

PROGRESS

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Options



For public interest policy

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ABOUT

Prosper Australia is a 128 year old advocacy group. It seeks to move the base of government revenues from taxing individuals and enterprise to capturing the economic rents of the natural endowment, notably through land tax and mining tax.


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"The basic cause of historic poverty is the privilege which permits some groups to collect a fee or rent - for permitting others to make use of natural resources.

The accumulation of such unearned incomes often creates huge wealth in the hands of oil shieks, and forces others to work not only for their living, but also to fill the coffers of those who are privileged to privately own natural resources.

The cumulative effect of this exploitation perpetually keeps the 'powerless poor' in poverty because they cannot break out of the chain of heavy obligations, unless they can overcome the power that keeps them down.

It is neither justifiable nor equitable that some passengers on our Space-Ship Earth are allowed to collect a price for the use of oil, land or other natural resources from the rest of the passengers!

Without equally sharing the benefits of natural resources, we have privileged and exploited nations as well as privileged and exploited citizens within nations."

George Hardy, "Consistent Liberalism: Policies for a Better Tomorrow" (p57, 1985)

Editorial

Dear supporters,

At the 2019 Prosper AGM, members passed the motion to remove section 17 from the constitution requiring the production of four editions of Progress per year. The decision was made in light of the digital era, where our online work receives a far wider audience. More of our time will be now be available to produce suitable content for the modern era. The executive have no desire to halt production of the magazine and look forward to continuing the proud tradition of Georgist analysis in these pages.

Progress will therefore be produced biannually from this point onwards.

This edition features cutting edge research to assist your interpretation of reality. Tim Helm's report on *Stamp Duty to Land Tax* was recently written up by Adam Creighton (The Australian). Read that excellent piece via www.prosper.org.au/45d, then dip into this report summary, providing the most detailed work we have done on overcoming the political hurdles to this vital reform. The findings have led to high level presentations around the country.

Regular Renegade Economists listener and Western Sydney University Emeritus Professor Jane R. Goodall has just released a new book *The Politics of the Common Good*. She ties an eloquent thread between indigenous land rights, the commons and Henry George in this selection.

Cameron Murray's latest academic paper *Time Is Money: How Landbanking Constrains Supply* breaks through the developer spin. For too long the property lobby's urban sprawl forever = "affordability's only option" has reigned supreme. We are confident this paper, highlighting the disparity between so-called theory and actual practice, will be a game changer. Prepare to understand Options Pricing Theory. It makes much more sense than the perfect information, perfect ethics basis of current land supply theory.

This is all the more important to grasp when the Victorian Government's *Urban Development Report* has quantified that all growth areas have over 15 years' land supply. Fifteen is the magic number in terms of planning aims and thus affordability potential. No growth area has less than 19 years of land supply. In fact Hume and Melton have 53 years, with it averaging across growth areas at 29 years. So there should be twice as much land as needed to deliver on affordability.

The recent release of the *ABS National Accounts* revealed total Australian land prices have fallen by \$275bn in 2018-19. In comparison to the Global Financial Crisis, this correction was more than double the worst of those years, when in 2011-12 land prices fell \$133.5bn. But according to the media, you'd have no idea this occurred. That's primarily because most of these losses haven't been realised - homeowners have been able to hold onto their homes as employment levels hold up. Despite this, affordable housing feels like a mile away as Victoria's First Home Buyers Stamp Duty Discounts have crunched prices under the \$600K threshold. Similar stories can be found around the nation. So instead of speculators pushing prices higher, young buyers have been asked to put a price floor under the market.

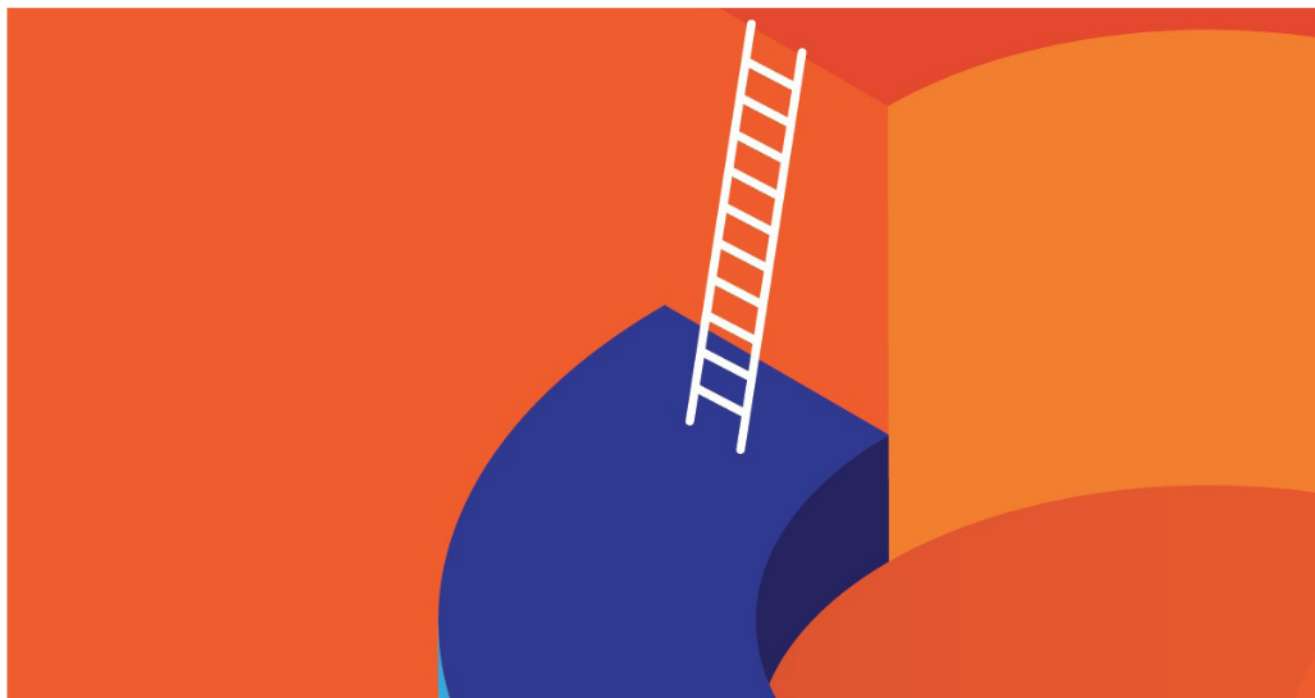
Karl Williams' *Geoists in History* covers Franz Oppenheimer, the German political economist who forged ahead with the belief that liberty could be best maintained with land rents in lieu of taxation.

In notable news, UK economist **Josh Ryan-Colins**, best known as the co-author of *Rethinking the Economics of Land and Housing*, presented in Melbourne and at **Parliament, Canberra**. He said:

"Textbook banking theory focuses on lending to productive business. This must be updated to recognise the increasing dominance of real estate lending as the primary operation of banks. The combination of such loans and limited land tax leads to a dangerous mix, resulting in falling ownership levels and financial instability."

Stamp Duty to Land Tax: Designing the Transition

by Tim Helm



This features select highlights from the report.

Almost everyone agrees that replacing state stamp duties with land taxes would be a worthwhile reform. Despite this, and despite the ACT beginning such a process, the politics of this reform elsewhere remain at best ‘challenging’.

There are two separate reasons for this:

- Ongoing uncertainty about how best to introduce the new tax to avoid punishing recent dutypayers, losing tax revenue, or undermining the efficiency objectives of the reform; and
- Political difficulties inherent in the introduction of a new tax and in the nature of recurrent property taxes (i.e. unavoidable, highly salient, and requiring liquidity).

What transitional policies could best address these issues of principle and politics in order to minimise the persuasive task required of reform-minded politicians? This ‘transition design’ problem is the topic of the report.

In recommending abolition of stamp duty the Henry review suggested three basic models for the transition to a new land tax:

- Switch-on-sale: a full grandfathering model where current property owners are exempted from the new land tax until sale;
- Credit: applying the new land tax to all properties but granting some or all current property owners credit to be used in lieu of cash payments; or
- Gradual transition: phasing out stamp duty and phasing in land tax over time, as in the ACT.

Each model has its merits and has its champions. Yet there is still no agreement over the issues to be addressed and the objectives of any transitional policies, let alone discussion of the appropriate tradeoffs or consensus on the best model.

The report aims to lend order to the transition design problem by identifying six distinct issues of principle or politics arising in the transition, examining the merits of various transitional policies, describing the trade-offs involved, and

arguing for a particular alternative to the ACT approach.

The switch-on-sale model has serious disadvantages: it loses too much revenue, poorly targets this cost at the real transitional inequity, and creates a disincentive to transfer property. A gradual transition has one major flaw: to avoid inequity for recent buyers it necessarily takes a very long time.

The efficiency cost relative to immediate abolition if the ACT model were adopted nationwide could be, on widely-cited estimates of the burden of stamp duty, as high as \$170 billion.

A better transition approach centres on credit for recent buyers, and avoids unpalatable trade-offs by addressing the distinct transition issues with different policy instruments.

The package proposed here involves:

- Immediate abolition of stamp duty, not a phase-out;
- Partial credit for past duty paid for current property owners;
- Graduated introduction of land tax via a short phase-in period (a 'tax holiday');
- A limited-time 'opt-out' option for new buyers; and
- Revenue loss from the above funded by a temporarily higher land tax rate that makes the overall package revenue neutral over the transition period.

This package makes sense on its own, but could also be supported by a radical proposal: to allow-widespread deferral of land tax until the next sale at commercial interest rates. Deferrals as default would make the land tax look like a 'vendor stamp duty' (and if politically necessary it could be framed as such), yet would avoid the inequity and most of the inefficiency of the current buyer duty. It could ease the politics of the new land tax, and could raise substantial interest revenue – since in economic terms states would be taking over the most low-risk, profitable, slice of the mortgage business. The deferral architec-

ture could also be applied more widely (e.g. to council rates or value capture taxes).

The report presents modelling of tax rates, transition policy costs, cashflows and balance sheet impacts under the proposed package, using Victoria as a case study.

Providing some credit to all buyers over the last 10 years (almost half of all owners) is estimated to have a long run cost equivalent to 3.0 years' worth of tax revenue (\$19 billion for Victoria). A three-year land tax phase-in and a three-year opt-out option would cost 2.3 and 0.1 years' worth (\$14 billion and \$0.4 billion) respectively. To fund these concessions in an overall revenue-neutral package, the land tax rate would need to be roughly 50 per cent higher over a 10-year transitional period than the long-run stamp duty-replacement rate (0.75% of land value per annum instead of 0.5% for Victoria).

Tax deferrals could generate substantial net interest: in 10 years the state's equity in the deferral scheme would be worth \$3 billion (in Victoria), and in 20 years, \$13 billion. This interest revenue alone would be sufficient to fund a 10% cut to payroll tax. Or, if the transitional land tax rate were retained permanently instead of sun-setting, payroll tax could be cut by half at the 10-year mark.

For progressive politicians searching for a circuit-breaker on state tax reform the proposed package offers generous but logical concessions for existing owners, some non-compulsion for future buyers, guarantees against hardship for all owners, and an attractive introductory period to secure support early on. It is complex at the (policy design) back-end but simple enough at the (taxpayer) front-end.

It provides any government willing to conduct unilateral reform with an alternative to the ACT approach that is arguably superior on both economic and political grounds. The major issues have been worked through and the proposed package is ready to model with state-specific data, test with stakeholders, examine within the bureaucracy, or commit to in local pilot form –

just as if a state wished to adopt the ACT model.

Proposed package

The essential tension is that two transitional issues – one principled issue around recent buyers, one political issue around long-held properties – are being addressed with a single form of concession. Why not separate these?

As a general proposition, to achieve multiple objectives requires multiple policy instruments. Section 4 identified at least half a dozen distinct issues arising in the transition, any one of which might be enough to change the political calculus.

Perhaps because state taxes are so complex already, and with business-as-usual politics a stamp duty replacement will be no better, there is an understandable reluctance to contemplate a complex package of transitional measures.¹ But it is complexity at the taxpayer ‘front-end’ – not the policy design ‘back end’ – that really matters. And multiple instruments and options are not synonymous with complexity for taxpayers. It is more often the redistributive slicing and dicing that state politicians cannot resist when designing each instrument that makes for a complex whole.

What could a package targeting each of the difficult transition issues look like?

A logical package would centre on the double-taxation issue, and address this with credit for

recent buyers, framed as the necessary price of fairness. With wide eligibility, the constituency opposed is narrowed to the owners of long-held property, whose objections can be portrayed as pure self-interest on the part of people who have already done well out of existing structures. As well as paying less than their ‘fair share’ of stamp duty, long-held properties are almost guaranteed to have experienced significant capital gains – another point which can support the public messaging around introducing a new tax on these properties.

Nonetheless, to ease the politics, stimulate turnover, and protect asset prices from the effects of uncertainty, a short phase-in or ‘tax holiday’ may be politically valuable – if and only if the cost is recovered from LVT payers later.

Deferrals are the obvious solution to liquidity problems for retirees, and broadening the scope of eligibility could ease the politics of the new tax even further (as discussed next).

To address concerns of prospective buyers an opt-out option may be politically useful, assuming the costs can be kept low via time limits (as the modelling in section 6 suggests).

Finally, for reasons of efficiency and fiscal responsibility it would be sensible to ‘internally fund’ the cost of all these concessions by way of a temporary supplementary LVT rate that makes the overall reform package revenue-neutral. All this makes immediate abolition of stamp duty possible.

The following table summarises how these policy instruments map to the major transitional issues.

Issue	Instrument	Design
Double-taxation of recent buyers	Credit for past duty paid	Wide eligibility, cash-out
Politics of new tax on long-held properties	Tax holiday + Deferrals (broad eligibility)	Short phase-in (e.g. 3 years) Commercial interest rates
Future buyers’ concerns	Opt-out option	Short open period (3 years) Exemption period 20-30 years
Asset-rich cash-poor cashflow	Deferrals (narrow eligibility)	Commercial interest rates
Budget (revenue) impacts	Internally funded via temporary supplementary rate	e.g. 10 years
Other political economy issues (e.g. asset value fears, salience, resilience)	Tax holiday + Deferrals + Messaging	As above

¹ In a similar vein, the idea that both stamp duty and existing state land taxes should be replaced with a single instrument, despite the very different rationales for reforming these taxes, seems to be driven by a simplification goal.



Tax deferral

Tax deferral has generally been seen in limited terms as a means of addressing issues of liquidity and hardship amongst a narrow group of the asset-rich income-poor (i.e. retirees). Existing rates deferral schemes work on this type of restricted-eligibility basis (PC 2017).

However it is a mistake to see such schemes as a costly concession when they can be a 'win-win' for both taxpayers and the state. Taxpayers benefit by being offered credit at lower cost (or less hassle) than via the alternatives. With interest on commercial terms, the state benefits by receiving payment in excess of borrowing costs.

Property tax deferral could be highly valued by taxpayers, it is revenue-positive, and it could make a substantial difference to the salience of a new LVT and the general politics of the tax switch. What principled reason is there for not

broadening eligibility beyond pensioners?

There are several objections – but on closer scrutiny none appear critical.

REPAYMENT RISK

Is the state taking on risk? No – lending via tax deferrals is practically risk-free, since the lien (the tax charge on the property title, equivalent to a mortgage) can be made 'first charge' in the event of default, meaning the state is first creditor in line.²

The total loan can also be capped at a level that will take decades to reach and which no realistic price crash will touch. Coates (2017) estimates that even at a (prohibitive) 7% interest rate and relatively sluggish 2% annual property price growth, a fully-deferred LVT of 0.6% would grow to no more than 30% of the property value after 40 years.

POLITICAL RISK

Might a future parliament elect to 'forgive' tax debts, leaving future generations in the lurch? It is possible – but so is a future parliament legislating a massive giveaway that bears no relation to past taxes, which is an ongoing risk in any democracy without constitutional debt safeguards.

Although nothing can override the sovereignty of future parliaments, deferral laws could be written so as to create a strong presumption against change and make the consequences of doing so more transparent, thus raising the political costs of executive or parliamentary meddling.

DEBT

Another concern is the public debt impact, gross debt more specifically.

Tax deferral is a source of revenue, not expense. Since the interest charged exceeds borrowing costs, the value of the assets in the scheme (deferred tax plus interest) will exceed the value of the liabilities (amounts borrowed plus interest

² Land tax legislation is an example of where unpaid tax is legally the first charge. See Australian Government Solicitor (2009), and the Land Tax Act (Vic) 2005, s96 for an example.

paid). Thus deferral will of course reduce net public debt.

But gross debt will rise substantially, and there is a risk that ratings agencies and lenders will take an unsophisticated view of the state's financial position based on this figure. While deferral scheme assets would be practically risk-free, they would also be highly illiquid. If the ratings agencies were to apply simple rules of thumb regarding debt serviceability that failed to recognise the fundamental soundness of the balance sheet, there may be a risk of credit downgrades.

One solution that would align with sensible and transparent governance practices would be to operationalise tax deferral via a Public Financial Corporation (PFC) that held all the assets and liabilities. The PFC could be legally bound to pay the state an annual dividend equal to the LVT due from taxpayers, and given other limited and transparent powers and functions. The balance of tax debt (assets) and loans (liabilities) held by the PFC – i.e. the cumulative net interest revenue – would appear as an equity investment in the general government balance sheet.³

Tax deferral is in economic terms profitable lending by the state secured against property, and should be seen as such.

Separating tax deferrals from the main business of government in this way would not only be more transparent, helping ratings agencies distinguish between sustainable and unsustainable debt, but would also maintain the desired public-facing imagery in the general government balance sheet and thus shelter governments against misleading debt politics.

PERVERSE INCENTIVES

In the context of capital gains taxes the 'lock-in effect' is the disincentive to sell an asset when tax is paid upon realisation of gains (i.e. when cash is received) instead of upon accrual (i.e. as the value grows on paper). Taxing realised gains discourages sale because money has a time value: delaying sale deflates nominal gains

that have already accrued, reducing the present-value tax payable.⁴

Deferring tax at concessionary interest could have a similar effect, since to sell property would mean repaying a stock of cheap debt (the accumulated tax plus interest). However the potential disincentive would still be an order of magnitude less than under stamp duty, where selling property triggers a large tax payment each and every time, regardless of time elapsed since last sale. Thus if deferrals help facilitate the reform there will still be a net efficiency gain – even with concessionary interest. And by using commercial interest rates this problem is largely avoided.

To minimise disincentives the interest rates should be matched as closely as possible with taxpayers' investment alternatives, i.e. the likely use of freed-up funds if taxes are deferred.

For many homeowners the obvious choice would be to repay the mortgage faster, so a sensible comparison rate may be the mortgage rate. But savvy borrowers may be using low-cost mortgage credit to invest where there are higher risk- and tax-adjusted returns, e.g. superannuation, suggesting the interest rate could be pushed higher. On the other hand, this might push retirees with portfolios concentrated in low-yield cash to rationally prefer to pay tax rather than defer. Negatively-g geared investors may have different incentives altogether.⁵

The optimal rate is clearly a design question requiring further investigation. Nonetheless it is clear that with appropriate design neither the risk of perverse incentives nor the investment risk, political risk, and gross debt objections are

3 See Australian Accounting Standards Board publication 1049 for definition and treatment of PFCs.

4 The principle is clear to anyone who has rationally deferred repaying a HECS debt.

5 A related lock-in objection is around asymmetry in response to cash and paper losses. Default deferrals that reduce the salience of the recurrent tax may arguably do less to encourage reallocation of land to more productive uses than a LVT that "builds a fire under sleeping owners" (Gaffney 2009). However the behavioural-bias reasons to expect a cash drain to prompt different behaviour to a paper loss crystallised upon sale apply mostly to less profit-driven taxpayers (i.e. households), who are not necessarily the main culprits in speculative withholding of land from productive use. And at the magnitude proposed, the LVT is unlikely to have strong impacts on speculation anyway. The prevalence of negative gearing is proof of how a (far more) substantial cash drain can be tolerated by calculating investors in the pursuit of longer-run gains.

major stumbling blocks.

DESIGN CONSIDERATIONS

The specific **cap** on tax debt at which the taxpayer must begin making repayments is a second-order issue, given how long it would take to reach. The key design consideration however should be protection of the state in the event of default.⁶

Broad options include a cap set in relation to property value, land value, or the owner's equity in the property. The first would reflect the most likely value of collateral, the second a lower-bound in case the improvements are uninsured, and the third would help protect mortgage lenders.

A second design consideration is **eligibility**. Revenue maximisation suggests universal eligibility as a starting point, but there may also be reasons to limit use in certain circumstances, such as where it is difficult to target indexation rates precisely at the cost of capital and there is a risk of perverse incentives. Land speculators facing high private borrowing costs, for instance, may use tax deferral heavily and face a growing incentive to delay development or mask transfers of ownership to preserve their stock of cheap finance from the state, which would otherwise be lost at the point of sale. If cheaper credit thus became an aid to speculation or a barrier to productive land use, the efficiency consequences might outweigh the state revenue advantage from continued lending. Either eligibility restrictions, different caps, or different indexation rates might be suitable to address such risks.

How much could the state charge in **interest** on deferred tax?

There is a balance required between three objectives: (1) increasing uptake in order to improve the political impact of the scheme; (2) avoiding turnover disincentives; and (3) maximising interest revenue. The first objective suggests setting rates lower, the second higher,

and the third somewhere in between.

Recent RBA research into the distribution of mortgage rates provides indicative evidence of how high the interest rate premium over borrowing costs could be while still encouraging mortgaged property owners to defer.

As of December 2017 the bottom end of the distribution of owner-occupier variable rates was around 3.75%, and the lowest investor rates around 4%. Most borrowers pay significantly more, with median rates around 0.5 percentage points higher than the lowest rates (RBA 2018, graph 4). Commonwealth 3-year borrowing rates at the same time were around 2%, with states typically borrowing at a premium of around 25 basis points above this.

State borrowing costs are therefore – as a rule of thumb – around 1.5 percentage points lower than the lowest owner-occupied mortgage rates and 1.75 percentage points lower than the lowest investor rates.⁷

Tax deferral interest rates should therefore be no lower than the lowest mortgage rates, which are around 1.5 percentage points above state borrowing costs for owner-occupiers. Recognising that mortgage rates are higher for investors and commercial property owners, and indeed their marginal cost of capital (e.g. from unsecured borrowing) might be higher again, rates for non-owner occupied property should be at least 2.0 percentage points above borrowing costs.

SUMMARY

Deferring LVT appears radical at first blush, but on reflection is less so.

It simply enacts the same type of treatment as under CGT, where tax on an income is collected at a point of liquidity, rather than as a gain accrues in paper form or as non-cash benefits are consumed.

⁶ From a questionable normative perspective, the PC (2017) also sees merit in capping to avoid “accumulation of a large amount of debt [that] may reduce the capacity to move as it reduces the amount available for a new purchase” and to “prevent debts accruing to a level that makes substantive differences to bequests”.

⁷ See RBA statistics table F2.1 for Commonwealth 3-year bond yields. For state spreads see <http://www.yieldreport.com.au/category/semi-government/monthly-semi-government/>. Note that current margins are similar: mortgage specials in February 2019 include owner-occupier variable rates as low as 3.6%, 3-year fixed rates at 4%, and investor variable rates around 4%. Yields on 3-year maturity state bonds are currently around 2.1-2.2% (see YieldReport link), i.e. a discount of 1.4-1.5% on the lowest mortgage rates.

To better understand the rationale for deferrals, it helps to understand that implicit in the tax switch is a 'timing switch' – a change in the points in time across an owner's tenure in which they must financially contribute towards the government services that give their property value.

Stamp duty collects a lump sum upfront, before the duty payer has received the benefits of the state expenditure their tax contribution funds. In subsequent years other buyers pay their own lump sums, which in turn fund services benefitting the properties of earlier buyers. From the perspective of the taxpayer it is a 'pre-pay' model for funding government services.

LVT in contrast collects tax from each property over time as the benefits to the property are received, i.e. as the owner gains value from occupying (or tenancing) the land thanks to the services of the state.

Considered in relation to the lifecycle of property ownership, the tax switch is a sensible shift from a 'pre-pay' model to a 'PAYG' model for funding government.

It is sensible because it reduces the private financing task demanded of property buyers – it reduces what property buyers must borrow upfront to pay for the (uncertain) stream of services their asset will render. Via tax capitalisation and the timing of the legal requirements, LVT converts upfront housing costs to recurrent housing costs, thus aligning the timing of tax costs better with the timing of benefits.

Deferral takes this one step further, to a 'post-pay' model for funding government.

The advantage in this is that it puts a necessary financing task in the most capable hands.

Benefits to property from state expenditure are often not realised in cash form immediately. A new road or train line may boost landlords' cash income, but for owner-occupiers the benefits are in convenience or psychological value – and for both parties the capital gains exist only on paper until sale. An LVT that is not deferred demands that these beneficiaries finance the timing gap between state expenditure and private cashflow privately. That is, an LVT demands that taxpayers

must save less or borrow more to pay the tax.

A post-pay model enacted by a deferred LVT allows payment at the point of liquidity (i.e. sale), the advantage of this being that the financing task required to bridge the timing gap between state expenditure and private cashflow is allocated to the party with the lowest borrowing costs – the state. This is a more economically efficient outcome (see Box 4).

There are precedents for deferral in other taxes and jurisdictions. Accelerated depreciation, to take one example, is simply an attractive deferral option relative to standard depreciation schedules. In Vancouver, B.C., expanding eligibility for property tax deferral to seniors over 55 years and any parents supporting children has seen substantial uptake.⁸

An LVT deferral architecture could also be used for other property tax deferrals. States which already administer rates deferral systems could fold these into the administration of a deferred LVT. The cashflow issues that make it challenging to operationalise 'value capture' (taxation of land value uplift from specific infrastructure projects or planning decisions) could also be overcome using deferrals, administered the same way.

A system of default LVT deferral would in practice make the new tax appear and act much like a 'vendor stamp duty', and if it were politically valuable, the reform could be framed as such. Indeed if continuity with the existing regime had major political advantages, administration of the new tax could require the deferred LVT and accrued interest on a property for sale to be legally submitted by the buyer, in the form of a property-specific duty amount that would be advertised at the time of sale. For profit-driven, calculating landowners, the annual accrual of LVT and interest that prospective buyers would take into account in their offers would create the same incentives for sale as if the LVT was paid in cash.

Framing tricks might substantially improve the politics, in other words, at minimal cost to efficiency.

8 "Property tax deferrals by seniors grow 53 per cent in four years", Vancouver Sun, 10 Jan 2019, <https://vancouversun.com/health/seniors/property-tax-deferrals-by-seniors-grows-53-per-cent-in-four-years>

Results

OVERALL IMPACTS

The net revenue impact is negative over the first four years to the tune of around \$8 billion (or 130% of Victoria's annual stamp duty revenue). This is due to the combined effect of the tax holiday and drawdown of credit exceeding the additional revenue from the supplementary rate and from stamp duty paid by buyers opting out. From Years 4-10 the reform package is cashflow positive due to the supplementary rate, and from Years 11-20 mildly cashflow negative as credit continues to be used up (by Year 16) and as opters-out remain exempt from LVT (until Year 20).

The net effect is that the package is strongly stimulatory over the first four years, raising around one-third less revenue than in the

baseline, then equally contractionary up to year 10.

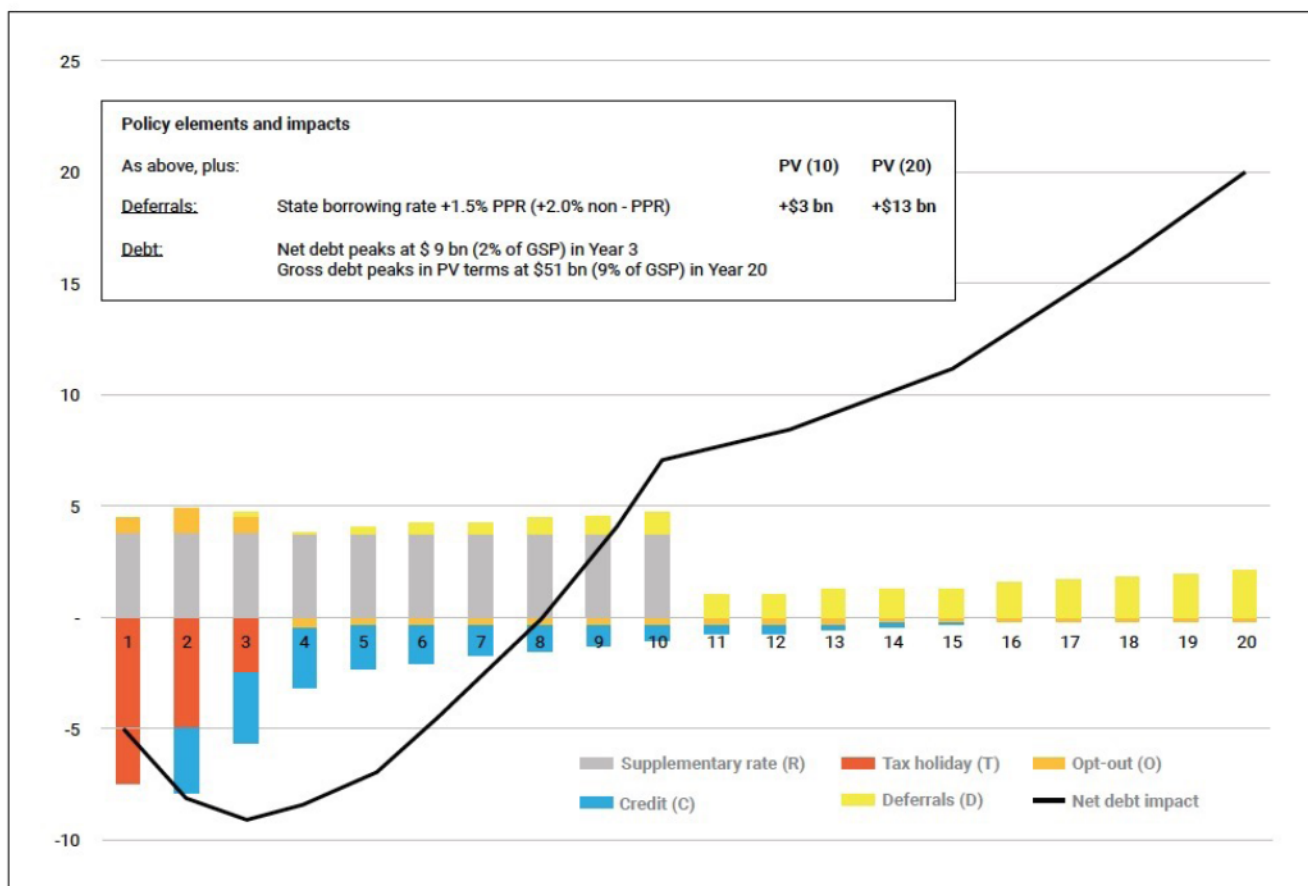
In PV terms the most significant concession is the provision of credit to existing owners, which costs \$19 billion (or 300% of current annual stamp duty revenue). The 3-year tax holiday costs \$14 billion (230% of annual revenue) and the opt-out option has a negligible PV cost of \$0.4 billion (7% of annual revenue).

To raise additional revenue over a 10-year transition period adequate to offset the total \$33 billion cost requires a supplementary tax rate of 0.28%, which represents another 60% loaded upon the base rate of 0.46% and raises an extra \$3.8 billion per annum for 10 years.

The following table and graph summarise the reform package in detail and effect.

Parameter	Description	Value
Policy parameters		
Base rate	Revenue-neutral LVT rate to fully replace \$6bn stamp duty on a \$1.3tn Site Value (SV) base (2016-17 figures)	0.46%
Supplementary rate	Supplementary rate period	10 years
	Supplementary rate to achieve revenue-neutral package (long-run PV=0)*	0.28%
Tax holiday	Discount on sum of base and supplementary rates	Year 1 = 75% reduction Year 2 = 50% reduction Year 3 = 25% reduction
Final LVT rate	(Base rate + Supplementary rate) x (1 – tax holiday)	Year 1 = 0.18% Year 2 = 0.37% Year 3 = 0.55% Years 4-10 = 0.74% Years 11+ = 0.46%
Opt-out	Open: Option available	Years 1-3
	Exemption: Final LVT-exempt year for opters-out	Year 20
Credit	Calculation method	Backdated LVT method
	Indexation of past duty paid (+LVT)	Historical CPI
	Future indexation of net credit	2.5%
	Cash-out of net credit on sale	Yes
Deferrals	Interest rate margin over state borrowing cost	PPR**: +1.5%
		Non-PPR: +2.0%

Figure 2: Revenue and debt impact of recommended package with deferral (RTOCD) – Victoria – \$ billion nominal



Conclusion

It is difficult to think of any other reform for which expert opinion and the forces of politics are so firmly in opposition.

If the stamp duty-to-land tax reform is by an order of magnitude the most significant action Australian governments could take to improve productivity, then a status quo approach that urges bravery in the name of reform and turns a blind eye to the real political barriers is not only futile, but costly.

If this reform is to proceed the politics must be accepted for what it is, and the policy design must work around that – not the other way around.

There are more and less principled ways to do the transition. The best way, this report has argued, is to provide credit to recent buyers and recover this cost from all taxpayers over time. That tackles the real equity issue, without sacrificing revenue or efficiency.

What looks most promising to ease the politics is to reconsider the role of tax deferral. The proposal here is radical, but grounded in economic logic. Unfamiliarity and conservatism seem the only reasons for not investigating it further.

Not least, the deferral proposal also opens a window onto fascinating and much broader questions about the merits of how we go about paying for land, who wins and who loses under these systems, and the possible roles for the state.

Read the full report: www.prosper.org.au/reports/

“Inequality” and the data trap

by Jane R. Goodall



Arie Wubben, Unsplash

Jane R Goodall is an Emeritus Professor with the Writing and Society Research Centre at Western Sydney University. Her most recent book is *The Politics of the Common Good* (NewSouth).

On 12th October 2015, the day Malcolm Turnbull took his seat at the despatch box as newly elected leader of his party and Australia's richest ever prime minister, the Nobel Prize in Economic Sciences was awarded to Angus Deaton "for his analysis of consumption, poverty and welfare."

It was national Anti-Poverty week. To compound the irony, as the Bankwest Curtin Economics Centre issued new figures showing that over 2.3 million Australian households were living in poverty, Parliament was embroiled in a row about the offshore processing of Turnbull's millions. Then Treasurer Scott Morrison tried to reclaim the moral high-ground by delivering homilies about right and wrong ways of balancing the budget. He and Turnbull were united in preaching the gospel of growth as the answer to all the nation's economic challenges.

There was nothing in Deaton's Nobel Prize lecture to support this credo. Studies conducted in India, he said, showed an inverse correlation between national economic growth figures and per capita calorie consumption. Was this an indicator that macro-economic growth was having no effect on the mass-malnutrition of children, or even showing a negative impact? Claims by governments about the panacea of economic growth involve turning a blind eye to the discrepancies between data obtained from household surveys, and aggregate measurements based on GDP. "It is impossible to think coherently about national wellbeing while ignoring inequality and poverty, neither of which is visible in aggregate data," Deaton said.¹

In his somewhat dry and abstract way, he was pointing to the paradox of industrial depression

¹ Angus Deaton, Nobel Prize Lecture, Stockholm University, December 8, 2015. www.nobelprize.org/prizes/economic-sciences/2015/deaton/lecture/

that haunted Henry George. Why this perverse correlation between the prosperity of a nation and the impoverishment of its citizens? Deaton, though, does not engage in the kind of rhetorical denunciation we find in George's writings.

Where George is moved to extended meditation on the principles of human economy, and from there to the development of what amounts to a manifesto on universal land rights, Deaton mistrusts any account of things not derived from the innovative and meticulous data analysis in which he specializes.

Four years down the track, as Anti-Poverty week 2019 comes round, the Morrison government is claiming the first budget surplus in a decade. Yet interest rates have flatlined along with wages, and claims of improved unemployment figures fail to reflect the precarious state of workers forced into the gig economy.² The most recent ACOSS report on inequality states that those in the highest 20% of the scale hold nearly two thirds of the national wealth. The average wealth of a household in the top 20% is five times that of one in the middle band, and has become almost 100 times that of the lowest.³ There is every sign that the discrepancies are widening, as they are in Britain and America.

Deaton is so concerned about this intractable problem that he is heading up a five-year review of the causes and consequences of inequality, launched in May this year at the Institute for Fiscal Studies. In his launch speech, though, Deaton was also beset with the question "what it is that bothers people about inequality?" Economists, he acknowledges, think they know what they mean by the term, and are too ready to tell others they don't know what they're talking about. And, one might respond, the trouble with an econometric approach is that those who specialize in it sometimes can't see for looking.

2 <https://www.smh.com.au/politics/federal/morrison-government-moves-to-surplus-as-economy-slumps-to-gfc-levels-20190904-p52nx5.html>

3 Australian Council of Social Service, factsheet on inequality, July 31, 2018. www.acoss.org.au/inequality/

All that data... There is never enough of it. Never enough detail, precision, scope. And there is always some new and improved approach to modelling and analysis to be found. What bothers people about inequality, to offer a brutally simple response to Deaton's question, is that they suffer from it. Henry George never lost sight of this reality, and his whole way of thinking was born – or reborn - of his own encounters with it. In an 1881 interview with his friend James E. Kelly, George recalled a traumatic formative experience from his early adulthood in San Francisco. The incident was triggered by a visit from a doctor who warned that his wife and their newborn son were in immediate danger from starvation. George walked out of the house and stopped a stranger in the street, asking him for \$5. "I told him that my wife was confined and that I had nothing to give her to eat. He gave me the money. If he had not, I think I was desperate enough to have killed him."⁴

When inequality is a matter of life and death – when it boils down to the stark economic equation of one person having a spare banknote that might save another's life – some bedrock of principle is reached. It is significant that George's account culminates not in some bland expression of gratitude, but in a forthright admission that he was at that point ready to kill if his request failed.

The implication here is critical: an instinct that George recognises as primal tells him that this is not about asking for charity, but about claiming his rights.

In his writings, he alludes repeatedly to the 'equal and inalienable rights' of those who are born on the earth to derive a living from it. An understanding of inequality that arises from this first principle focuses on poverty as impoverishment, not a condition somehow given as part of the order of things, but a state of affairs created through the misappropriation of the wealth of the land by those who seek to accumulate it in quantities vastly in excess of their needs.

4 Henry George Jr., *The Life of Henry George*, Chapter IX. www.henrygeorge.org/LIFEofHG/LHG1/lhg109.htm#n6

This does not necessarily flow on to a fundamentalist argument against inequalities of wealth and property, but it does give us a rationale for the fundamental rights of the citizen in an economy. Everyone has a right to subsistence. How that is interpreted, and how the economy at large is configured to accommodate it, are matters for complex deliberation. Such deliberations are involved in the schemes for an unconditional basic income now being modelled in widely different economic contexts around the world.

The key point I want to make here – and that I think the Georgist tradition has to offer in response to the initiative Deaton is leading at the IFS – is that any approach to inequality that sidesteps the question of rights is seriously problematic. A panel of distinguished academics from the social sciences and humanities who joined Deaton for the launch of the project in May this year offered a range of perspectives, but seemed to share the same blindspot: they were all seeing inequality in terms of disadvantage rather than dispossession.

This leads to a focus on the causes of inequality in terms of deficiency: lack of opportunity, resources, advantages. The question then becomes one of how much the deficiency resides in those who suffer from it, and to what extent it is a matter of situation and circumstance. Data tells us that escalating depression and suicide rates correlate with the availability of opioids on prescription. What it does not tell us is why people need to take this stuff. What kind of data is going to “tell” us about the

impact of workplace bullying and harassment, or the stresses faced by small businesses under rapacious franchise contracts, or the terror of living with a violent partner? All these are consequences of inequality. The statistics might tell us the scale of the problem in these cases, but they fail to convey the reality of the experience. In the face of such experience, a group of distinguished academics from prestigious universities talking about “what matters to people in their lives,” “how they feel” or why equality may “concern” us comes across as patronising and out of touch. Already, the language of “us” and “them” has crept into the premise; “they” and their feelings and perceptions are a puzzle to be studied

To rephrase Deaton’s own statement, it is impossible to think coherently about inequality and poverty, while ignoring the question of rights and the politics of dispossession.

Towards the end of his opening address, Deaton seems to break through the conceptual barrier. “It is not inequality itself that is hurting people, but the mechanisms of enrichment.” But inequality is not just about “the haves and have-nots.” It is about extreme imbalances of power and control in our society and our economy. The consequences of that are not something people are “bothered about” in some generalised state of dissatisfaction. They are the determining conditions of life, and are leading more and more people to desperation.

THEFT AND THE STATE

Tax is theft (Libertarian)

All property is theft (Anarchist)

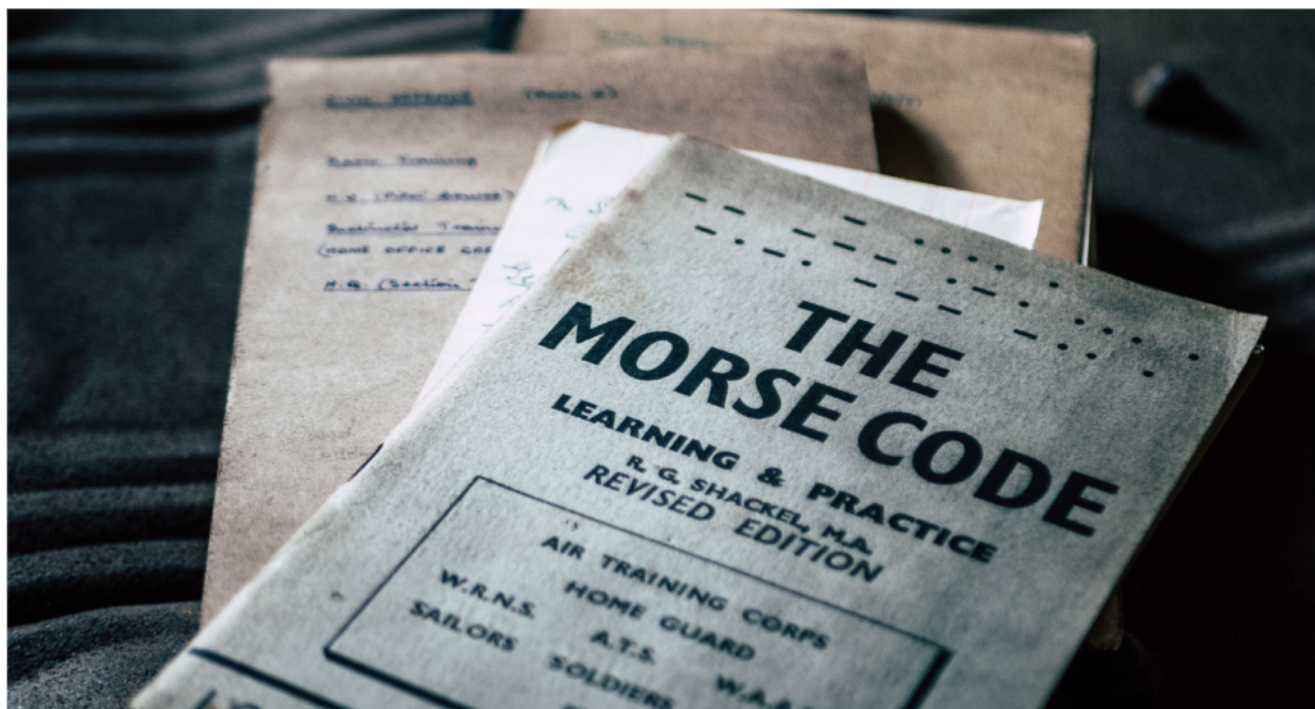
Monopoly rent is theft (Georgist)

Who Wins?



Time is money: How landbanking constrains housing supply

Cameron Murray



Chris Curry, Unsplash

Abstract

Landbanking (land hoarding), where land able to be profitably developed for housing is withheld from development for future gains, undermines housing policies that aim to increase supply and reduce prices through rezoning.

We shed light on the problems with the static economic models of housing supply that inform these policies by looking at the degree to which landbanking behaviour is consistent with the predictions of these models. A new dataset of home sales and landbanks from the annual reports of Australia's publicly-listed residential developers, and complete state-level planning approvals and lot production data in Queensland, Australia, are used.

In contrast to the static model prediction that landbanks function as inventories, and are hence minimised, we find that (1) over 200,000 housing lots, or 13 years of new supply, are held in landbanks owned by developers, that (2) nine years of landbanks are held in housing subdi-

visions that are approved and already for sale, meaning planning delays are not the reason landbanks are held, that (3) the total zoned supply in a region is unrelated to the rate of new housing supply, and (4) that housing developers routinely delay housing production to capitalise on market cycles.

A dynamic model that accounts for capital gains of undeveloped land, including an option premium, is consistent with these empirical patterns. In this dynamic model there is an incentive to delay development when prices are rising to earn landbank value gains, which includes the value of the option to develop to higher densities.

Introduction

Economic analysis of rapid housing price growth often leads to the conclusion that planning regulations are to blame, as they are thought to constrain the rate of new housing supply. This 'planning constrains supply' story has motivated

policies aimed at reducing home prices by relaxing planning controls over the density, design and location of new housing. For example, the New South Wales government holds the view that “[n]ew tools for rezoning will... unblock housing and employment supply” (NSW Government, 2013), while the Australian government established a National Housing Supply Council (NHSC) in 2008 to focus on “planning and development approval arrangements” to solve a “deficiency in supply [that] has contributed to rising house prices” NHSC (2013).

But such policies never seem able to stop rapid home price growth, even in cities and countries widely claimed to have supply-friendly planning regulations (Costello & Rowley, 2010; Gurran & Phibbs, 2013). For example, Houston, Texas, is widely known for its unrestrictive zoning and responsive supply yet home prices increased 49% from 2012 to 2018 (U.S. Federal Housing Finance Agency, 2019). After the 2000s home price boom some prominent urban economists noted that “the fact that highly elastic places had price booms is one of the strange facts about the recent price explosion” (Glaeser et al., 2008).

We argue that such policy failures occur because they are based on static economic models of production that ignore important dynamic incentives that drive new housing supply. This leaves few explanations for rapid price increases other than that ‘planning constrains supply’. In static models, new housing is produced from land and construction inputs if its rental price exceeds its input cost, or $r > (l + c)i$, where r is the rental price of a home, l is the price of the land input, c is the construction cost, and i is the interest rate. All potential homes where rents (or prices) satisfy this condition are produced instantly. Subsequently, if rents (or prices) rise sufficiently for marginally unprofitable development locations to become profitable according to this supply condition, then these locations will also be immediately used for housing.

If the regulatory costs of new housing can be reduced, such as by lowering impact fees (reducing total development cost), or by relaxing density restrictions such as minimum lot sizes, or floor-area-ratio limits, that allow each dwelling to use less land (reducing land costs), additional profitable development options will be created and immediately taken up. Rezoning areas that

were previously unavailable for housing also triggers immediate new supply by creating new locations that satisfy this supply condition. This is why planning controls are thought to be a powerful tool to combat rising home prices - they can create vast amounts of lower-cost housing supply that rapidly shifts prices to a new lower equilibrium.

Our argument against static models of housing supply is informed by an empirical analysis of the stocks of undeveloped land owned by housing developers - their landbank - and the flows of new home production. This allows us to break open the housing production process to see whether the landbanks (if they exist) have the economic function of an inventory, as static models assume. We would therefore expect to see patterns in the landbank data that are consistent with that function.

To explain these empirical findings we offer a simple economic rationale for the high degree of observed landbanking that rests on four elements not included in static models.

First, an increase in the value of land and the additional income from converting land to higher value uses are of equal significance in the profit function, and hence to the development decisions, of developers.

That is, shareholders are indifferent between growth in the firm's value resulting from asset revaluation and that resulting from retained profit.

Second, undeveloped land contains a perpetual real option (but not obligation) to develop to the highest and best use. The value of this option is the sale price of the developed property minus construction costs for the highest and best use at the time the option is struck.

Third, the highest and best use may change over time as housing prices change, affecting the value of the option.

A plot of land with no density constraints might be most profitably developed today with a building of seven storeys, for example, but if local prices were to rise by, say, 30% it may become profitable to develop to ten storeys instead.

Fourth, striking the option to develop a smaller building today precludes developing a potentially more profitable larger building later.

These elements together mean that housing developers make a key decision about when to build each unit of housing, rather than immediately building every housing subdivision that meets the supply condition. They also imply that housing developers will delay making irreversible housing investments whenever the return from the value growth of undeveloped land is higher than the additional return from development.

The hurdle condition to undertake new supply is also higher than if the only consideration is profit from new home production alone. It also means that the hurdle condition for new supply is positively related to price growth - delaying development when prices are rising increases landbank value and the final sales price of developed property and, if planning constraints are not binding, potentially increases the optimal intensity of development.

Extent of landbanks

The first prediction of static economic models of housing supply is that landbanks will be minimised as they are costly inventory. Summary statistics for the landbanks held by Australia's top eight publicly-listed residential property developers are in Table 1, with their combined annual sales representing 9% of the 181,000 new homes (detached houses and apartments) built in Australia per year in the period covered by the data (ABS, 2019). These landbanks are the new housing lots (including apartment lots) these companies are able to produce using their currently-owned stock of approvals and residual planned housing. If landbanks are merely inputs into housing production then holding 13 years of current sales (and in some cases as much as 17 years) as inventory makes little sense. However,

this degree of landbanking is similar to comparable large-scale housing developers in the United Kingdom which have around six year's land supply approved, and another six year's worth of 'strategic land banks' on their balance sheets (Jeffreys, 2016).

Table 1: Listed developer residential sales and land bank

Developer	Data range	Average sales	Average landbank s
FKP	2009-2013	463	6,529
Sunland	2007-2018	644	4,857
Villaworld	2005-2018	849	5,334
Mirvac	2003-2018	2,332	26,379
Fraser's/Australand	2003-2018	2,575	17,658
PEET	2007-2018	2,623	44,457
Lendlease	2001-2018	2,960	46,032
Stockland	2002-2018	5,053	67,626
Mean per developer per year	2001-2018	2,464	30,744
Mean total per year	2004-2018	16,633	212,945
Maximum year (total)	2016	22,913	252,903

Is it plausible that this is what minimising inventories and maximising the flow of new sales looks like? One could argue that an inventory buyer is necessary due to possible external delays. For example, if it takes two years to get planning approvals on average due to regulatory delays, then holding two year's sales as inventory is necessary - perhaps even three years to provide a buffer against uncertainty. But in Sydney and Melbourne, where over 94% of planning applications made are approved, these approvals typically take three to four months (Gurran & Phibbs, 2014, pp.237-238).

In Queensland, most councils have a fast-tracked process that guarantees a turn-around time of five business days for applications with 10 or fewer housing lots, which is used for 20% of planning applications in Brisbane (Brisbane City Council, 2018). Even exceptionally large housing developments in Queensland are usually approved quickly. Stockland's Caloundra South project, which is expected to produce over 20,000 dwellings alongside numerous retail and commercial lots over a 25-35 year period, gained high-level planning approval in 12 months (Allen, 2011). Planning delays at best explain two or three years of inventory. They cannot explain 13 years of supply held in landbanks.

This data implies that private landbanks are extremely large because of the private decisions of development companies themselves, rather

than because of regulatory decisions. However, such decisions would be financially irresponsible to company shareholders unless landbanks make an economic return without being developed into housing. When reporting to shareholders, landbanks are in fact described as capital investments rather than inventory. For example, the second largest housing development company in Australia, Lendlease, explained to investors that it holds their extensive landbank as an investment in capital efficient structures while it delays converting these land holdings into new housing.

...the Group has a further estimated \$44.4 billion of secured urbanisation pipeline representing an estimated 25,917 apartment units and 1,516,000 sqm of commercial space. These projects are typically held in capital efficient structures, providing the Group with flexibility around delivery and timing, in line with market cycles. The pipeline supports our target of delivering 1,000 to 2,000 apartment units per annum and commencing two to three commercial buildings per annum. (Lendlease, 2018, p.75)

The Communities pipeline consists of an estimated 52,333 lots. With an annual target of 3,000 to 4,000 completions, more than a decade of supply has already been secured. The development pipeline provides long term earnings visibility and the flexibility to be both disciplined and patient with the pursuit of future opportunities (Lendlease, 2018, p.76)

Notice that they plan not to develop most of their landbank for many decades as they want to be flexible and patient, instead, targeting a minimal rate of conversion of land to new housing of just “1,000 to 2,000 apartments per annum” and “3,000 to 4,000 completions”. We can contrast the statements made to investors with comments made to the media by these same developers. For example, Stockland, Australia’s largest residential developer, describes landbanks as costly inventory they are forced to hold due to regulatory delays.

Developer Stockland said it has endeavoured to bring projects onto the market as quickly as it can clear complex approval processes, often through multiple local, state and federal authorities. “It is costly and inefficient for developers to hold inactive land,” Stockland residential chief executive Andrew Whitson said (Tan, 2016).

Yet Stockland’s annual reports show that for the three years before this statement they held 52,057 lots in projects that were zoned for housing but

not yet for sale because of their own decisions to delay planning applications and sales. They also reported to investors their plan to sell just 300-900 new housing lots per year from their approved Caloundra South project that contains over 20,000 lots (Allen, 2011). The national lobby group for developers also puts out public messaging that developers are building as fast as possible, contradicting what these companies tell their investors.

Developers aren’t in the business of land banking so that they can make a super profit in the future. All of the developers who are listed want to get that land onto the market as quickly as possible... They want to produce as much supply as possible, but the whole system is rigged against that (Verwer, 2013).

The fact that landbanks are so extensive, that developers report to investors that they hold these landbanks for their future returns, and that they value flexibility in the timing of their developments, all suggest that landbanks do not perform the economic function of inventories.



John Cameron, Unsplash

Housing developer delaying behaviour

In static economic models of housing supply there are no incentives for housing developers to delay either sales or development. All proposed housing that meets the supply condition and has then gained approval should be sold, then constructed, as rapidly as possible to maximise profits.

Yet a variety of delaying behaviours are routinely observed.

1. The staging of large developments by breaking them down into smaller subdivisions is a common delaying behaviour. Rather than accelerating home production by bringing as much new housing to market as possible, staging slows the rate of new housing supply compared to what is possible

2. Another delaying behaviour concerns gaming sunset clauses on off-the-plan new housing contracts. These contract clauses allow for the developer to pull out of the contract without significant penalties if the development is unable to be completed by the agreed date.

During periods of rapid price growth, however, developers are instead delaying construction and using these contract clauses to reclaim ownership of the previously sold housing to then re-sell at higher prices.

In an overheated Sydney apartment market, some unscrupulous developers realised that if they pulled their work crews off site for a while, the building wouldn't be finished by the deadline so they could legally tear up the contract and re-sell the near-complete apartments for much higher prices than they'd achieved originally. (Thomson, 2018)

3. Option contracts for site purchases are another common delaying behaviour. These contracts allow developers to secure future development sites with little upfront cost while they delay building housing on those sites. A faster way to secure land for development is to purchase immediately or undertake a joint venture with the previous landowner. For example, the largest

residential developer in Australia, Stockland, signed a 31-year option contract in 2010 with a landowner to acquire a property expected to produce 11,500 new dwellings in a number of staged parcels (AAP, 2010). The only rationale for this behaviour is that there is an economic return available from securing access to this land even without building new housing.

4. Reducing sales volumes rather than prices is another delaying tactic, although it is rarely presented as one. If a housing developer is able to supply 5,000 new dwellings per year when prices are rising (i.e. demand for new housing is high), they can also supply 5,000 per year when prices are falling. However, they do not, because it further depresses prices and hence the value of their remaining landbank, forcing write-downs. Instead, they reduce the rate of supply rather than the price in response to declining demand, and often offer non-monetary incentives to buyers, which makes little sense in a static economic model of housing supply. The opposite behaviour is expected if landbanks are inventories prices will be reduced further to clear inventory of bad production decisions. Surveys of housing developers have found that they make economic trade-offs regarding the rate at which they sell and the rate at which they change their prices. A thorough development appraisal undertaken on a cash flow basis will match estimated selling prices to a target sales rate. This involves a trade-off between price and sales speed. To sell new homes faster, prices must be more competitive. Conversely, to achieve maximum possible prices, more time must be allowed to attract purchasers....

But it appears that the usual practice in the industry is to aim for the maximum possible price and accept a slower rate of sales.

As a different interviewee remarked: 'In a buoyant market, developers are willing to put the prices up as far as they possibly can.' Another aimed 'to pitch at maximum price at the start and then use incentives (carpets, white goods etc) if prices need to be reduced.' And yet another directly linked land shortages to price maximisation, commenting that 'if you're in an area with little or no new housing, you have a throttle on new product.' (Adams et al., 2009, p. 303)

5. Renegotiating planning approvals is another way in which developers can delay new housing supply in order to earn higher returns. If home prices rise quickly after a planning approval is granted, the optimal density of the development may have increased. To capture that higher return requires seeking a new approval for a more dense subdivision.

For example, in 2013 Stockland reported to investors that it had nine inactive residential subdivisions, with a total potential housing supply of 41,200 lots, that it was delaying for at least four years in order to “improve return prior to launch.”

A common thread amongst these behaviours and the comments made in company reports is that investment and production strategies are changed in response to cyclical housing markets. During the 2009 downturn Lendlease noted that they “pursue the best opportunities available at each stage of the property cycle and deliver a higher return on Lend Lease’s capital.” Near the peak of the recent price cycle, Villaworld in their 2017 results presentation noted that they have a “strategy of seeking consistent, through-the-cycle growth.”

Instead of landbanks being inventories, as the models assume, they appear to be capital investments that earn a return even without housing production. So what elements are missing from static models that can better explain the data and the behaviours observed?

There are four necessary changes to the economic story that help make sense of the observed patterns in the data.

1. The increase in the value of land owned is of equal significance in the profit function to any income from converting land to housing.
2. The value of undeveloped land comes from its perpetual option to develop to its highest and best use. Therefore its value is the price when developed into housing minus development costs.
3. Over time this highest and best use changes based on evolving market prices, hence changing the value of the option, which is the value of the land.
4. Striking the option to develop today precludes developing a potentially more profitable subdivision (or apartment building) later.

Conclusion

The existence of vast landbanks suggests that the economic logic behind relaxing planning controls to increase housing supply and lower home prices is flawed, at least in Australia. This paper has examined patterns of landbanking amongst listed residential developers and the relationships between the zoned planned stock, planning approvals, and new lot production in Queensland.

While observational, these empirical patterns, coupled with the shareholder reporting and survey responses of developers, paint a compelling picture that town planning regulations are not the binding constraint on the rate of new housing supply. Only because to the application of inappropriate static economic models has housing supply policy focussed so strongly on planning regulations as a cause of high prices.

A very simple dynamic model of housing supply has been put forward to reconcile these empirical patterns with the economic incentives of landowners. This model recognises important elements of the supply story, such as that undeveloped land is an investment earning a return from capital growth, which includes an option premium.

Adding these elements demonstrates that the economic hurdle for a landowner to undertake housing development is much higher than in static theories, and positively related to home price growth - high home price growth creates an incentive for landowners and developers to delay new housing production, rather than increase it.

A better understanding of housing supply dynamics and their interaction with planning regulations is going to rely on clear analysis of the stocks, flows in the housing production process, and most importantly, the timing decisions that govern housing production flows.

Read the full report at:
<https://ssrn.com/abstract=3417494>

Geoist in History

Franz Oppenheimer (1864 - 1943) by Karl Williams



Franz Oppenheimer was a pioneering sociologist and political economist whose name is synonymous with the belief that liberty is the ultimate virtue and its corollary that the power of the state is invariably oppressive. As a German-born Jew, he lived to see the very worst of his dire warnings come to pass.

He was born in a suburb of Berlin, the son of a rabbi. The time, the place, and the family surroundings in which he spent his childhood and adolescence left indelible traces in the intellectual and emotional posture of the mature man.

By talent as well as by interest he was marked out for the study of history and the humanities, fields which then included what we call today the social sciences. But coming from a family of modest means he had to prepare for a more secure living. He thus chose the study of medicine, by no means with enthusiasm. He pursued the study of medicine at the universities of Freiburg and

Berlin, where his academic talents enabled him to graduate in 1885 at the age of 21.

It may appear to casual observers a pity Oppenheimer's arrival into the fields of history, sociology and economics was delayed by the ten years of his adult life spent in the preparation for, and the building up of, a medical practice. But all mighty intellects need grist for the mill and in retrospect he himself felt that his training in the natural sciences, especially in biology, played a significant part in shaping his outlook as a social researcher. So did his daily encounter with disease and general misery in one of the poorer districts of Berlin. Perhaps even more important was the insight that only by struggling with concrete experience could a scientist come to grips with the real forces operating in his field.

After he had practiced medicine for a decade, his interests changed dramatically. In 1896, at the age of 32, the time had arrived for a radical break with his professional past. And so Oppenheimer liquidated his medical practice and devoted himself from that point exclusively to social theory and experiment. He became a student of political and economic affairs and earned his PH.D. at the University of Kiel in 1908. In 1909 he became a lecturer at the University of Berlin, and after the Great War he moved as full professor of economics and sociology to the University of Frankfurt in 1919 where he worked for ten years.

Until the halls of a university were fully opened to him in 1919, he had also enjoyed a very successful journalistic career which offered him the material basis for scientific freelancing. Some of his most original works date from that period: his first demonstration in *Grossgrundeigentum und Soziale Frage* (*Property and Social Issues*) of the disastrous role which large landed property has played in social history, his critique of Malthus and Marx, and that little masterpiece of socio-political analysis: *Der Staat* (*The State*), of all

his writings the best known in Anglo-American scholarly circles.

Classical economics (where land is rightly central) was widely accepted in Oppenheimer's day, especially due to the influence of Henry George. The other stimulus to Oppenheimer the economist was the great geoist David Ricardo, about whom Oppenheimer wrote his doctoral thesis.

"The State essentially and almost completely during the first stages of its existence, is a social institution, forced by a victorious group of men on a defeated group, with the sole purpose of regulating the dominion of the victorious group over the vanquished, and securing itself against revolt from within and attacks from abroad. Teleologically, this dominion had no other purpose than the economic exploitation of the vanquished by the victors. No primitive state known to history originated in any other manner."

Although not a practising Jew, Oppenheimer worked in various capacities for the betterment of his folk, particularly in support of Jewish communal settlements in Palestine. He was also one of the co-founders of the German Committee for Freeing of Russian Jews.

Oppenheimer grew up during a relatively brief period in German history when the large majority of Jews were not conscious of any real or potential conflict between their Jewish and their German loyalties. How far the emphasis was on the latter can be judged by his father's dictum - the earliest which Oppenheimer could remember: "I am a German, and as such I am loyal, sincere and without falsehood." No less revealing is a little poem which the son composed at the age of fifteen, before the first rumblings of political antisemitism sounded. In the poem he rejoiced in the thought that more than ten generations of his ancestors had lived along the Rhine, that an uncle had died fighting against the Danes and a cousin had fallen in the Franco-Prussian war, both of them battling for Germany's honour. Who then, he concluded, would dare to deny him the status of a true, a native German? The most inhuman of surprises lay in wait for him, as we

know from German history.

Oppenheimer's fierce intellect led him to fill all his spare time with economic and historical studies, and he was perfectly located in Berlin to engage in rich intellectual meetings. He found, in the "Ethical Club" and in some of the Berlin salons (then seething with intellectual excitement) an audience for his gradually forming ideas. There he met Gustav Landauer, Wilhelm Boelsche and, above all, Theodor Hertzka (author of *Freiland - outdoors*, and another disciple of Henry George). Under the latter's influence, but already showing independent reasoning, he published his first pamphlet *Freiland in Deutschland*, which contains the core of his later doctrine: to conquer capitalist exploitation and instability through cooperative land settlement. Oppenheimer also acknowledged his intellectual indebtedness to another mighty geoist, Gerrard Winstanley.

Many of Oppenheimer's works were translated and transmitted to libertarian thinkers throughout the world. The geoist Albert J. Nock embraced much of Oppenheimer's interpretation of politics in his own work and regarded him as one of the "Galileos" who deprived the state of all moral prestige. Moreover, because Nock largely agreed with the views of Henry George in regard to land – namely, that the only legitimate tax was on the natural (unimproved) value of land – he was attracted to Oppenheimer's contention that land rent originated in unjust expropriation by the original exploiter. It should be said, however, that Oppenheimer did not fully grasp the nature of economic rent and so certain aspects of his writings are somewhat self-contradictory.

It's not easy to condense Oppenheimer's dismantling of the notion that the State has some kind of noble mission, but here goes. The State, Oppenheimer persuasively argues, is always born in the conquest of one group by another. The conquerors then set themselves up as the government and extract tribute in the form of taxes from the conquered. Furthermore, the State can have originated in no other way than through conquest and subjugation, and to advance his argument he drew on vast historical research with dramatic examples of the beginnings of the State from prehistoric to primitive, from huntsmen to herders, and from the Vikings to modern day. The State, Oppenheimer observed, affects the most



mundane as well as the most important aspects of our lives. As a powerful, sprawling institution, it shapes the other major institutions of society and reaches into our most personal everyday affairs.

"The class state can arise only where all fertile acreage has been occupied completely."

In a largely agrarian age, Oppenheimer still knew that everyone is affected by equal access to land and natural resources, and he argued that, so long as the industrial worker has the alternative choice of settling on the land, his wage cannot fall below the income of an independent farmer. Oppenheimer focused his attack on the "land monopoly" (Bodensperre) which blocks access to free land as workable property. The abolition of the land monopoly seemed to him indispensable for a just society.

Oppenheimer's historical analysis saw prehistoric tribal conditions as a rather serene, if not idyllic, phase of human existence. The great divide between tribal and civilized society occurred when nomadic tribes of camel and horse herdsmen and Nordic maritime nomads (such as the Vikings) set on their course of

conquest, subjugating sedentary populations to the east and west. Their conquests led to the land monopoly, tribute payment, and exploitation. All sorts of other monopolies emerged after the land monopoly.

Oppenheimer considered that nonexploitative economic arrangements would work best in a collectivist environment. His ideal was a state without class or class interests in which the bureaucracy would become the impartial guardian of the common interests. He and Henry George both regarded the state as a longtime protector of privilege, and also believed that the state was radically transformed by democracy.

Oppenheimer's strong attacks on the state and the system of taxation and outright land ownership which it protected inevitably made him the enemy of powerful interests. In 1929, at the age of 65, he retired from academia for reasons of health and moved to a rural settlement near Berlin that he had helped to establish before World War I. At this point the Nazis began their ascendancy and, to someone like Oppenheimer who was acutely aware of how the power of the state can be perverted, he prepared to get out while the getting was good. When Hitler became chancellor in 1933, Oppenheimer left Germany and resumed his teaching career in France and Palestine before immigrating to Los Angeles in 1936.

He continued to write and in 1941 was a founding editor of the *American Journal of Economics and Sociology*, a journal which followed the ideas of Henry George. His legacy extends beyond the libertarian world, with his son being an Israel Prize recipient and one of his pupils, Ludwig Erhard, becoming German chancellor in the 1960s and who attributed to his professor his own vision of a European society of free and equal men. When Oppenheimer died in Los Angeles in 1943 the world was only just beginning to glimpse the fate of those whom Nazi Germany deemed unfit to live. Indeed, Franz Oppenheimer was presented with a confirmation of the warnings he had been making for most of his life in the form of the most horrific example of the inbuilt temptation of the state to overreach its rightful limits.

Next issue: Number 71 - Ebenezer Howard, the founder of the garden city movement in which people live harmoniously together with nature.

Geoff Forster (29 September, 1925 - 22 July, 2019)



It is with sadness we announce that Geoff Forster passed away on 22 July 2019, aged 93. He is survived by his wife, Gwen, son Rohan and daughter Meredith. His daughter Rosemary had predeceased him.

Geoff was actively involved in the Georgist movement for over sixty years. He read *Progress and Poverty* at age 18 and was so inspired that he spent the rest of a long life endeavouring to advance the principles contained in the book.

Geoff held bachelor's degrees in both arts and sciences from the University of Melbourne and was employed by the Commonwealth Scientific and Industrial Research Organisation as an editor of CSIRO journals. Even though Geoff was a man of wide-ranging interests and was involved in many scientific, religious and pacifist movements, this did not deter him from being one of the most active Georgists of his time,

generously lending his extensive knowledge and abilities to further the cause.

Everyone who met Geoff warmed to his gentle, humble nature. A deep social conscience saw him commit to the cause of economic justice via the Henry George League and its successive bodies, Tax Reform Australia and Prosper Australia, where he served on the executive committee. He was secretary for more than twenty years, making sure meetings were conducted appropriately and overseeing the organisation's day-to-day operations while working and engaged in his other interests. As secretary, he corresponded with people from all over the world, discussing Georgism at a level tailored to his audience. Whether it was a simple answer for a newcomer or a meaningful discussion on the more complex threads of economics, people were given a respectful and thoughtful reply. Geoff operated largely before the times of the quick email.

Prosper Australia has proudly published PROGRESS for 115 years. Before the age of computers, when the printed medium was more valued, it was published monthly. Geoff was always a consistent contributor to the journal and soon became its assistant editor. He finally came to edit the journal in tandem with Bruce Every. Even after relinquishing the position, he continued to contribute articles. PROGRESS came to be published less regularly in the internet age, and if publication was delayed, Geoff always rang the office to make sure he had not missed a copy, or to learn why it was late, which he thought to be regrettable, if not inexcusable.

From 1946 Geoff was an active and early participant in the activities and research undertaken by the Land Values Research Group. For many years, he was also a Trustee of the Henry George Foundation, founded in 1928 to fund the Australian Georgist movement.

Another area that flourished under Geoff Forster's guidance was the long running weekly radio sessions on 3DB-LK. These talks introduced Georgism to many people and Geoff held the role

of convenor of the broadcasting subcommittee. These radio broadcasts were delivered twice weekly from the 1950s until 1966, when 3DB budget cuts led to a requirement for self-funding to keep the broadcasts on air. Accepting the challenge, Geoff appealed to members and listeners for funds and had the broadcasts return to air for several years.

When the radio broadcasts ceased in the 1970s, Geoff was regularly to be heard delivering a Georgist interpretation of current socio-economic events at 'Speakers Corner' on the Yarra Bank until its demise, after which he moved for a short period to the City Square to deliver his orations.

He delivered the annual Henry George Commemorative Address twice: in 1964 and 1999.

In 1999 Geoff also contributed the Australian chapter to *"Land Value Taxation Around the World"*, a comprehensive study of the history and practice of the public capture of land rent contributed by significant Georgists from their own country. Built upon the premise that taxing productive activity, including structural improvements, is to discourage them, the book was a significant contribution to the worldwide application of Georgist principles. Geoff proudly expounded the extensive and successful Australian experience.

Geoff lived a life of voluntary simplicity, neither drinking, smoking, nor eating meat. He donated generously to the Georgist movement and will be sorely missed for his tireless devotion.

Vale, Geoffrey Arthur Forster.

Harold Bruce Every

(18 November 1938 – 22 August 2019)



Longstanding active member, Harold Bruce Every (Bruce) sadly passed away in August. Bruce was a Trustee of the Henry George Foundation (HGFA) and a member of its investment committee which assists to fund the Georgist movement in Australia.

In paying tribute to Bruce's outstanding contribution to the Georgist movement, we must acknowledge his service in the responsible and time-consuming role of chairperson of the HGFA for twenty years. We valued his forthright judgement and the timeless hours he spent in the management of HGFA affairs.

Bruce discovered the teachings of Henry George in the early 1970s. We remember that the late Mary and Alan Hutchinson, stalwarts of the movement at the time, were most heartened to have this young, capable and enthusiastic recruit to the Henry George League (now Prosper Australia), and to which Bruce was rapidly elected a member of the executive committee.

He soon became an active member of the organisation's working groups, the Land Values Research Group and the General Council for Rating Reform, the latter an organisation successfully encouraging local councils to make the switch from net annual value rating to the more progressive site value rating system. Bruce also became a director of the Henry George Club Inc. on 15 November 1990 from which position he retired as chairman on 25 March 2017, having also become highly respected in that particular role.

Bruce will be sadly missed. He has been a vital part of Australian Georgism for five decades and is regarded as a true friend of the movement. Our condolences go to Bruce's wife, Anne, and to his children Andrew, Melanie and Michael.

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