good folks at www.urbantools.org.

But for our moral climate-change strategy, some major city would have to go all in — no namby-pamby gradualism. The people of, say, New York would have to go ahead and shove their site values into the abyss of efficiency and justice. Other cities would have little choice but to follow suit. We'd soon see how well that works Then, we could get started on the national programs.

If we approach the climate-change issue with the comprehensive strategy that resource rents belong to the community in every single case, then we have the potential to implement a self-balancing, self-reinforcing set of solutions. We can have trade-ons, not trade-offs.

Here are a few policy implications:

A. fossil fuels — natural resources (fuel in the ground) and locations belong to the community; user must pay for access — may sell energy once created but must pay to mitigate harm (this cost would be passed on to consumers, and will probably make coal & oil impracticable). Unlike common carbon-tax proposals, the Georgist plan would seek to recover the full harm caused by burning the fossil fuel. We hope this would be offset by the other robust incentives our program would create. Suppose we go ahead and make coal and oil unfeasible in 2-3 years' time, and see how quickly we can replace them with renewables and distributed local sources? Remember that some 80% of today's greehouse-gas emissions come from fossil fuels. Getting rid of them is the ball game; and our proposal offers widespread synergies. How long would we have to wear sweaters?

B. renewables — location belongs to the community; user pays for access, may sell energy once created but must pay to mitigate harm. Wind or solar locations are often fairly marginal. There would be a big construction push. Cost-effectiveness with fossil-fuel sources is approaching, and with economies of scale, it would be realized.

C. nuclear — natural resource (fuel in the ground) and location belong to community; producer may sell energy but must pay to safely dispose of waste. Incentives for nuclear power would be very low, maybe just enough to gradually decommission existing plants.

D. distributed (local) energy sources — user pays for location, may sell surplus energy back to grid; must pay to mitigate harm, if any. Possible discounts/rebates if this use reduces costs of grid energy. Lots of incentive to develop & market new forms of these.

E. urban — obviously, full site value belongs to community, and zero tax on buildings. On-site energy production (as in tall buildings) can be discounted against site value charge to incentivize green development. Surplus goods or energy can be sold.

F. agricultural — site value belongs to community. Crop belongs to producer, who must pay to mitigate harm, including that of meat, especially beef; site value should be computed to reflect sustainable, labor-intensive uses that minimize negative externalities.

G. mixed uses — such as energy/agricultural; urban/energy — site rent can be adjusted accordingly

H. infrastructure — full public collection of site rents would create incentives for infill/replacement. New sprawl developments should be discouraged in short term, possibly via zoning.

I. forests/oceans — their carbon sequestration value should be estimated. This could form the basis for a fair payment toward climate change adaptation.

J. shipping — this should be singled out for special consideration. Black soot should be outlawed if possible. Feedback effects in the Arctic need to be addressed internationally. Will this affect the economies of global trade? Probably, but it could help to stimulate local, labor-intensive production.

K. permafrost — this will serve as a barometer for overall greenhouse-gas reduction. If it keeps melting too quickly, we need to do better.

L. climate change adaptation — the situation has become dire enough that mere tax incentives won't get us all the way there. In some areas, especially when multiple nations are affected, treaty-driven command-and-control methods will be needed, and richer nations will have to invest more.

This will decrease site values in many places: the need for sea walls, flood protection, fire/storm protection, etc. It will demand federal resources! Some countries have such resources available — like the US with its huge military budget. Others will have to share; the UN will need to play a role. "Defense" will need to shift from national conflict to climate defense. US military is already planning for this sort of thing. Resources exist; China is able to build military islands in the South China Sea. But unlike fighter jets, this will be an investment in a sustainable future.

No other proposed strategy for climate change offers the sort of synergy and balance that this plan does. We shouldn't be persuaded by those who insist that "it's more complicated than that." It really is not. Make sure resource rents belong 100% to the community, and everything falls into place!

Lindrith Davies (1957-2019)

Lindrith Davies, of Jackson, Maine, died on April 9, 2019, after a 15-month illness with esophageal cancer that had metastasized to his brain. He leaves his wife, Lisa Cooley, and his children, Eli and Francesca. His extended family and friends are shocked and saddened by his loss; his intelligence, his humor, his wit and wisdom, his energy for work and play will be deeply missed by everyone who knew him.

Lindy was born on October 9, 1957, and grew up in Georgetown, Maryland. He grew up along the shores of his beloved Sassafras River, exploring its curves and twists, its muddy and tree-lined shores.

He graduated from Kent County High in 1975 and went to Denison University in Ohio. After college, he took the opportunity to work for a tree surgery crew in the mid-80s where he met Mike Curtis, an advocate of the economic ideas of Henry George. This encounter grew into a friendship that changed his life.

Lindy was a worker. He built his family a house, managed the Henry George Institute, and cared for Lisa and his kids. He was in constant motion, moving from one project to the next with energy. Very ambitious for the Institute, he produced the quarterly Georgist Journal, administered the worldwide correspondence lessons, created online courses, and maintained multiple websites dedicated to Henry George. He became involved in studying the property tax policies of New York City and spent countless hours poring over its assessment database.

At the same time, he maintained the house he built for his family, helped care for Lisa's aging parents, spent time with his kids, and was the best husband anyone has ever seen.

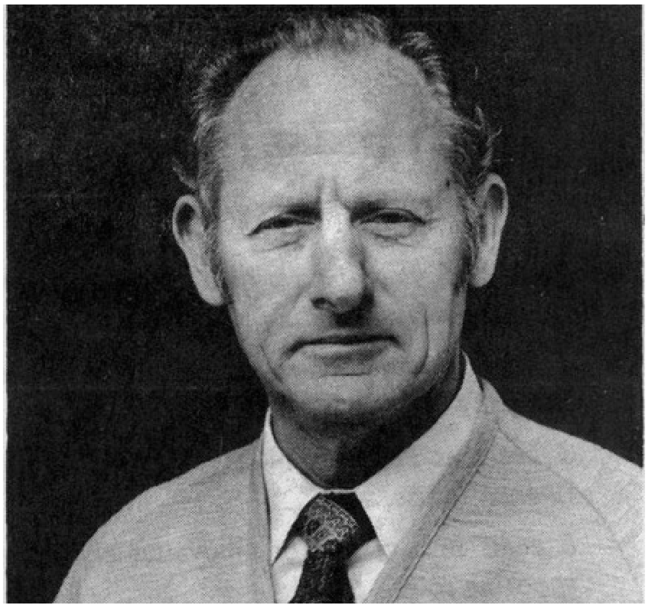
In his last months, Lindy's only desire, besides seeing Lisa and the kids well cared-for, was seeing that the Institute would survive him. There is now a team of dedicated Georgists working on carrying this forward.

Lindy reflected everything that was good and decent about the Georgist movement.

http://www.henrygeorge.org/

Bob Keall (1928 - 2019)

A valiant and energetic campaigner for land value tax died recently. Bob Keall passed at 90 after a lifetime of passionate advocacy. He was involved from early on, having learnt at the feet of Betty Noble who ran a course in economics in Wellington in the 1960s. He later promoted her courses and joined Rolland O'Regan who had succeeded his surgeon father PJ O'Regan in promoting Georgism. The NZ movement had many names over the years, most recently as *Resource Rentals for Revenue*. He had a mailing list of enthusiasts, but few knew each other. There is no visible record of a committee on the website or of elections for office.

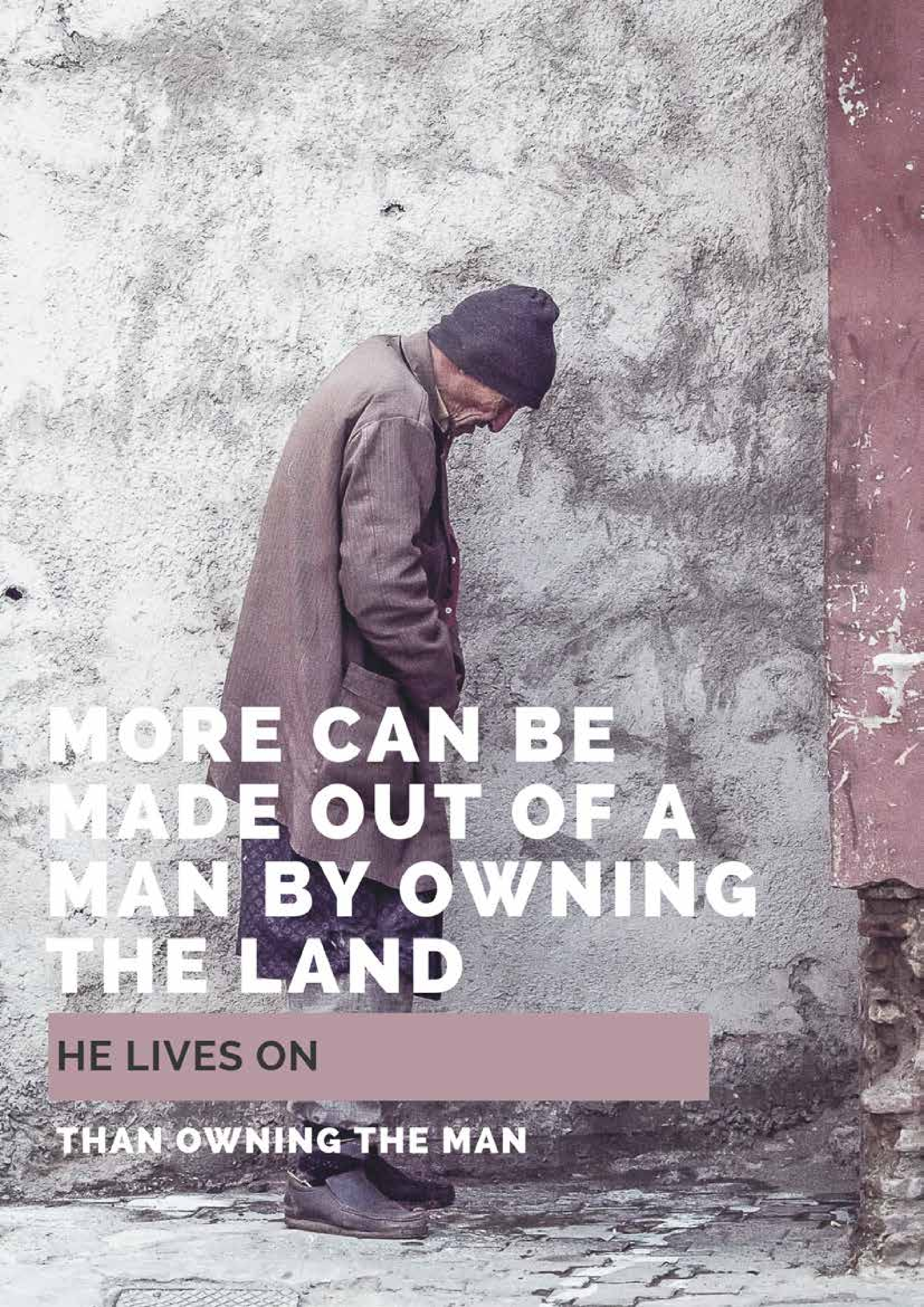


As an apparently solo campaigner with the holy grail, Bob argued for councils rating on land value, largely in the Auckland area where he lived and was constantly dismayed at the trend towards rating on capital value supplemented by Uniform Annual Charges. He wrote letters to politicians and decision makers of every conceivable body.

Bob did not type but for the last decade employed a secretary, sending her handwritten faxes at any time of the day or night. He organised a good website for a repository of the knowledge and wrote some well known one page handouts which he distributed by snail mail to his mailing list, often with many repetitions. Is there anyone in Oz or New Zealand (or in US or UK for that matter) who hasn't received a Georgist missive (or many such) from Bob? They included *A Challenge to the Church*, *Economics in One Lesson* and *The Credit Crunch of 2008*.

His great legacy will be his ability to write the history of taxes and rating systems in New Zealand and to write a commanding biography of Rolland O'Regan.

http://resourcerentalsrevenue.org/


MORE CAN BE MADE OUT OF A MAN BY OWNING THE LAND
HE LIVES ON
THAN OWNING THE MAN