

Progress

First published May 1904

No. 989

NOVEMBER 1992

PRICE \$1 SUBSCRIPTION \$10 PA

Registered by Australia Post Pub. No. VBH 1433
ISSN 1035-1396

Editors: G. A. Forster, B.A., B.Sc.;
H. B. Every, Dip. E.E.; E. M. Best

POSTED WITHIN AUSTRALIA
(For overseas rates see last page)

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

Richard Giles

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?

INSIDE:

- A Great Opportunity
- Canadians Fed-Up with G.S.T.
- Dates for your Diaries
(See Back Page)

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.

FAMILIAR?

Less than a third of university graduates are finding jobs, young people with jobs find it next to impossible to buy a home, a national day-care program is still non-existent, high-school dropouts are on the rise, our universities are underfunded and poorly staffed, increasing numbers of young people are dying of AIDS, our health-care system is fraying at the seams, our national debt is perilously high, etc.

Canada's "The Globe and Mail",
31/8/92.

Canada, readers will recall, is a nation with the GST.

RECENTLY RECEIVED

"Report of the Peterborough Two Tier Property Tax Committee"
(From Peterborough, Ontario, Canada).

A top class report capably advocating a revenue switch away from improvements towards site values. The immense effort behind this report deserves the full implementation of its sound recommendations.

"From Poverty to Prosperity by 2000. Prospects for Reviving West Virginia's Economy"

Ed. Walter Rybeck,
Centre for Public Dialogue,
Maryland, U.S.A.
63 pages.

This remarkable study is a joint effort of various community groups - Geogist, church, educational and others. After surveying the socio-economic mess of West Virginia, the study demonstrates how a sane, just (i.e. Geogist) revenue system would remedy the situation. Of particular interest and

importance is the treatment of coal, minerals and timber. The impact on housing is convincingly spelt out. The final two pages of recommendations are practical and praiseworthy. Overall, a remarkable co-operative achievement that deserves early implementation.

WORKS BY HENRY GEORGE

PROTECTION OR FREE TRADE

335 pp. \$10.00

An examination of the Tariff Question, with especial regard to the interests of Labour.

Trade is as natural as speech, explains George, but barriers, such as tariffs, lead to stifling regulation, law evasion, inflation and depression, even war. He finds monopoly, especially of land, at the root of arguments for protectionism.

SOCIAL PROBLEMS

310 pp. \$8.00

In 22 essays George prophesies that the closing of the American frontier will lead to housing and job shortages, the rise of supranational corporations, agribusiness, pollution, and the relentless increase in poverty which threatens world peace. Brief, dynamic chapters on issues still relevant today keep this book in demand.



"The great cause of inequality in the distribution of wealth is inequality in the ownership of land. "

-Henry George

PRESS LETTERS

Unemployment also due to monopoly and privilege.

The feature in *Poverty Watch* (July *Greenshoots*) contained much information on our employment tragedy. However, there is only a half truth behind the exhortation: "Let us lift up the burden from the poor and place it where it belongs . . . on the community generally."

The additional truth is the exercise of various forms of monopoly and privilege (in an economic and legal sense). This statement is also preferred to the simplistic "soak the rich" attitude, which does not adequately analyse the various ways in which riches are obtained.

The statement that projected tax cuts for 1994 and 1996 are excessive overlooks the radically different effects of different kinds of taxes. As regards the reference to the boom and bust cycle, perhaps the chart below sheds some light, viz. the major role of land prices.

The statement that "these problems can be tackled directly by, e.g. tax changes to discourage debt and speculation, support for industry development . . . and moderating wages increases . . ." does not go far enough. A change in revenue methods to encourage all genuine economic activity and to deter all sterile speculation is needed. And demands by wage-earners to keep up with other economic indicators should be understood in the light of the following.

For the period 1978-88, increases in Australia were: CPI 128%; AWE 146%; GDP per capita 171%; Taxation 200%; Melbourne home sites 171%; commercial land prices 450%. Behind these figures lies the key to much of our current economic mess.

Geoff Forster.
"Greenshoots",
(Baptist Social Justice Group),
August 1992.

WATER FINANCING

It is sad to see Australian Labor Party Leaders placing vote-catching expediency above social justice, and especially the needs of the unemployed, when pursuing the very necessary tax reforms required to achieve real economic growth and the elimination of unemployment.

Water Boards throughout Australia

including Melbourne, Sydney and Brisbane will create unemployment by implementing the 'user-pay' principle. To the best of my knowledge, New South Wales Labor has acquiesced in the replacement of site value by user-pay for Sydney water, the Brisbane Council under Labor is going the same way, and the Victorian ALP Government is also foisting an unjust system of consumer pay on water users.

Two-thirds of all water costs are for the dams and pipelines built in the past, or for future growth brought about by private development. In Melbourne, such costs account for two-thirds of all rate bills. These costs should be largely borne by developers and when passed on, paid only in proportion to the value added to sites by the provision of these facilities.

User-pay is intended to curb water consumption, but will it? The biggest guzzlers of water live in affluent suburbs on large allotments with lawn sprinklers, swimming pools, saunas and other high volume water users.

The only just system of raising revenue by developmental authorities is the site revenue principle, which until now has been applied over the whole of the municipalized area of Queensland and New South Wales, and two-thirds of the area of greater Melbourne.

Morris Williams,
President, Tax Reform Australia
(sent to various newspapers.)

CANADA SET TO DUMP GST.

So we have yet another visitor to our shores warning us of the dangers of a Goods and Services Tax.

It was interesting to read that Canadian Professor Brooks anticipates that their seven per cent GST will go after the next election apparently along with the government who introduced it in January 1991.

As the Canadian visitor bases his statement that a goods and services tax brings about an enormous shift in the tax burden from big business to small business, from men to women, from high-income, middle-aged people to young families and retired people, simply on experience with a seven per cent GST, what will the burden be like for the majority of Australians should

we have a coalition Government imposing upon us a 15 per cent GST.

Australia, like Britain, Canada, the United States and other countries, will gradually emerge from this recession. However, the last thing we need is to be hit with a 15 per cent tax on the necessities of life such as food and clothing, plus the same tax on tradesmen and other services required in day-to-day living.

Putting the Coalition, with their proposed GST, in charge of our country as we come out of recession will take us straight back to the Fraser/Howard days of high unemployment, similar to today, combined however, with galloping inflation, which is the last thing we need.

Keith Gibson,
Chermside, Qld.
"Sunday Mail", Brisbane, 19/7/92.

A GREAT OPPORTUNITY

October 8 1992

Dear Friend,

I have just returned from Russia, where I co-organised a seminar in St. Petersburg with the Town Planning Research Institute. In Moscow, I interviewed politicians and the civil servants involved in the privatisation process.

I flew back to London with an acute feeling that history was poised in favour of Georgism.

The Russian people are filled with anxiety about their future. I am more optimistic. For I acquired a clear sense that, when it comes to land, Russians do not want to alienate their communal rights. President Yeltsin is being pushed by the IMF and western investors (and the bosses of the vast land-rich military/industrial factories, which are to be privatised) into recommending freehold ownership of land.

Russia's fate will be sealed in the next three to 12 months, and I strongly believe that the appropriate action *now* could make an historic difference to the outcome.

There is an enormous groundswell in favour of retaining land in public ownership, and renting it to individuals and firms under lease. The federal land reform committees which I met favour

the lease/rent solution; as does a strong "centrist" bloc in Parliament. This approach, if adopted, would turn Russia in the direction of a Single Tax society – the first in modern history!

So I am setting aside my other commitments, to throw whatever resources we can muster into helping Russia.

My finances in London, alas, are puny. But I believe you would want to help us to try and turn a beautiful vision into a reality. Hence this appeal for money: we need lots of it, to finance the translation of books and cover the expense of sending our own experts to Russia to (quite simply) educate the relevant people. We need the flexibility to respond to whatever opportunity presents itself over the next 12 months, which is why we need your help . . .

Let there be no misunderstanding: the groundswell determination to keep land in public ownership – but used privately in return for payment of rent to the public coffers – is a gut Russian phenomenon. This fact provides us with the biggest hope for success. Even so, the Georgist philosophy has already made a measurable impact. Let me tell you how.

In the summer of 1990 I proposed a conference so that western economists could meet Russian academics. London could not finance such an event, but the Schalkenbach Foundation rose magnificently to the occasion and underwrote the costs . . . this attracted Russians to New York, invitations to Georgists to visit Russia, and seminars in St. Petersburg . . . The town of Sasnovy Bor sent Victor Baroff to listen to the Georgist message; he briefed his council; which decided to reverse its intention to sell the town's land: Sasnovy Bor now proclaims itself Georgist, its revenue to come from rents . . . from a seed germinated in London there is glowering a Georgist city on the Gulf of Finland! (The full story will appear in the next *Land & Liberty*).

The Law on Ecology

There's more. Sasnovy Bor citizen Vladimir Sabinin, a member of the federal parliament's committee of experts which is drafting the law on ecology, consulted me (on September 30) about the environmental benefits of the Georgist tax policy. He then prepared a draft introduction to the new federal law which said "*this approach, based on the Henry George ideas . . .*"

School for Land Assessors

Our colleagues in St. Petersburg are launching a course for assessors. CIT is preparing a text book for them (in Russian). I want to follow this with a second book, addressing the question: are land rents sufficient to cover government expenditures?

Serious errors will be made by the Russians if they do not quickly equip themselves with correct legal documentation (we were not impressed by the leasehold agreements which we examined in St. Petersburg). At the very least, they could innocently end up giving away a large slice of the real value of their land to the sharp boys who are lurking in their midst! That's why I need to despatch our Georgists with expert credentials – in economics, finance and the law – to Russia. They will work for nothing, but we have to cover expenses. And that means we need to raise money.

The Russian Fund

History is in the making, so I am going to be bold and beg you to make an extraordinary effort to send me what you would deem to be a relatively large sum. Any cash you might have devoted to Georgism this coming year ought to be channelled immediately to help Russia. I promise to use it wisely.

The chance to change the world – to help shape the destiny of the 21st century – will not (repeat: not) come our way again. If Russia really does go Georgist, governments in Washington and Westminster, Canberra and Copenhagen, will have to take notice. So by helping the Russians, you will be helping your own countries . . .

Please make

- U.S. and Canadian \$ cheques payable to "International Union"
- A\$ cheques payable to "Tax Reform Australia"
- Sterling cheques to: "CIT Ltd."

– and *send the money to me in London*. Please mark the envelope, or the accompanying letter, "THE RUSSIAN FUND".

Yours in gratitude,
Fred Harrison.

THE GOOD AND THE BAD

By W. H. Pitt

What an occupier pays for a place to live or work on has two components, one good, one bad. After that comes payment for buildings and other improvements.

'Good' site rent is the market worth of the services made available by our public servants. It is their natural wages fund and its amount is settled by our general competition for the location.

Superimposed is the 'bad' payment that arises when those who hold more land than necessary combine monopolistically to hold sections of it out of use. For space whereon to live or work, everyone then gives up part of their earnings. It is this that makes the rentiers rich and the rest of us poor. The wealthy, the desperate and the envious then gamble in the land price that develops, thus causing the harmful booms and busts.

The public levying of 'good' site rental would rectify things by achieving what both Marx and Keynes sought – the elimination of the rentier. The Keynesian error lay in thinking it could be done by printing paper money. The Marxian error lay in transferring the landlords' power to the bureaucrats.

Meintjes and Jacques, in *THE TRIAL OF CHAKA DLAMINI*, showed the duties of landholding as being twofold. The individual must keep his land in good condition, must not interfere with his neighbours' land and must pay the rent. Representing the community, the government must keep unused land in good condition, must make it available to anyone wishing to use it and must collect the rent.

Let us institute this by demanding the public collection of site rentals, instantly and in full.

The monopolists will proffer us a little bit at a time. We must grab it as it comes, for it will be whatever is then achievable, the delaying tactic must be thoroughly denounced.

That way, we will avoid the error made in Denmark when our efforts first got a few members into parliament. Land prices and interest immediately started falling, inflation shrinking, and prosperity widening. Because the demand was for 'little-by-little', the opponents took the credit for the benefits and smartly rigged the electoral system against our further intrusion.

We must guard against repetition, demand the lot instantly and demand also that elections be by Proportional Representation of the Hare Clark kind. The one without the other will not last. That way we will render our opponents politically impotent, and achieve the grand reform in one political lifetime.

LETTER TO THOUGHTFUL PEOPLE

(Sent to various targets by TRA Executive member, Maurie Fabrikant)

I think you will agree that Victoria in particular, and Australia in general, is experiencing an extremely low level of economic activity. Both State and Federal governments are admitting that about 11% of the workforce is unemployed so it is highly likely that the true figure is substantially higher. I think you will also agree that virtually all Australians are – at least indirectly – affected by this extremely high level of unemployment. We see increasing levels of bankruptcy; previously successful businesses collapse because their sales have been decimated or because of “shonky” management practices. We see increasing social problems; large numbers of young men and women now have good reason to believe that they will never find employment regardless of their attempts to do so. We also see a national debt that is astonishingly high and promises to continue to rise, probably at an increasing rate; it is now of the order of \$10,000 per Australian citizen!

Our politicians seem to be divided, basically, into two camps:

1. those who say that a little more “tinkering” with the present economic system – for example, adjusting interest and various tax rates and providing more money for post-secondary education – will overcome our present difficulties; and
2. those who say that there must be a considerable change in our taxation policy; namely, the replacement of our existing, narrow-based, wholesale sales tax by a wide-based goods and services tax with a simultaneous substantial reduction in income tax.

All our politicians seem to totally disregard the economic circumstances manifest in virtually all other nations. It is obvious that these nations – even those regarded as wealthy – are experiencing increasing levels of unemployment, national debt and anti-social – even criminal – behaviour of their citizens regardless of the “leftness” or “rightness” of their governments. The recent dramatic collapse of a nation that was generally accepted as a super-power – the USSR – proves that Marxism does not create general prosperity. Similarly, the extraordinarily widespread – and increasing –

poverty in the nation that is still accepted as the wealthiest and the most democratic – the USA – proves that capitalism ensures that the wealthy get wealthier while the middle class shrinks, most members joining the ranks of the poverty-stricken.

It is clear that Australia's present politicians – both in government and in opposition – are incapable of solving our nation's problems. Their performance has been woeful and there is no indication that it will improve. Citizens of Australia must start to think about these problems and the possible solutions to them. The alternative will be a future dreadful to contemplate and even worse to experience. The older among us may avoid this dismal future but what of the younger? Our apathy in the past has been at least partly responsible for our present circumstances. Our continued apathy will condemn our successors – our children – to circumstances even worse. Is that what we want?

Karl Williams, a friend of mine, has put into words a solution to the problems that are being experienced by virtually all nations. These words have been recorded on a C60 audio tape, a copy of which accompanies this letter. Please listen to it carefully and evaluate the ideas expressed. The future of the Australian nation is, to some extent at least, in your hands.

CANADIANS FED UP WITH GOODS AND SERVICES TAX

Peter Benesh in Toronto reports on an experiment that the locals find more than a little taxing.

Have Australians fallen on their heads? Canadians would ask this question if they knew (they do not) that their Australian cousins may vote for a goods and services tax plan. They would think that Down Under had succumbed to mass psychosis.

The two-year-old goods and services tax is probably the most reviled piece of federal tax legislation in Canada's history. It was the capper to a series of tax “reforms” launched in 1989 by conservative Prime Minister Brian

Mulroney's Government. Those reforms look suspiciously like the genetic source of John Hewson's tax-reform package.

If so, the Canadian experience may be worth noting. *Statistics Canada* reported in May that Canadians have become steadily poorer since the reforms.

While the Government blames the recession, for which it takes no responsibility, economists say that taxation is partly to blame. In 1990, a year after the beginning of tax reforms, Canadians saw their family incomes taxed at 19.8 per cent, up from 15.4 per cent in 1980. While the reforms did bring lower federal income tax rates, other taxes were rising.

Real family income, adjusted for inflation, was lower at the end of 1990 than a decade earlier. Then in 1991 came the GST.

Canada's seven per cent goods and Services Tax replaced a 13 per cent federal manufacturer's tax on all products.

Many economic analysts – and certainly consumers – say that the GST is largely responsible for the depressed Canadian economy. It certainly depresses Canadians and is cited by business and academic research organisations as a major reason for the lack of consumer spending and the collapse of many retail companies.

It is also blamed for the large numbers of Canadians who drive the short distance to the United States for “cross-border” shopping – a GST protest Australians will not be able to emulate.

With the GST, consumer prices were supposed to fall. Nobody can prove they did back in 1991. In fact, the GST pushed inflation up in its first year, because it increased the cost to business of maintaining records and broadened the tax base to include such things as takeaway food and even postage stamps.

Yes, ludicrously, Canadians pay GST on postage stamps, even though the post office is a government-owned corporation. Thus a stamp with a 42-cent face value costs 45 cents at the post office.

The Government's own GST public relations campaign has been a disastrous failure. Businesses have been swamped by the new paperwork, electronic cash registers had to be replaced (about \$A2300 per business) or recalibrated. Accountants saw their business boom.

Small business, which is supposed to be the engine of growth in a depressed

economy, is burdened at a time when entrepreneurs need all the energy they can muster to create income and jobs.

The GST is seen as just another money-grab by an incompetent federal government. The latest poll shows 73 per cent of Canadians condemn the Mulroney Government's performance.

As for the Government's belief (promise) that the GST would reduce the \$C30-billion-plus national deficit and restore fiscal sanity – well, that is just so much fiction.

However, the term that worried government officials barely dare to whisper is "black market".

Overtaxed, under-employed and underpaid Canadians have launched a quiet tax revolt, whose repercussions the Government cannot acknowledge lest it give the idea to people who have never thought of it.

However, ask any consumer, from someone buying a computer to someone shopping for home renovations and the story is the same: "I got a great deal for cash – no GST and no provincial tax."

For the vendor, the advantage is great – no income tax.

There is another sign of the growing underground economy: Canadians are increasingly using \$C100 and \$C1000 bills.

A taxpayer revolt appears to be at the heart of the big-bill phenomenon, according to the prestigious C. D. Howe Institute in 1991.

The report's author, Irene Ip, noted that hidden spending and earnings constitute tax revolt "by proxy" with buyers avoiding sales taxes and sellers avoiding income taxes.

"Canberra Times",
September, 1992.

- "Foreign aid is a device whereby poor people in rich countries are being taxed to benefit rich people in poor countries." – Professor Mason Gaffney (Economics, University of California – Riverside)

INFLATION AND ITS CONSEQUENCES

George Charles

Inflation describes the process where there are continuing rises in the prices of goods and services. Inflation is measured by comparing the prices of similar goods and services at separate times. A common definition of inflation is "too much money chasing too few goods". Inflation is thought of as a problem of money in relation to goods and services. The principles of economics indicate that this definition is insufficient because money is only the measure of prices. The increases in prices have a deeper cause than is to be found in the use of money.

Inflation comes about owing to taxes, tariffs and other imposts and concessions all of which raise prices without the amount of money or goods and services being altered. Even stamp duties on sales of property and mortgages inflate the price of whatever they are imposed upon. Licences and the like which are a cost to the licencees have to be recovered in increased or inflated prices.

Cartels, such as the cartel of the 1970s which raised oil prices throughout the world, do the same and into this category must be added monopolies controlled by aggregates of capital equipment and privilege, especially those which keep competition out of the market place. Holding land out of use is inflationary because, by forcing back the margin, the price of land titles generally is forced up. Over-issue of money, wage awards above the natural level, controlled interest rates above the natural level, patents, in short anything which is arbitrary, artificial and adds to the price of goods and services is inflationary. Because these things are a permanent feature of society they constitute an inbuilt inflation in the economy of a nation. Whenever a

government imposes a tax or burden upon production the inflation rate rises accordingly.

The discovery of minerals such as gold, oil, iron ore, high prices for agriculture products and reconstruction times after wars usually produce a time of prosperity. During these boom times there is full employment, wages are high and there is a margin for the wage earner and capital equipment owner to save and buy a home and luxury goods. Competition for land sites inflates their prices to the extent that the excess of wages over subsistence is used to purchase a home, factory, shop or farm site. Because the extra demand for goods and services can be satisfied quickly by extra production their prices soon level out when shortages of goods are overcome. Competition for land sites, however, cannot be satisfied by producing more sites; only the margin can be forced back which increases land values or rents of all other sites, so land title values are inflated.

During the boom times many wage earners and capital equipment owners over-extend themselves by land speculating, expecting the boom to last longer than it does. This further raises land title above the natural level because, in addition to the natural level, there is a speculative value added. Many land title purchases are made on repayment terms over a long period and the expectation of future wages and interest income is committed. When wages and interest are used to pay unrealistic land title prices, there is less to purchase the goods and services of others, so general production is checked. Many wage and interest earnings from capital equipment find that the check to general production reduces their earnings, or even makes them redundant and unemployed. They

GOOD GOVERNMENT

The bi-monthly for serious thinkers
Official journal of the

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then cannot pay off their mortgages and often lose their home and land sites. When this happens to many, it is said that there is a slowing of the economy, a recession or, under more severe unemployment, that there is an economic depression.

When the economy slides into a depression, the way into more prosperous times can come about by labour and capital equipment owners reconciling themselves to lower returns i.e. a return to lower subsistence wages and earnings from equipment. Another way is by an increase in population, or by improved methods of production both of which will bring land title values up to the

point at which they have been over-valued (p45). The principles of economics, however, indicate that collecting rent for revenue keeps land title values, rents, at a natural level, and together with the abolishment of taxation and privileges there could not be inflation. Prices of both land titles and goods and services would become simply a matter of supply and demand in the market place. Inflation could not enter into the situation.

High prices can occur in famine or drought in the same way that prices become very low in places with seasons of plenty, but in today's world this situation can generally be brought to

equilibrium by expanding and accelerating the use of modern transport technology which is a process of production and freely available.

from "Elementary Economics".

CONTRAST

While thousands of homeless people sleep in the streets at night, over 760,000 houses and flats stand empty in Britain. There are an estimated 638,000 empty houses owned by private landlords, 83,000 by local councils, 31,000 by government departments and 16,000 by housing associations.

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- Lunch-hour videos, Series, 12.30 p.m. 1st Monday of month.
- Executive Meeting: 7.30 p.m., Thursday, December 10th.
- Melbourne School of Economics: 10.30 a.m. Wednesdays.
- Christmas Social. 37 Hardware Street, Tuesday December 15, 6 p.m. \$6.00.

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VICTORIA — TAX REFORM AUSTRALIA INC.
31 Hardware Street, Melbourne 3000

NEW SOUTH WALES — ASSOCIATION FOR GOOD GOVERNMENT
122 Little Eveleigh Street, Redfern 2016 (02) 319 3313 or
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INCENTIVE TAXATION

Monthly bulletin from the Centre for the Study of Economics,
2000 Century Plaza, Suite 238, Columbia, MD 21044, U.S.A.
Subscription \$US8 p.a. Editor: Steven B. Cord.

Published by G. A. Forster, 31 Hardware Street, Melbourne, 3000, and printed by The Print Press, 452 Neerim Rd., Murrumbena, 3163.

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