

# Here and There with Geoff Forster

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More than half a million young people could need emergency assistance, as a direct result of a Federal government change which welfare groups have warned will lead to catastrophe.

The mandatory 6 month wait for those under 30 is likely to drive thousands of people into crisis, Senate hearings have been told. It is expected that 550,000 applications for assistance, delivered by charities in the form of food vouchers, transport, household goods, or by helping to pay rent or utility bills.

What a dire vindication of Georgist warnings about the failure to implement land tenure rights and the need to radically transform our revenue rising system!

The median house price growth to March revealed some remarkable figures. For northern suburbs, Fitzroy led with 20% (median house price \$1,080,000), followed by Brunswick East 17.8%; Fitzroy North, 15.9%. For southern suburbs, Middle Park led with 26.5% (median house price \$1,670,000), followed by Windsor 16.7%; St Kilda East 15.2%. Naturally buyers looking for more affordable suburbs are venturing further out. A National Australia Bank survey named various suburbs as "likely to outperform this year" – revealing terminology!

Of course, no distinction between land and buildings!

Single parents face a tax slug of 80%, thanks to a weird design feature in the Abbott government's change to family payments. Once a family earns more than \$48,000, they will in effect get only 20 cents in every dollar beyond \$48,000.

A further example of the farcical nature of our irrational taxation system.

Real wages growth is reported to be the worst in 17 years. ABS figures show wages rose 2.6% in the

past year, while the consumer price index rose 2.9%. ACTU President Ged Kearney said wages data showed that "hardworking Australians are feeling the pressure", and the budget was set to increase taxes and drive up the cost of healthcare and education. She observed while Abbott and Hockey were saying the age of entitlement must end, ordinary workers must be wondering who was enjoying it in the first place.

In fact "real wages" must take into account what is lost through taxation. As for entitlements, the major group consists of those who pocket community created land values, except of course there is strictly no personal entitlement here. Social and economic confusion prevails when primary fundamentals are overlooked or suppressed.

Researchers Richard Wilkinson and Kate Pickett trawled through a mass of empirical data for 50 US States and 23 countries. In their book "The Spirit Level: Why economy is Better for Everyone", they conclude that societies with high inequality, irrespective of average per capita wealth above a basic level, are unhappier and unhealthier than more equal societies.

What a surprise! The real question of course is: what are the structural factors that cause inequality? Here of course, the perennial wisdom of Henry George is indispensable.

Recently there have been growing protests about the way in which economists have been educated. Forty-eight associations of economics students from 21 countries, including Australia, formed the International Student Initiative for Pluralism in Economics and published an open letter calling for deep reforms in the way economics is taught. In particular, there has been much criticism of the discipline's inability to anticipate the global financial crisis. A central issue is that neoclassical economics still hold institutional power within traditional centres of economics teaching.



Such widespread scepticism is very welcome. A crucial point is the failure of neoclassical versions to distinguish properly between capital and land.

In a recent article in *The Age*, James Traub argued inequality in the distribution of wealth in the West is increasing in ways that are unsustainable. He referred to French economist Thomas Picketty's recent book *"Capital in the Twenty-First Century"*, which claims wealth distribution in the USA is now as skewed as it was in the *ancien regime* of France. Picketty points out that the dynamics of redistribution upwards is so remorseless that only two years after the global financial crisis, the upper tenth in the USA once again received 45% of national income, not counting capital gains, as it had in 2007. This understates real disparities, since the top 1% take 20% of national income. Picketty's chief recommendation is "a global tax on all forms of capital", i.e. a wealth tax.

The neoclassical folly of conflating land with capital is again apparent. And inequality will significantly persist as long as this fundamental error is not acknowledged and acted upon.

IMF figures show Australian homes are among the most expensive in the world when compared with household incomes and rents. By the ratio of house prices to income, Australian homes were second only to those in Belgium. As regards prices to rents, Australia ranked fifth behind Belgium, Norway, New Zealand and Canada. Australia was also among a handful of countries where price-to-income and price-to-rent ratios were well above their historical averages.

The neglected factor of course is the land price component in house prices; with our politicians there are none so blind as those who will not see.

An analysis of the Federal Budget by the National Centre for Social and Economic Modelling at Canberra University reveals the poorest 20% of

Australians, on incomes of \$35,000 or less, would lose \$2.9 billion over four years. The top 20% , on \$88,000 or more, would be down just \$1.78 billion in the same period.

Of course to fully understand the significance of this, the role of economic rent and land values must be recognized and acted upon.

A professor of planning at the University of Melbourne recently wrote an article about an effort to improve affordable housing in Melbourne. The question was put: how is it that Melbourne, a wealthy city full of planners, architects and developers, could get it so wrong? Small unaffordable high-rise units in the central city for those willing to live like battery hens, and family homes in outer suburbs without access to adequate access to public transport, jobs, schools etc.

Three lessons emerged from the research of the group that the professor was leading.

1. A stable and sustainable affordable housing investment stream must be established.
2. Local and state governments must investigate land releases and ways to enable affordable housing as part of new development.
3. Use must be made of the potential for innovative design and construction methods to cut costs.

Some local governments are developing

housing strategies to take on the challenges, we are told.

No acknowledgement in any of all this of the role of land prices! Houses are not built in thin air! In an ideal world land value rating would be adopted (so lowering land prices), and the GST slashed (lowering building costs). Is that so difficult to understand?

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*"They hang the man and flog the woman  
That steals the goose from off the common,  
But leave the greater criminal loose  
That stole the common from the goose."*

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English folk poem, C1764