

The Budget: the consequence

by Catherine Cashmore

On budget night, Joe Hockey stood up in Parliament and on behalf of the Abbott government announced:

"The age of entitlement is over. It has to be replaced, not with the age of austerity, but with an age of opportunity!"

The multi millionaire former banking and finance lawyer, husband to an investment banker, and owner of five properties, including a 200-hectare cattle farm in Malanda and mansions in Sydney, whose own entitlements will remain largely untouched, spelled-out changes to address:

- The single mother set to lose more than \$3000 per year;
- The newly unemployed university graduate and retrenched worker, who must live with no income for 6 months before claiming Newstart (forgoing more than \$7000);
- The low wage family with kids, who will lose \$6000 a year once all changes are factored in;
- The Hospitals and Schools – vital pillars of our society – who lose their projected funding on grounds they are state responsibilities, forcing an increase to GST – a regressive tax;

The bottom one-fifth of earners who will lose around 5% of their disposable income, compared to the top one-fifth, who will lose only 0.3% (modelling by NATSEM who point out the burden of this budget, overwhelmingly falls upon people in the most precarious position);

... by telling Australian public, that they are not "to be alarmed," because – it's "in the national interest".

The National Interest, what an outrageous conceit – a deliberate distraction from a budget that surgically sets about reducing living standards of the poor, low to middle-income earners and small business – the most productive sector of our economy – while studiously protecting the assessed \$484 billion total increase over 12 months in unearned capital gains (more correctly termed "economic rent") accruing to landowners (ABS).

Or laying a finger on the licensed resource monopolies, the mineral wealth of which increased by **\$56 billion** in 2012-13 alone.

Does this sound fair to you?

The country we want...

"It's about the sort of country that we want to be, in the years and decades ahead. It's about the value we impart."

...continued Hockey – who asked that all complaints be directed to 'the former government' – adopting the age-old habit of passing the buck.

Yet, warnings were given **well in advance** of this "budget emergency," and the sensible and equitable reforms needed, laid out in the Henry tax review – which they ignored – **all of them**.

The 'sort of country we want to live in the years and decades ahead' – is an apt question to ask – albeit, it should be directed at our children.

After all, they are the ones set to inherit this land and it's their future the Government is shaping. More importantly, it's not a matter the Abbott government is entitled to single handily dictate on either their or our behalf.

No doubt, job security and housing affordability top the list of desired outcomes – both are interdependent and serve the most basic needs of all.

Without land, or the ability to use it, rent it, or buy it, we're unable to do, or produce anything. **We are by definition "poor."**

Our accumulation of 'stuff' is due to the bounty land bestows. It is no coincidence that in both religious and ancient mythology, the first task humanity was to tend the land.

Our relationship with land is truly unique. The quality of its location, the pride in its ownership, tenancy, and care of its product, lays the foundation for a thriving community of healthy individuals.

Destroy the land, or prevent ready and affordable access to it, and you destroy a population.

The consequence is as black and white as that – "Pay the rent or leave."

And it is no surprise, that this budget ignores the role of land in its economic modelling – Liberal and Labor alike have overlooked it for decades.

It's not included in the Consumer Price Index for example – the tool the RBA uses to measure inflation and the cost of living, despite land prices and the size of the loans needed to service them consistently exceeding wage growth through the course of each cycle – at least for the average household and income earner.

Some items are easy to hide in tax havens – but you **can't do that with land.**

More importantly, while the politicians behind this budget will only feel a modest change to their disposable income with the newly imposed 'wage levy,' they will claw back far more in the increased value of their land holdings – particularly as we enter the next economic cycle.

The Cause of Wealth inequality – the extreme of which is "poverty":

Australia's lopsided economy is the cause of our wealth inequality - over \$4.1 trillion of which is land.

It is overwhelmingly ignored, yet shapes every area of housing policy – due in part to the vested interests of wealthy land owners who lobby our politicians to maintain the current trajectory. as

well as politicians who don't want to see their investments affected either.

This corruption of economics is not unique to Australia. It began soon after Henry George took the world by storm in 1879, when he successfully communicated the root cause of the massive boom/bust cycles (though not the first to do so) – the inflated price of land.

His farsighted solution, whilst understanding the importance of private ownership, clearly demonstrated the depth and severity of recessions and depressions could be avoided, if the natural revenue from economic rent was used to provide the government services we require, rather than pocketed for private interest.

This reduces land speculation, assists homebuyers, prompts efficient land use, improves productivity with lower land prices, and can assist in increasing wages – which would help the workers – not the land hoarders.

He influenced the likes of:

David Lloyd George in England,
Leo Tolstoy in Russia,
Billy Hughes in Australia,
Rolland O'Regan in New Zealand,
Chaim Weizmann in Israel,
Francisco Madero in Mexico,
Winston Churchill,
Milton Friedman and
Albert Einstein (to name but a very few.)

Quite simply, he took the political world by storm.

The people it didn't impress however, were the large landowners and financiers, who set upon a well-constructed and amply funded mission to change the course of economic education – thereby erasing the classical models which recognised the role of land and highlighted Henry George's ideas.

"The Corruption of Economics":

Mason Gaffney and Fred Harrison chart the full story in their book, "The Corruption of Economics."

They show how the three elements of production - land and resources, labour, and capital were gradually reduced to two – Labour and Capital – land being lumped in with the latter.

Capital ceased being man made, the product of work and innovation.

Instead, it included the stuff of nature – the very elements we need to live – allowing the increasing gains from any natural appreciation of land value (the expected result of every collective improvement we make to society) to be pocketed privately rather than shared by serving as the key source of government revenue.

It obliged home-owners to pay directly for the facilities they use – the amenities that give their land its value – while funding government on other taxes which are easy for the wealthy to avoid – like income tax.

That sounds fair doesn't it?

'All taxation is at the expense of Rent':

As the classical economists David Ricardo and Adam Smith proved, 'all taxation is at the expense of Rent.' In other words, any tax exemptions given to land holders increase the economic rent available to be capitalised into land prices.

This raises the cost of land – yet does little to address the needs of our children, who must take on an every greater burden of private debt to 'join in.'

Consequences:

This leads directly to Australia's current budget, which wants to increase taxes on wages and productivity – the burden of which falls overwhelmingly on the working poor – simultaneously advantaging those at the top of the tree, who see the value of their landholdings increase, in excess of any taxation or wage benefits.

Is this fair?

Well, this is what the current and previous governments have been enforcing for years.

Promoted widely by our 'balanced' property commentators – who preach how to get rich

on capital gains (as if it's hard) – without acknowledging the consequence and burden to the economy as a whole – including the impact on the next generation of priced-out buyers.

Think about that when you're browsing the well-stocked property investment aisle in your local bookshop.

Who benefits??

The progress of genuine innovation:

Thankfully with the birth of a new era of innovation – the internet – we finally have the beginnings of a global revolt against mainstream economic teachings which cannot identify boom/bust cycles and crashes, because they are blind to the role land plays.

Not to mention their completely false understanding of money creation and debt and its role in banking – highlighted consistently by Dr Steve Keen. Importantly, economic students are starting to recognise their degrees are hardly worth the paper they're written on – as the protests for heterodoxy show.

Change:

Changing the system is not easy when we have built a society dependent on housing wealth to fund retirement.

It requires a transition – such as that set out in the Henry Tax review – to phase out tax subsidies such as negative gearing – offset by the supply reforms Leith van Onselen, Hugh Pavletich, Senator Bob Day and many others have been advocating for years.

We want a "fair go" country, one that avoids volatile boom-bust cycles, and instead of promoting wealth inequality, provides economic prosperity and true opportunity. The challenge is to promote genuine innovation, competition, research, education, and affordable housing – in other words, provide the best for our children.