Change Is Happening *by* Bryan Kavanagh, LVRG

Raminnazer

Supporters of the ideas of Henry George are not being Cassandras by calling out the repetitive recessions experienced when land price bubbles burst. 'Doomsaying' is a near-venomous label for those promoting the positive story that wages and profits will increase and poverty be abolished if we were to tax ground rent instead of allowing it to be privatised.

Where exactly is the negativity in freeing ourselves from real estate bubbles and the taxation we foist upon labour and capital? It is surely a simple and logical proposition that to protect private property rights, privately earned incomes ought not be taxed, and that public property rights are secured by capturing the ground rents created by public services and amenity?

Henry George was a realist, not a doomsayer, when he forecast the 1893 depression during his 3-month tour of eastern and southern Australia in 1890. George was quoted as saying:

"*You people of Victoria are now at the zenith of your prosperity but, mark my words, it is but a fictitious prosperity and cannot last. The day is not far distant when you will suffer the inevitable depression that must follow."* *Melbourne Town Hall, 25 March 1890, PROGRESS, December 1949, "E.B.", 'How and Why I Became a Single Taxer'.*

"In the colonies [of Australia] I have been through, the curse of land monopoly and land speculation is over everything. I don't know of any new country where more striking instances of the absurdity and injustice of our present treatment of land is to be seen." Adelaide Observer, 26 April 1890

The other side of the ground rent coin, of course, is provision of a universal citizens' dividend, to abolish poverty and inadequate pensions. A proper distribution of the nation's net income is the right of all citizens, instead of it being privately expropriated by rent grabbers. Rising inequality has become the signature of our times. It is not widely understood that a universal citizens' dividend also has the advantage of reducing wage costs, insofar as businesses need then only offer an amount additional to the citizens' dividend for wages in order to attract or retain employees. What is not to like about a win/win solution that finally resolves our troubled industrial relations?

> *As an English friend of mine puts it: No taxes and a pension for everybody; and why should it not be? To take land values for public purposes is not really to impose a tax, but to take for public purposes a value created by the community. And out of the fund which would thus accrue from the common property, we might, without degradation to anybody, provide enough to actually secure from want all who were deprived of their natural protectors or met with accident, or any man who should grow so old that he could not work. All prating that is heard from some quarters about its hurting the common people to give them what they do not work for is humbug. The truth is, that anything that injures self-respect, degrades, does harm; but if you give it as a right, as something to which every citizen is entitled to, it does not degrade. Charity schools do degrade children that are sent to them, but public schools do not. - Henry George "The Crime of Poverty", Burlington Opera House, Iowa, 1 April 1885.*

But Henry George was not only a 'single taxer' and supporter of a citizens' dividend; he was also a Greenbacker, a 'modern' monetary theorist who considered that direct government spending supports people and businesses. Although combining ground rent (misnamed land value 'taxation'), a citizens' dividend (universal basic income) and deficit government spending (modern monetary theory) bothers some supporters of the ground rent proposition, it should not, because they are integral to thoroughgoing socio-economic reform.

So, here we are in 2021 amidst an enormous public health threat for which we were unprepared. At the time of writing, Australia is doing very well in managing the pandemic in comparison with other countries. World governments have taken up the pandemic's economic slack by providing people and businesses with proactive financial support, though not as effectively as an ongoing citizens' dividend. The extent of COVID-19 spending has been staggeringly out of character with the concern of both political parties about deficit budgets, which is suggestive strong Treasury advice on the matter in the national interest. Morrison government expenditure will be multiples of the Rudd government's much-criticised $50 billion spending in the wake of the 2008 GFC real estate collapse. That raises the question:

Do federal government budgets really increase the national 'debt' which our children and grandchildren are going to have to pay?

Libertarian supporters of the Austrian school of economists have long argued that escalating national debt inevitably induces hyperinflation. Modern monetary theorists respond that not only has this not occurred as US federal 'debt' approaches $28 trillion, however, but in the absence of overseas borrowings it will not happen, provided a nation has its own currency: and that far from totalling national deficits into national debt, deficit budgets are not similar to household debt needing to be repaid; they are merely an historical record of government spending into the private sector. They proceed further, to the point of claiming that issuance of government bonds is unnecessary for governments being able to spend. Their arguments appear to have merit.

In view of the sheer extent of deficit spending during the COVID-19 recession, we may be about to learn which of the contrary views of Libertarians and Greenbackers are correct on hyperinflation. Examination of Germany's 1920s hyperinflation may provide useful ideas.

It's regularly claimed that the Weimar Republic's hyperinflation in 1922 and 1923 was the result of unbridled money printing. However, it was vice-versa: the money printing arose from the hyperinflation generated by Germany's impossible foreign debt. Germany having lost WWI, Article 231 of the Treaty of Versailles required its war reparations be paid in gold or foreign currency. As the Papiermark began its rapid decline, the cost of Germany's foreign financial commitments rocketed upwards, becoming a financial millstone for the Papiermark, literally devaluing the currency to its paper namesake.

Although the Weimar Republic's hyperinflation is renowned, Germany's remedy is less well known. The state-owned Deutsche Rentenbank was established on 15 November 1923 to issue the Rentenmark, a new currency consisting of 100 Rentenpfennig, to establish financial order. But how could it be possible that a new currency would stem the rampant fifteen-month inflation running at over three hundred per cent each month? Panicked Germans did see a ray of hope in the new Deutsche Rentenbank. The bank's assets were mortgages against major industrial and agricultural real estate interests, and these incoming rents were regarded as underpinning the bank's stability. The land-based Rentenmark was seen to be supported in substance and, along with renegotiation of the terms of the Treaty of Versailles into staggered repayments under the 1924 Dawes Plan, confidence in the solid Rentenmark put an end to the hyperinflation. Recovery permitted the interim Rentenmark to be replaced by a new gold-backed Reichsmark in 1924, but Rentenmark notes continued to be accepted until 1948.

The German remedy is instructive. It chose first to instil confidence in the new currency by supporting it with land income. The intermediate step was essential, because success could not have been achieved by returning to Germany's pre-war gold-backed currency, the failed Goldmark, because gold and foreign exchange debt had been the cause of the hyperinflation. Germans accepted the Rentenmark during financial chaos because it was directly secured by the flow of 'rent' repayments.

The lessons are obvious. First, a national government should not borrow in foreign currency. Next, if it were to abolish taxes on labour and capital and capture its ground rents instead, the currency is immediately backed by the stream of land rent, along with any necessary deferrals. The fiscal arrangement provides immediate stimulus to business and industry. Cancellation of taxes not only provides a green light to employment and productivity but acts to reduce consumer prices, assisting miscreant foreign borrowing to be paid down. Public capture of ground rent also reduces land prices, a not unsatisfactory outcome once it is understood that land has no cost of production.

The problem is not the so-called 'national debt' about which economists agonise but record levels of private debt from ever-inflating land prices. These prices are not a function of the undersupply of land, but of inadequate public capture of ground rent.

Monetary inflation does not arise in a vacuum: it is closely linked to deadweight losses accompanying the taxation of productivity—consumer price inflation—and to escalating land prices—asset price inflation.

A hyperinflation on the other hand seems only to arise when a country does not have its own currency, or when its level of foreign debt has become such as to trash its own currency, as with Germany, Zimbabwe, Venezuela, etc. On this understanding at least, modern monetary theorists seem to have it right: countries operating their own currency won't experience hyperinflation unless significantly exposed to foreign debt.

Notwithstanding this case, declining real wages and increasing poverty continue to tear at Australia's social fabric. It is urgent that taxes on labour and capital be replaced by ground rent and a living wage citizens' dividend. The program will not be an easy one to have implemented, because the "conservative/fascist" and "liberal/communist" labels used to divide people into one of two camps works exceptionally well for the invisible rent-grabber.

Ideas for genuine economic reform have blossomed during the pandemic's enforced hiatus.

Read more of Bryan's prolific work:
@bryankav123
thedepression.org.au/

HENRY LAWSON

"WHEN OUR IDEAL OF MATESHIP IS REALISED, THE MONOPOLISTS WILL NOT BE ABLE TO HOLD