



**OUR  
PHILOSOPHY**

*We believe* that the Earth is the birthright of ALL MANKIND.

*We recognise* that for most purposes it is essential for individuals to have exclusive possession and security of tenure of land.

*We believe* that those who have exclusive possession of land should COMPENSATE SOCIETY for being excluded therefrom.

*We believe* that such compensation paid annually would meet the costs of Government and permit Society to abolish all taxes on LABOUR and on goods produced by labour.

## RECESSION, UNEMPLOYMENT – AND LAND

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A Talk Given to the Commemoration Dinner of Tax Reform Australia  
2 September, 1992

What has caused this depression? One gets the impression that not many people are trying to find out. The Government will not say that there is a depression; it will not even say there is a recession. In February this year the summary of the **One Nation Speech** called it a strategy "to accelerate recovery from recession" (p.19). Journalists preface news about the recession like this, "Now that recovery is under way the latest retail sales are a little disappointing". An A.B.C. journalist announced that the lower number of car registrations for July could mark a "downward slide from recovery". So we are mistaken; there is no recession.

One of the major events this year has been the loss of \$2.6b. announced by Westpac. This loss prompted a full report by the Australian Financial Review (May 21) but only 6-8 lines about what may have caused it. A study of those 6-8 lines gave the impression that the bank had been seduced into "entrepreneurial loans" to maintain its position as a leading lender in the 1980s by Australian companies gone crazy with easy credit. So the story is that Westpac was the victim of an accident: the sudden influx of foreign money. In August the Four Corners Program *Westpac: A Full Account* blamed the bank's loss on the poor judgment of the Westpac Board.

Because there has been no recession

what has happened are isolated accidents or mistakes, and there have been a lot of accidents and mistakes. The bankruptcies in 1991 were more than double those of 1988, and they continue now at the same rate as last year. Three Premiers have made mistakes, and fallen from office – John Cain, Brian Burke, and John Bannon. Two State Banks and many large companies have all made mistakes. In Tokyo, so many companies made mistakes or were the victims of unexpected events that buyers have lost confidence in their profitability, and the Stock Exchange is in danger of collapse. Maybe an accident or a mistake has brought nazism back to life in Germany, in the same areas where it originated in the Great Depression.

**If we know history, we know that we cannot blame great events simply upon mistakes or accidents. There must be longer term causes. These conditions make events likely to happen, though accidents or mistakes may bring those events about.**

### IDEAS AND INSTITUTIONS

**Our Government cannot examine our accepted ideas and institutions. Its strategy is to pretend that the depression is not happening and to wait until it passes. It must limit all debate to personalities or unforeseen events. It clings to indices on inflation and**

interest rates and hopes that better indices will soon come along.

It is not likely that public debate will look beyond mistakes or accidents. Public opinion usually resents an attack upon accepted and treasured ideas and institutions.

Henry George said that public reaction to a reform movement goes through three stages. The first is when the reform is belittled, and those who agree with it are called "cranks". At the second stage, when more advanced, it is seen as socially dangerous, and needs to be suppressed to 'save society'. At the third stage, when it is successful, everyone says that they agreed with it all along.

To speak publicly of recession is condemned by many as negative and imaginary. Isn't it the truth that at least half the unemployed are not looking for work? Is it not true that all that is missing is confidence?

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There is one idea which the Government is attacking in the way that Don Quixote attacked the windmills. This is the 'clever country' campaign, an insulting presumption by Government that what has failed in this country are the people and their supposed national ethos of the 'ocker' and 'she'll be right'. Far better had Government attended to the real question of the land.

In the last pages of his first essay *Our Land and Land Policy*, Henry George counsels the reader not to assume that the problems that overcame older societies cannot overtake the United States. He concludes by saying that "the matter will bear thinking of. It is impossible to overestimate the importance of the land question. The longer it is considered, the broader it seems to be and the deeper does it seem to go. It demands far more attention than it has received; it is worthy of all the attention that can be given to it". (p.131)

George's emphasis on what he broadly calls 'the land question' has so far only been treated with derision. Private property in land in the form of speculation does precipitate economic recessions and depressions. It needs to be reformed to take out the element in it which brings this about.

#### LAND AND THE PRESENT RECESSION

**To trace the connection between that aspect of private property in land and the present recession let us take the journey between this recession and the last one in 1982.**

Some say this journey started in September, 1983, with the confidence which Alan Bond restored to Australia by winning the America's Cup. Whatever the truth of that there was recovery of both production and consumption which continued at a steady rate. In 1986, confidence turned to optimism. More production needs more land so rents and land prices rose as producers expanded their enterprises or competed for better locations.

By early 1987 the speculative stage began. Mark Twain said of speculation, "There are two times in a man's life when he should not speculate: when he can't afford it, and when he can". At the time many of us felt we could. This stage has been called "asset inflation" but it was really a pursuit of rising land values. By 1989 it involved not just Alan Bond or Lang Hancock but you and me and by the end of 1989 we were investing annually nearly twice as much in real estate as we were even in 1986.

Rents and land prices responded to the chase by going up. In June, 1988, the NSW Minister (soon to be caught up in north coast land deals) said of the Valuer-General's "Blue Book" outlining where the increases to property prices were going on "I am sure this publication will be most useful for anyone concerned with real estate prices" and I am sure it was. This report, otherwise known as "the punter's guide", showed that office property led the way, that is, land in the Central Business District. Site values there, it reported, had increased 160 per cent since June, 1987, indicating it said, "an optimistic outlook about the future". In other words, in June, 1988, Australians were confident that economic growth was a fact of life. Land on the outskirts of Sydney rose sharply in price. A record \$200,000 was paid for two hectares at rural land at Dural to the north-west of Sydney.

Such increases in site values and the somewhat lesser increase in rents were far in excess of the growth in G.D.P. Commercial land prices had risen 160 per cent, G.D.P. had risen about four per cent. Wages in real terms were falling. If land prices, and rents to a lesser degree, were leaping upward when economic activity was creeping forward, it follows that there was a large transfer of wealth from producers to property owners. Nowhere was this more clear than in the housing market. A housing affordability index of 100 means an average two-income family is able to cope with the mortgage on an average home. In Melbourne in December, 1984, the housing affordability index was 160. By September 1989, it was just over 78. This indicated that about 20 per cent of such a family income previously spent on food and clothing was now taken by the mortgage. In Sydney the index had slipped to 76. These figures were unmatched elsewhere in Australia. Wherever economic growth was most clearcut, competition for land values was most formidable, and the transfer of wealth from producers to land owners most obvious. Is there any clearer proof than this of George's thesis of 'progress and poverty'?

#### PROPERTY SALES

Property sales had most times to be financed by loans. Australia-wide, in 1989, there were 660,000 sales of land. In 1988 the sales were only a little less. The value of mortgages will probably

never be known (it's part of the game not to make these figures public) but we do know that personal debts were soaring and that there were complaints that too much money was being invested in "paper" rather than in plant and equipment. Negative gearing was restored in 1987 and did its bit to increase the activity. You could now charge at least part of your interest bill to the general taxpayer. One sign of the size of this borrowing is the fact that in December, 1989, interest rates on bank fixed deposits had risen to 17 per cent.

**We have the two key elements in the present recession: the reduction in earnings brought about by rising land prices, and large personal and company debts.**

Everyone pursued rising land values in an individual way. Some bought land, did nothing, and waited. This we can call the Rip Van Winkle approach. There were those who redeveloped small buildings in good locations into large ones, to capture the expected mounting demand for space. There was the Alan Bond way based upon the genius for borrowing money. From the early sixties Bond borrowed, bought real estate, then used the real estate in various ways as security to borrow more money so that he could buy more expensive real estate on which he could borrow larger amounts of money. Despite setbacks in 1974 and 1983, in 1987 he seemed set to own the world. Sometimes moneylenders were drawn into joint ventures with developers. Take Southgate in Melbourne. The idea was to buy land cheaply in a poor location on the south bank of the Yarra, then build massively to attract population and other economic activity into the area thereby considerably raising the price of the location. With another project this was set to put AG back nearly \$2b.

These projects characterised the height of the boom. These, and the prices being paid, began to ring alarm bells. Always a leader, Alan Bond had paid over \$1b. for the Nine Network at the beginning of the speculative state in January, 1987. The point was that such debts could not be repaid from the earning capacity of the business, but could only be repaid by more buyers coming into the market and offering more and more unrealistic prices. What were these debts? They were excessive amounts being offered for locations. What was the failure of speculation? It was having unsaleable land.

It was not a failure by the speculators

to keep their nerve which caused this house of cards to topple. It was a general downturn in production itself. The ongoing rise in real estate prices and rents may have given confidence to speculators, but it took confidence away from producers. The money spent on buying property sent commercial interest rates up; unrealistic land prices stopped expansion; rents rose at the expense of earnings and gave no incentive to producers to expand or even to carry on. Housing prices and rents were at the expense of general levels of retail spending. Housing was out of reach of the average two income family. In 1989 and in 1990 the vicious circle of declining production and declining consumption started, punctuated by the collapse of building societies, property trusts, developers, and companies used as gambling chips by those entrepreneurs who traded in paper titles.

#### TANGIBLE AND INTANGIBLE

What were the speculators chasing? It was the same thing that they had borrowed money to buy; not "assets", not "property", not land, but something at the same time tangible and intangible. They were chasing paper titles to that surplus made by producers on well-located land. It was a surplus which came from the co-operation of the parts rather than the efforts of each of the parts. It was the price set on 'community' that speculators were chasing. That value of the whole to the part, which is described every time one speaks about the good features of a site or location; that was what the speculators were chasing.

#### CURE FOR RECESSION

Recessions cure themselves, just as "booms" cure themselves. Interest rates decline, prices fall, new and more productive ways of working are found, wages and rents stagnate, and, in the end, new prosperity blossoms, but that only means a new harvest of recession is on the way.

To stop this cycle we must preserve private ownership of land but charge those who use land for its location value. To do this will be of immense benefit to landownership. Whenever there is unsuccessful speculation what is lost is what was speculated in. We speculated in land; in many cases we lost it. This was a loss in land ownership. When farms or businesses are abandoned, land is lost. When mortgages are foreclosed land is lost.

We do not oppose private landowner-

ship. Henry George says in *Our Land and Land Policy* "If the worker upon land is a better worker and a better man because he owns the land, it should be our effort to make this stimulus felt by all - to make, as far as possible, all land-users also landowners". (p.88)

Being the clever country does not mean having clever people, it means having clever institutions. Private landownership is a good thing; we support it. It is such a good thing that we want everyone to have it. To have it, all we have to do is to reform one aspect of landownership: that part of it which concentrates landownership in the hands of non-producers.