Australia's real lifters and leaners

by Philip Soos

Prosper awarded Philip Soos our EJ Cragie Writing Award for this piece at the 125th Annual Henry George Commemoration and Dinner. We think it well deserved.

WHEN THE infamous duo of Abbott and Hockey came to power in 2013, they embarked upon a polarising rhetoric of "lifters" versus "leaners" separating Australians into one of two camps.

The split was a simple one: those who earn and engage in productive activity, indicated by making a revenue or wage and hence paying income tax, in contrast to those who pay no net income tax, mostly social welfare recipients.

In Australia, the Duncan Storrar episode once again brought attention to this rhetoric. It expanded into a moral uproar with those who believe the poor should be provided more assistance, and those who think such people are a useless economic deadweight on society.

Earned versus unearned wealth and income

There is only one small problem.

The notion that the rich have earned all their wealth and income is completely false. Not only is it false, it is obviously false when one considers the issues at hand. Although the mass media and intellectuals often assert the rich must have become so by cause of effort, the available economic theory and documentary evidence, readily available, demonstrates otherwise.

Overwhelmingly, the pathway to riches is not through earned wealth and income but that which is unearned. The 18th century physiocrats and the later classical economists from Adam Smith to John Stuart Mill to Karl Marx, ultimately finding its peak expression in Henry George, argued for a clear difference between earned and unearned wealth and income. The term economic rent was used to identify this distinction. Those who make their living off economic rent are called rentiers.

Economic rent is defined as the unearned wealth and income derived from assets and economic activity which do not accrue from effort, innovation, entrepreneurship, research and development, expert skill or knowledge, or any other active behaviour on behalf of the owner. Rents are accrued by simply owning assets which produce above-normal returns which cannot be justified under conditions of perfect market competition.

In those times, the focus was on the land market's capacity to act as a sponge siphoning off increases in labour and capital productivity. For the landed gentry and banking interests, the cake was the slow rise in actual and imputed rents while the icing on the cake was the occasional episode of extreme mispricing (asset bubbles). While land still comprises the largest tangible market in modern economies today, there are many other forms of rent.

These are, but not limited to, licensing fees for the electromagnetic spectrum, natural resources (minerals, petroleum, gas, timber, fisheries and water), airports, seaports, flight paths, intellectual property rights (patents, copyrights, trademarks and trade secrets), banking licences (private endogenous credit creation), road tollways and taxi plates, with interest on savings and stock dividends insofar as these disguise returns on rent-yielding assets. Industrial and financial monopolies, duopolies and oligopolies, and public-private partnerships, also generate economic rents.

The classical liberal definition of a free market is an economy free from all economic rents, whereas the neoclassical model is one of an economy comprised of perfectly competitive markets. Both are mutually compatible. Considering the evidence and policies, it is apparent Australia completely violates the classical definition and also mostly the latter.

Frightened by the ideas of the classical liberal economists, especially Henry George, rentiers funded prominent economists of the time to promulgate deceptive ideas that land was merely a form of capital and thus should not be taxed.

This eventually led to the spurious neo-liberal ideology that claimed all forms of wealth and income were naturally earned. Prominent economist Michael Hudson has denounced this as junk economics, leading to plutocracy, unjustified fortunes, inequality, asset bubbles, control fraud and economic breakdown.

Free lunch? More like free banquets

There is evidence to demonstrate capitalist economies, including Australia's, are dominated by rentiers feasting upon state provided privilege. For those who believe there is no such thing as a free lunch, reality shows otherwise:

Wealth and income inequality is stark and has been widening since the 1980s (see here, here, here, here and here);

Over 80% of Australia's richest 200 people amassed their wealth via political connections;

The BRW Rich List 2016 amassed their wealth from economic rents, mostly in real estate and mining;

An astounding 74% of U.S. billionaire wealth is derived from economic rents;

Another study estimated around half of billionaire wealth in the U.S., EU and other advanced economies is inherited;

Inheritances and other wealth transfers account for 25% to 40% of U.S. net household worth over a generational life cycle;

The wealthy in the UK pay no net tax because they claw back decades of taxes through the unearned uplift in rental and land prices of their property holdings;

A property owner in England recouped 40 years' worth of taxes through the rental and capital increases of office properties due to a train line extension infrastructure project;

In Queensland, politically connected property developers reaped almost 60% of the uplift in land prices following rezoning decisions;

Total Australian land prices, mostly unearned outside improvements, increased by $525bn between 2014 and 2015;

A massive plague of control fraud in the Australian FIRE sector has looted untold amounts;

A conservative estimate of aggregate economic rents, including a small amount of negative externalities, amounted to 23.6% of GDP in Australia, equivalent to 87% of total government revenues;

Australia's corporate monopolists, duopolists and oligopolists dominate markets to an even greater extent than in the regressive neo-liberal US economy; and

Australia is estimated to have the highest tax expenditure rate in the world, at around 8% of GDP.

Taxes are limited to non-existent on wealth relative to income, and the same again for unearned wealth relative to earned wealth. Inheritance is tax-free and land rents barely taxed, with owner-occupiers gaining double the tax breaks that investors receive on a per dwelling basis. Massive tax expenditures accrue mostly to the inefficient and inequitable housing market and superannuation industry.

The growing burden of private taxation

One of the deceptions conjured by rentiers is the pretence the only taxes are those levied by the state. Private taxes levied by rentiers upon the public are hidden and come in two forms: intellectual property rights (IPRs) and negative externalities.

The super-profits reaped via IPRs (15th and 16th century feudal guild monopolies) result in upward wealth redistribution, even though superior mechanisms for funding R&D and creative art exist. This is how Bill Gates became the world's richest person: from government-protected monopoly and 'technology transfer' (a euphemism for takings of publicly-funded R&D).

While rentiers may criticise minimal tariff protection, they are staunch supporters of IPRs, which can raise prices far above the cost of production. Drugs are sold with huge mark-ups into the thousands of per cent. This acts as a very narrowly-based consumption tax with higher deadweight losses than general consumption taxes (a bad GST/VAT).

While Thomas Piketty's suggestion of a global wealth tax was denounced as unworkable, rentiers have their own system in place: non-democratic authoritarian world government enforcing massive private taxes globally. This is what the World Trade Organisation through GATT and TRIPS has accomplished.

Today, IPRs saturate every corner of modern economies, reaping monopoly profits for rentiers. Their wealth is dependent on many state interventions: corporate charters, IPRs and investor rights via bogus anti-free trade corporate protectionist non-agreements like the TPP, proudly and falsely promoted as free market enterprise.

Negative externalities are the other major form of private taxation. Economic activity results in costs pushed onto others not party to transactions.

U.S. economists Michael Albert and Robin Hahnel argued in A Quiet Revolution In Welfare Economics that:

'in postfeudal history a plausible case can be made that no economic failure has contributed more to the waste of productive resources than misallocations of markets uncorrected for external effects.'

Published in 1990, their research may sound like an exaggeration if not for global warming, which given its adverse effects, likely comprises the largest private tax in history. Poisoning of the oceans, resource depletion, pollution, and widespread banking and financial risks are other major uncorrected externalities.

One study placed uncorrected negative externalities at 34% of U.S. GDP in 1994. A more recent estimate is a whopping $US7.3 trillion or 13% of global GDP in 2009. A 1998 report demonstrated the total social cost of a gallon of gas was between $US5.60 and $US15.14, rather than the then market price of $US1. Many industries would not be viable if not for externalising costs upon the public; hence industry profits are maintained by this perverse dynamic.

Cost externalisation benefits the rentiers, as ownership of business is highly concentrated in their hands. Living in gated mansions, they work and live far away from the costs imposed by their decision-making, which are overwhelmingly borne by the middle class and poor who have limited to non-existent political representation to defend themselves against the onslaught of private taxation.

When corporate fronts like the IPA and their political allies in the LNP claim they support lower taxes, it is blatant deception. They seek to lower public taxes but maximise private taxes. This explains their visceral attacks against the carbon and mining taxes.

Becoming wealthy through capitalist non-work

Those who run a business or employ their labour in competitive markets know how difficult it is to get ahead. This is precisely because government and market outcomes in a capitalist economy are always and everywhere rigged in favour of the rentiers to maximise their free banquets.

The formula for unearned wealth and income is straightforward: privatisation of economic rents + private taxation + inheritance + state subsidies.

Plug in the forms of wealth and income for those on the Forbes or BRW rich lists, and it is obvious a majority, if not all, of it is unearned. In the UK, for instance, a woman who inherited her title while wearing a £1mn hat sitting on a golden throne addressing millionaires informs the public they must live within their means, returning by horse-drawn carriage to her £1bn mansion. All of this is gained through non-work.

Epic hypocrisy

Far from doing away with economic rents, neo-liberal policies since the 1980s are designed to create as much rent as possible, mostly centred in the FIRE sector. This is why Reagan, Thatcher and Hawke/Keating are praised by rentiers for their "reform". The term neo-liberal has two problems: the policies are not new and has little to do with economic liberalisation.

While maintaining their endless cycle of dependency on the state, rentiers have no qualms about denouncing the poor for their poverty. This has functioned as a weapon of ideological control as detailed by Sharon Beder in her excellent book Selling the Work Ethic.

It details the history of the work ethic since the time of Christ, later focusing on England and the U.S. as the leading bastions of capitalism. The idea that hard work in of itself was a virtue, and would inevitably lead to material reward, was sold by governments, industrialists and the clergy throughout the centuries.

Dogmas were peddled: the rich were wealthy because they were productive, and the poor suffered due to their own laziness. Today, any claim that rentiers became wealthy through rigging government and market outcomes to redistribute wealth and income upwards is met with howls of "class warfare", "tall poppy syndrome", "envy" or other ideological fabrications manufactured by vested interests to hide unjustified privilege in plain sight.

Former treasurer, Joe Hockey, gave a dreadful speech at the IEA entitled "The end of the age of entitlement". The definition of entitlement is curious: only transfers to the poor through the social welfare system count. Entirely excluded are the massive unearned wealth and income transfers (the real entitlements) to rentiers via privatisation of economic rents, private taxation, inheritance and state subsidies. This is how Mitt Romney concluded 47% of U.S. citizens were dependent on government; a definition conveniently excluding the rentiers.

Economist Dean Baker condemns this hypocrisy as the "conservative nanny state" while economist Kevin Carson labels it "vulgar libertarianism". It is the pretence of a fantastical free market economy where rentiers are alleged to earn all their wealth and income but receive nothing in return except burdensome taxes to support the growing entitlements of the undeserving, indolent masses.

Given the totality of public and private taxes, the wealthy likely pay no net tax while the middle class and poor face large net tax burdens given the colossal imposition of private taxes. Unfortunately, neither private taxes nor rents are measured by government; another gift to the rentiers.