SHARING THE EARTH SO ALL MAY PROSPER

PROGRESS

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ABOUT

Prosper Australia is an independent think-tank and advocacy organisation first established in 1928. Our vision is a just and equitable society, created by ensuring those who benefit from land and natural resources pay a fair public rent for their use.

JOIN US

We invite you to join us in advocating for policies that support this vision. Prosper Australia. Membership costs $30.00. This includes a subscription to Progress.
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Membership of Prosper Australia is $30 per annum and $15 for additional household members.

In addition to association voting rights, membership includes a subscription to our annual journal Progress. Members also receive discounted tickets to Prosper events and exclusive updates and previews of new work.

To become a member sign up online www.prosper.org.au/join

Advocating for equity has never been more critical

The work of Prosper Australia becomes more critical each day as we witness the impacts of growing inequity in the Australian community.

Homelessness, inadequate incomes, poverty, family breakdown, chronic health problems, addiction, and insufficient food for families are just some of the symptoms of inequity that can be attributed partially, and sometimes fully, to the unfairness and injustice built into our so-called free and democratic society.

As these social and financial crises become more evident, we have seen more people discovering Henry George's work and learning that there are solutions to this inequity.

In 2008 we had the Global Financial Crisis. That was followed by the Covid crisis from 2020 to 2022. While the cost of everything, and especially housing, has continued to increase, more and more people are finding it hard to make ends meet. Wealth continues to shift to the few and away from the many. It is as Henry George observed and getting worse.

Prosper is leading the way with research and advocacy and building alliances with like-minded organisations and individuals. We have gained considerable visibility through a wide range of media during the past 12 months.

We are dedicated to ensuring that the fair sharing of our common wealth: land and natural resources and the monopolies that are created over them, are at the centre of our advocacy on economic policy.

In the past year, our research and advocacy has helped usher in positive legislative changes for the public good. We have advocated for:

- Tax reform at a federal and state level, speaking with MPs, policy advisors, and government officials.
- Informed debate through the release of pioneering research.
- Greater public awareness of the power of economic reform through our online campaigning.

Our work is made possible by the donations and bequests of passionate Australian Georgists.

During this financial year, we ask you to please support Georgist advocacy with a tax deductible donation to Prosper Australia Research Institute.

Catherine Cashmore
President
Prosper Australia

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120 YEARS OF PROGRESS

Progress Magazine, a significant publication in Australia's history, and a beloved institution in Prosper's, has played a pivotal role in chronicling the political philosophy of taxation since its inception. Established in 1902 under the editorial guidance of F.T. Hodgkiss, this magazine quickly became the leading voice for Georgists and Single Tax enthusiasts.

Initially founded as the newsletter for the Single Tax Club of Victoria, Progress Magazine has chronicled our organisation's evolution through a number of iterations, including the Henry George League and Tax Reform Australia.

Throughout the decades, Progress Magazine evolved alongside Australia itself, adapting its content to reflect changing national priorities and global policy trends. From publication heights of 20,000 per issue to modern digital distribution, Progress has continued to serve as a journal of ideas for members, policy makers, and inquiring minds.

As media landscapes evolved with the digital age, Progress Magazine developed an online presence, engaging with a broader audience through digital platforms and social media. This transition allowed us to continue its legacy of informing and influencing public discourse on issues of national and global importance, reaching audiences around the world.

Today, Progress Magazine remains a platform for economic ideas that push the boundaries of what can be possible with a tax system that captures the economic rent. Its legacy underscores the media's integral role in shaping national identity and understanding, reflecting Australia's journey from a young nation to a global player in the 21st century.

Prosper members are welcome to come and explore our Progress archive in the F. Halkyard Library. Contact our office to arrange a visit. Alternatively, the majority of the archive is hosted at the State Library of Victoria.

In 2014 Prosper created the E. J. Craigie Writing Award, to stimulate Australia's economic debate, advocate reform, and contest poor policy. We annually present a trophy for the best Georgist article in the past year.

Past winners have included: Adam Creighton, Jessica Irvine, and Karl Fitzgerald.

The 2023 winner was a very last minute contender - only published a couple of weeks before the competition closed. Our judging panel was impressed with Dr Aly's ability to distill complex concepts into very accessible language. This piece was widely read and discussed

The following opinion piece was written by Dr Waleed Aly and published in *The Sydney Morning Herald/The Age* on 25th August, 2023. It is reproduced here with permission.

In Australia, why do people who produce nothing get rewarded the most?

Dr Waleed Aly

Economists use such boring language, don't they? Take the following from this week's Intergenerational Report: "Structural changes to the economy are projected to put pressure on the revenue base over the coming decades". That's an extremely dull way of saying we have a massive tax problem.

We're about to get older – which means we require much more government spending on things like healthcare, aged care and the NDIS – and have no real way to pay for it. Even old favourites such as taxing petrol or cigarettes will fall short because electric cars are only going to get more popular, and tobacco tax revenue has already started falling.

So, we'll have to dream up some new taxes and expand some existing ones.

And we'll have to do this amid a housing crisis. The current pain might feel like an acute moment, but it is really the culmination of decades of policy in which every factor has pulled in the direction of making housing unaffordable. Our tax system encourages us to take on large amounts of debt to accumulate investment properties, while we build houses too slowly to meet demand.

Meanwhile, we seek more workers to fund expanding government spending. That's hard in an ageing society where an ever smaller proportion of people work and pay tax. Hence, the imperative for us to have more babies, take in migrants or both. Accordingly, the housing crisis is not an adjunct to our tax problem: it's at the core of it. People who can't afford housing aren't likely to rush into having kids. And adding migrants rapidly adds demand for housing, thereby making it immediately more expensive.

A major problem here is that we rely far too much on collecting tax from workers. They pay twice as much overall tax as companies, for example, and enjoy relatively few tax breaks. At the same time, we give tax breaks to people who own investment properties and increase the demand for houses. You don't have to believe property owners are all fat cats to think this is a problem. Indeed, many landlords are not particularly wealthy. But the issue here isn't one of wealth so much as it is one of incentives. When we direct our tax concessions to property owners rather than workers, we make two significant, related statements: 1) having assets is better than working; and 2) passive income is better than income from productive activity.

We're used to talking about productivity when it comes to workers. Specifically, we hear that wage growth without a corresponding increase in productivity simply leads to inflation, and because Australia has a productivity problem at the moment, real wage growth is unrealistic. Why, then, doesn't a similar idea apply to property investment? We encourage it, and our politics therefore requires property prices to keep increasing, but we never talk about whether this is productive. And in truth, there's often very little that's productive about it.

If I buy a house, then rent it out and wait for its value to increase over time, what will I have actually produced? The house exists either way, someone lives in it either way, and it requires no real labour from me. Unless I'm ploughing significant money into renovation, maintenance is about the most productive thing I could say I'm doing.

That's different from other kinds of investment. Someone who puts money into a new business, or an old one planning to expand, is helping to produce something. Even someone who builds a new house, or takes a block of land and turns it into several dwellings, is doing something productive – so it makes perfect sense for them to get tax concessions such as negative gearing. What they are not doing, is simply taking ownership of a pre-existing and largely unchanging asset and hoping to profit passively from that fact.

This is not some piercing, new analysis. The whole point is that it's a basically conventional one. Since the late '60s, economists have used the concept of "rent-seeking" to capture the economic harm that occurs when people seek to increase their wealth without doing anything to create new wealth for society. They often illustrate this with the extreme example of something like theft, or piracy.

Thieves and pirates don't produce anything themselves. They therefore create no new wealth, and simply take what already exists. In the process, those who actually do produce things (only to have them stolen) have less profit for their risk and effort, while the thief enjoys almost pure profit. If we didn't provide serious disincentives for this – like imprisonment – we'd find over time that society would produce less, and what little it produced would become hugely expensive.

So, the economic theory goes, we shouldn't incentivise legal forms of rent-seeking either. We don't want companies taking government money to do things they would do anyway. We don't want our market distorted by powerful lobby groups who convince politicians to give them subsidies or put tariffs on competitors. If they succeed in this, they end up with greater market share, inequality increases, and consumers pay more. Sound familiar?

If we're going to have to rethink our tax system, rent-seeking seems a good place to start.

Perhaps if we taxed productive profit less than its unproductive counterpart, we'd have the seedlings of a system better designed to meet what the Intergenerational Report warns us is coming. Of course, landlords are not typically considered rent-seekers in this technical sense. But there's a case to be made that our tax system makes them so. Their tax concessions, such as on negative gearing and capital gains, are a kind of government subsidy maintained, in part, by a strong lobby group. That's not a criticism of landlords or property investors, against whom I have nothing. But it is a criticism of the incentives that make most of us wish we were part of their cohort. •

Interesting in nominating for the next E.J. Craigie Award? Visit https://www.prosper.org.au/about/our-history/ej-craigie-award/ for details and to see more past winners.

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"There is enough and to spare. The trouble is that, in this mad struggle, we trample in the mire what has been provided in sufficiency for us all; trample it in the mire while we tear and rend each other..."

-HENRY GEORGE, The Crime of Poverty

The Tax Shift

By Rayna Fahey

Since the publication of *Progress and Poverty*, Georgists have advocated for a tax on land and monopoly rents. Over the past century and a half, politics and economics have evolved significantly in how we manage society. Yet, the core principle remains: every person born on this earth has a right to a share of its bounty.

The story of tax reform in Australia is compelling, and even today, it is regarded as the holy grail of political change. True tax reform occurs perhaps once in a generation – or two. For those interested in this captivating history, I urge you to get a copy of Paul Tilley's latest book, *Mixed Fortunes: A History of Tax Reform in Australia*.

Political historians recognize that while times may change, the arguments often do not. In 2024, the property lobby is recycling arguments that have been used for decades. One such argument is the "old granny" argument: we can't shift to a system of land taxes because it will force old grannies out of the homes they've lived in for decades.

No one, of course, wants to see people evicted from their homes. And this problem can be easily addressed through thoughtful policy. It certainly isn't a reason to block changes aimed at improving the lives of future generations.

Interestingly, this "old granny" argument has persisted since the debates around abolishing slavery. Of course, the flip side is the reality for "old granny" under the status quo.

Women over 55 are the fastest growing cohort of homeless people in Australia. Older people facing housing insecurity are incredibly vulnerable. From long-term renters forced from their homes to newly divorced older singles, the housing market can be completely inaccessible.

The main economic argument against land taxes is that increasing the tax burden on landowners will stifle investment and harm the economy. It's no surprise to hear this argument echoed again today in opposition to tax reform.

The case for land tax reform

The arguments in favour of land taxes are well-known. Numerous reports, papers, and surveys have demonstrated the economic, social, and environmental benefits of replacing taxes on productivity with taxes on unearned income. The 2010 Henry Review made it clear: "The returns to immobile factors of production constitute an efficient tax base. A rent-based tax would ensure the right levels of exploration and extraction and provide sufficient encouragement for private sector participation."

The moral case for a land tax is rooted in the idea that land, as a natural resource, belongs to everyone. Unlike income or the production of goods and services, which are generated through the efforts of individuals and companies, land value increases due to societal investments, such as infrastructure or public services. A land tax ensures that this unearned wealth benefits the community as a whole, reducing inequality.

The economic solution is readily available; the problem for Australia is a political one.

The growing intergenerational wealth divide is driven by homeownership. It's easy to see who the haves and have-nots are. For young people, the biggest determinant of whether they will own a home is whether their parents own theirs–not education, hard work, or even avocado consumption rates.

Politicians have long downplayed this issue, kicking it down the road. John Howard, at least, was open about his indifference, often saying he never met a constituent who complained about their house going up in value.

Until recently, there has been little political incentive to change the status quo.

Demographic shifts and political opportunities

By 2025, conditions may be ripe for real change at the polling booths.

Consider some demographic shifts :

- 18–34-year-olds (25.7% of eligible voters) have a homeownership rate of less than 50%, and this rate is dropping.
- Baby boomers (32% of eligible voters) are beginning to lose their dominance. Homeownership rates in the younger part of this generation are also declining.
- The total homeownership rate continues to fall from its peak of 70% in the early 2000s.

Housing affordability and the cost of living consistently rank as the top issues on voters' minds. While no one wants to see economic hardship, crises often trigger political action. In the next election, the cost of housing is likely to be a key issue, and those most affected are gaining influence at the ballot box as voter demographics shift.

Another significant development is the rise of the community independents movement. In the current parliament, we've seen a shifting crossbench as independents and Greens gain traction with voters. This crossbench provides a haven for MPs leaving major parties, and these MPs have learned that their power is greater when they collaborate.

If the independents and Greens gain more power in the next election, they could significantly influence the major party with the most votes. This influence would apply whether a majority or minority government is formed.

The prospects for tax reform

So, what are the chances of meaningful tax reform becoming the top election issue?

Unfortunately, not great.

Labor is wary of bringing tax reform to the electorate. The Liberal Party remains focused on shifting income tax brackets. If either party intended to lead a meaningful debate on tax reform, they would have started by now.

Labor will likely focus on building houses, while the Liberals will talk about cutting regulations. If there is any reform to make the table it will likely be constrained to negative gearing and capital gains tax reform.

That leaves the Greens, other minor parties, and independents.

The Greens plan to campaign vigorously on housing issues. Their base is largely young and driven by a strong sense of justice, making housing reform a natural focus for them. The same can be said, to an extent, for the independent "teal" candidates. While not a party in the formal sense, the teals share similar motivations and represent wealthier electorates concerned with social and environmental issues.

At the time of writing, smaller parties such as the Animal Justice Party, Australian Democrats, Fusion Party, Socialist Alliance, Sustainable Australia, and the Victorian Socialists all have specific housing policies. While these parties may not win seats, the unpredictability of Australia's preferential voting system means we can't rule it out.

Even if these parties don't win, their campaigning will push housing and tax reform into the spotlight, putting pressure on the major parties to address these issues in public forums.

The interconnected issues

One issue that continues to drop down the priority list, despite its urgency, is climate change. Although many voters don't yet see the overlapping drivers of the cost of living and climate change crises, young voters increasingly do. Minor parties competing for progressive votes are also proposing policies that address these intertwined challenges.

Georgist economists understand that replacing taxes on income and production with fair rents on land and monopolies will create greater social and economic equity and provide enormous opportunities for innovation and enterprise. We can see around us today the growing inequity created when we fail to capture the economic rents generated by prosperous societies like Australia.

Prosper Australia has been playing a key role in steering the tax reform conversation toward the purpose of taxation beyond simply being a tool for collecting revenue. We have called this campaign the "Tax Shift". We have released a discussion document which is available on our website.

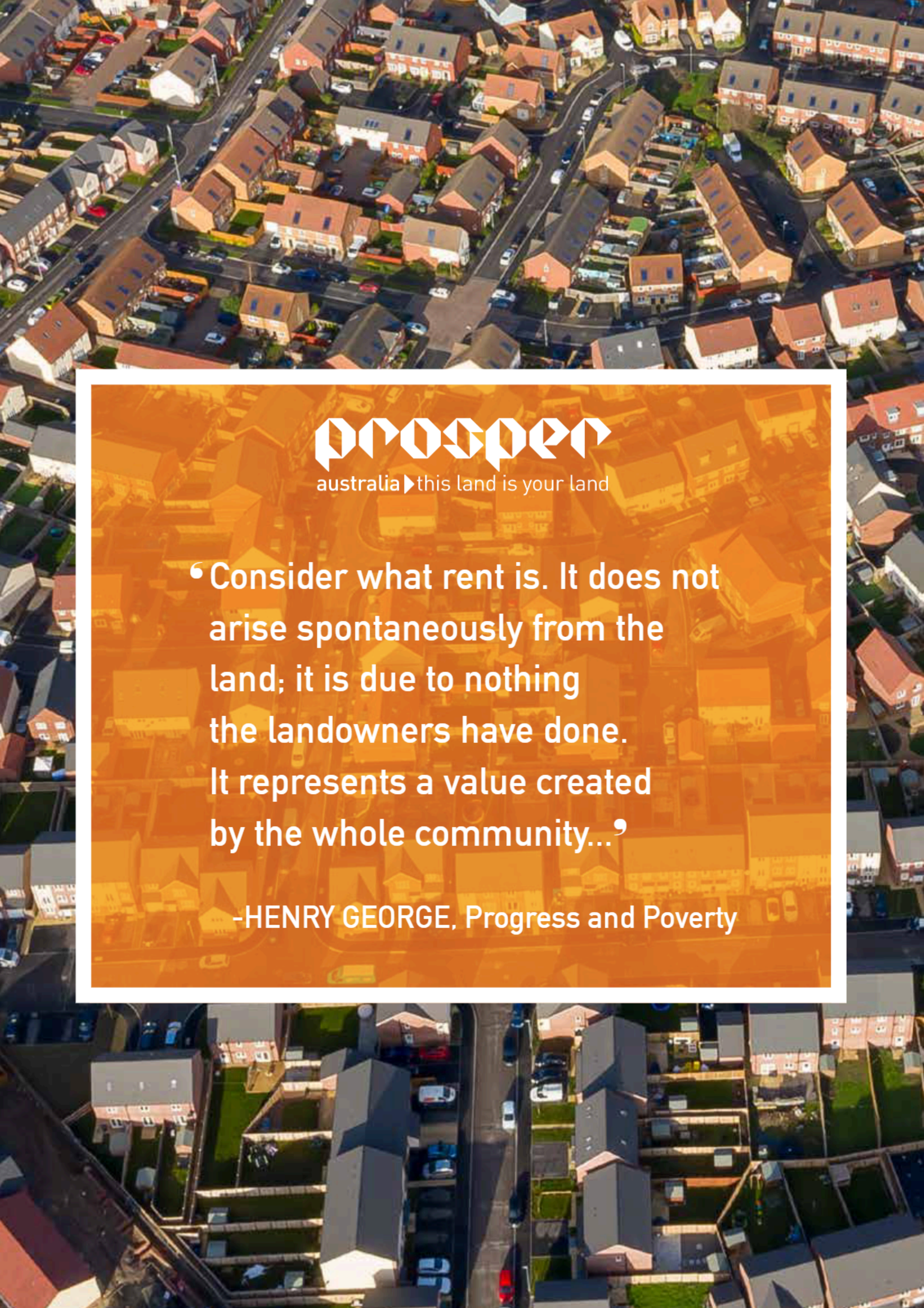
Our campaign for a Tax Shift has two goals:

- To educate politicians and policymakers about the transformative potential of shifting the debate from merely raising and lowering taxes, which increasingly demands the younger generation bear the burden, to taxing the exploitation and use of our common wealth.
- To inform the public about the connections between revenue policy and the social and environmental challenges we face.

Above all, we aim to help steer the conversation back towards an ethical and moral basis for economic policy design. The neoliberal experiment of the last three decades has failed so catastrophically that even its architects now write books on its failures.

A return to a "fair go" society is something all Australians want to see. The mandate the next government gets from voters at the next federal election will determine the speed that vision will become reality. •

prosper.org.au/taxshift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'Consider what rent is. It does not arise spontaneously from the land; it is due to nothing the landowners have done. It represents a value created by the whole community...'
-HENRY GEORGE, Progress and Poverty

Buying better income taxes with better land taxes

How to cut taxes for Australia's highest-taxed workers

Tim Helm, Director of Research and Policy, Prosper Australia

Prosper's first report for the year, released in March 2024, highlighted the potential for significant income tax reform through even a modest shift towards greater taxation of land rents.

Public debate around the restructured "Stage 3" tax cuts in early 2024 was focused heavily on fairness in the distribution of income tax and who wins and loses from changes in tax rates.

However, as our report demonstrated, meaningful tax reform comes from replacing bad taxes with good ones – changing the tax mix, as outlined in our Tax Shift discussion paper.

The report examined how extensively states tax land and rezoning windfalls, and what additional revenue from levelling up tax rates to the benchmark jurisdiction – the ACT – could fund in welfare system reform.

Our modelling showed that if other states taxed land like the ACT, we could raise enough additional revenue to cut taper rates on major welfare payments by half, giving one million people on welfare part-payments an effective tax cut of 20–30 cents in the dollar.

Below are edited highlights from the report.

If Australian states were to meet a benchmark level of efficient taxation from the land base, what could the additional revenue fund?

Our modelling suggested that best-in-class land taxation amongst Australian states could raise sufficient revenue to remove the most significant distortions in the tax and transfer system – leading to higher workforce participation, economic activity, and well-being.

Welfare withdrawal is a tax on working

Around 5 million Australians receive income support from welfare payments, primarily targeting the aged, families, and the unemployed. Around 1 million of these recipients are on part-payments due to means-testing.

Withdrawing welfare payments as incomes rise is economically identical to taxing income. Taper rates for many welfare payments are as high as 50% or 60%, and combined with income taxation, these taper rates produce extraordinarily high effective marginal tax rates (EMTRs) for many workers.

Figure 1 shows how EMTRs vary by income for recipients of the major payments. Over substantial income ranges, EMTRs exceed 50% – higher than the top income tax rate.

The shape of the curves illustrates how the system discourages workforce participation and how regressive a tax-plus-clawback system is relative to the alternative of universal benefits funded by higher taxes.

High EMTRs mean we work, produce, and earn less

High EMTRs discourage people from taking on work or increasing hours. EMTRs of 75-80% mean a worker receives just a quarter or fifth of their value to the employer as take-home pay, which divorces pay from effort, discourages work, and increases labour costs, reducing GDP. High EMTRs also create 'poverty traps' at low incomes.

These problems are well known, but solutions are limited by the so-called 'iron triangle' of tax and welfare design – the unavoidable trade-off between income adequacy, work incentives, and fiscal cost.

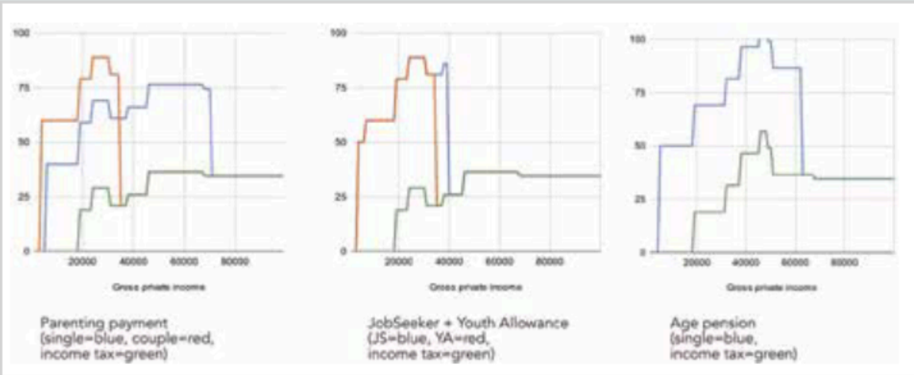


Figure 1: EMTRs for major welfare payment recipients

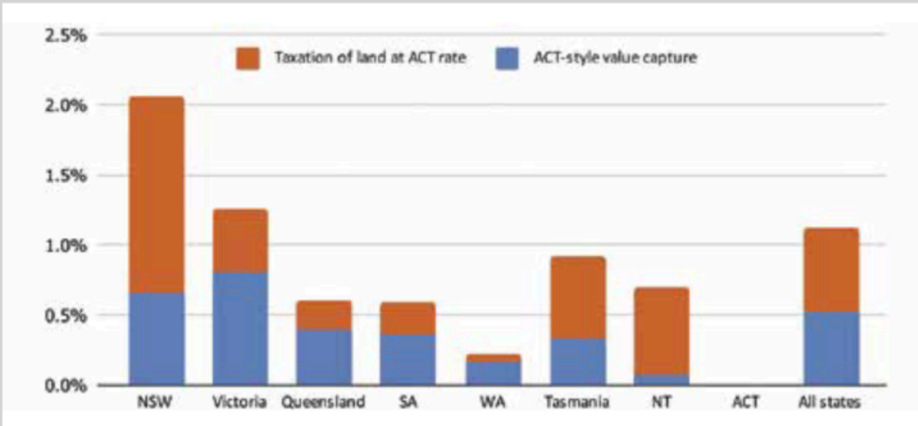


Figure 2: Additional revenue as of percent of GSP from ACT-style taxation of land

Lowering taper rates to improve work incentives necessarily requires either higher spending, as eligibility is expanded to higher incomes, or lower top payment rates, if the cost is to be held constant.

Indeed, this tension applies to income taxation more generally: flattening any part of a rate scale either reduces revenue or requires higher rates elsewhere.

This is a problem inherent in any system in which we fund adequate incomes for all by taxing the incomes of people who work and earn more. To escape it, we need to raise revenue from elsewhere – by changing the tax mix.

We underuse our best tax base, and pay for it by overtaxing workers

Some taxes avoid trade-offs between revenue and efficiency entirely. A basic principle of tax design is to tax things we want less of, such as speculation and pollution, rather than things we want more of, such as investment and employment.

Taxes on land pass this test. Land taxes reduce land values without reducing the quantity of land available. By curbing speculation, land taxes can even increase the amount of land put to productive use.

States have access to the land base, but they underuse it, relying heavily on Commonwealth grants funded by less efficient taxes on work and investment instead.

As a result, the tax mix in our federation is both 'back to front' and 'upside down': we use the wrong taxes and we tax at the wrong level.

The result is a complex and inefficient system, and a fiscal imbalance between the Commonwealth and states which dilutes accountability for spending.

Some states tax land better than others – levelling up would raise $27 billion

The Australian Capital Territory (ACT) stands out amongst states and territories for its high rates of land tax and unique system of rezoning value capture.

The ACT puts a price on rezoning via its Lease Variation Charge (LVC), which captures 75% of the windfall gains landowners would otherwise receive from permission to redevelop at higher density. Because it owns all rural land, the ACT also captures 100% of the gains from rezoning for greenfield development.

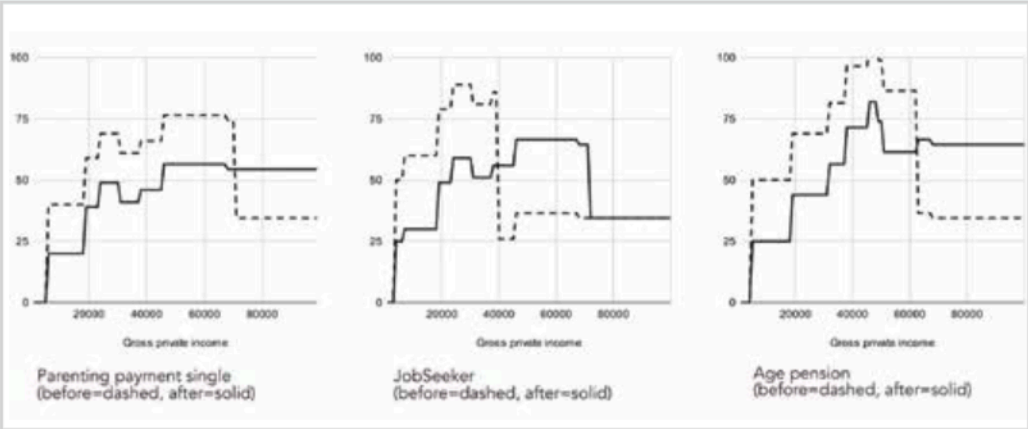


Figure 3: EMTRs for selected welfare payments before and after halving taper rates

Adjusting for property values and transaction volumes, we estimated that other states could collectively raise:

- $12 billion per year by pricing rezoning like the ACT
- $15 billion more per year by meeting the ACT benchmark for regular taxes on land.

For all states to achieve best-in-class taxation of land would raise an additional $27 billion in revenue per year – all without reducing investment or growth. For under-performing states, the impact would be significant: New South Wales (NSW) could raise another $15 billion per annum, equivalent to 2.1% of GSP (Figure 2).

$27 billion could fund a halving of welfare taper rates – reducing EMTRs by 20–30 cents for one million workers

What could $27 billion fund if Commonwealth-state transfers were adjusted to bring revenue and expenses for each level of government closer to balance?

One option is a universal income of over $1,000 per Australian. Another is a 10% reduction in personal income tax. But more economically significant would be a targeted reduction in the high EMTRs and work disincentives created by strict welfare means-testing.

We estimated that halving welfare taper rates, with no reduction in maximum payments, could be funded at a cost of roughly $17-22 billion, leaving $5-10 billion for incentive payments to states or other reforms.

For the one million Australians currently on welfare part-payments this would deliver an effective tax cut of 20 to 30 cents per additional dollar earned (Figure 3).

Most recipients would more than double their net-of-tax return to working more hours. These people, primarily in the low-to-middle income range up to $70,000, would see their incomes boosted by roughly $4,000 to $7,000 per annum, even before accounting for any increase in work effort.

For another 800,000 or so FTB part-recipients, halving taper rates would reduce EMTRs by 6-12 cents per dollar earned. With the addition of these taxpayers and others on higher incomes who now qualify for welfare payments or FTB, it is likely that 3 million or more Australian workers would benefit.

An economic impact worth billions, and an improvement in vertical fiscal imbalance

Estimating the effect on work effort and GDP is challenging, since the response of workers to taxation varies significantly by circumstance, but a ballpark estimate indicated a range of around $2–7 billion for the macroeconomic impact of this tax cut due to better work incentives.

Since states receive Commonwealth grants, rebalancing revenue between levels of government is an administrative matter that the Commonwealth can initiate. This could involve, for instance, shrinking the GST pool distributed to states over a fixed timeframe or reducing other payments as funding agreements expire.

A new funding agreement could provide incentives for states via top-up payments proportional to additional revenue raised from land tax rate and design changes (but not tax base growth). Rezoning windfall capture could also be made a condition of infrastructure funding.

With incentivised, co-ordinated action driven by the Commonwealth, the political barriers to better land taxation that each state faces alone would be markedly reduced.

Speculative Vacancies 11: Empty homes in Melbourne 2019–2023

A window onto the economics of waiting and the hidden barriers to housing supply

Tim Helm, Director of Research and Policy, Prosper Australia

Prosper's 11th *Speculative Vacancy* report, released in July 2024, revealed startling statistics on unoccupied housing in Melbourne, illustrating how speculative incentives are holding back housing from the market.

Since 2007, our Speculative Vacancy series has shone a light on the role of vacant land and housing on supply and affordability.

Using data supplied by Melbourne's three water retailers, and revealing trends in vacancy across time and locations, our reports have drawn attention to this phenomenon and nudged public opinion towards support for curbing the witholding of land and housing from use or occupancy, for purely speculative purposes. Recent reports have gone further by including original analysis that deepens our understanding of the causes and consequences of vacancy.

This year's report focused on an economic explanation for vacancy that arises from the ongoing trade-off property owners face between flexibility and yield. The report linked vacant homes with 'land banking', where developers delay feasible projects and set prices to slow sales in expectation of higher returns in future.

Empty homes and land banking both result from similar economic incentives and tax system distortions, giving us a clear 'window' onto this critical aspect of economic behaviour, which creates a hidden barrier to faster housing supply, driven by private incentives, not public regulations.

Below are edited highlights from the report.

Thirty-thousand (30,000) people in Victoria have no home. We know that because we count them. But how many homes have no people? That number is hard to find, and is often seen as irrelevant to housing affordability.

The eleventh report in our Speculative Vacancy series examines unoccupied housing in Melbourne from 2019 to 2023, covering a unique period marked by a sudden and substantial surplus of housing, followed by a rapid tightening after COVID restrictions eased.

Basing our counts of empty and underused dwellings for the years 2019 to 2023 on water usage data, averaged over the calendar year, we found that in 2023, 27,408 dwellings (1.5% of all homes) were left totally empty over the year, with a further 70,453 (3.7% of all homes) barely used.

Overall, 97,861 dwellings (5.2% of all homes) were vacant – equal to one in 20 homes across the city.

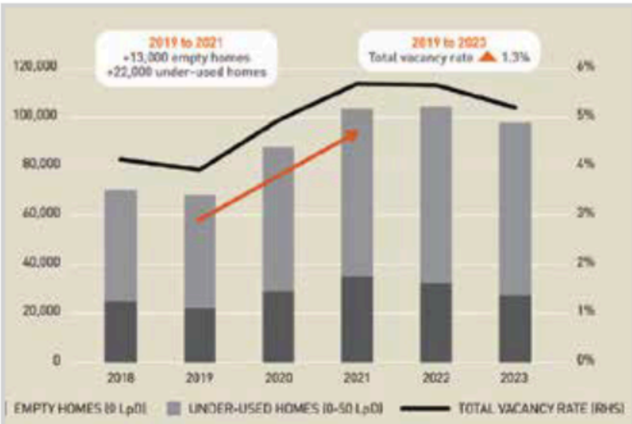


Figure 1: Empty and under-used housing measured by water data, calendar year

Vacancy rates surged during the pandemic, jumping more than 50% from previous levels (Figure 1). Between 2019 and 2021, an additional 35,000 homes, or 1.8% of the housing stock, became vacant.

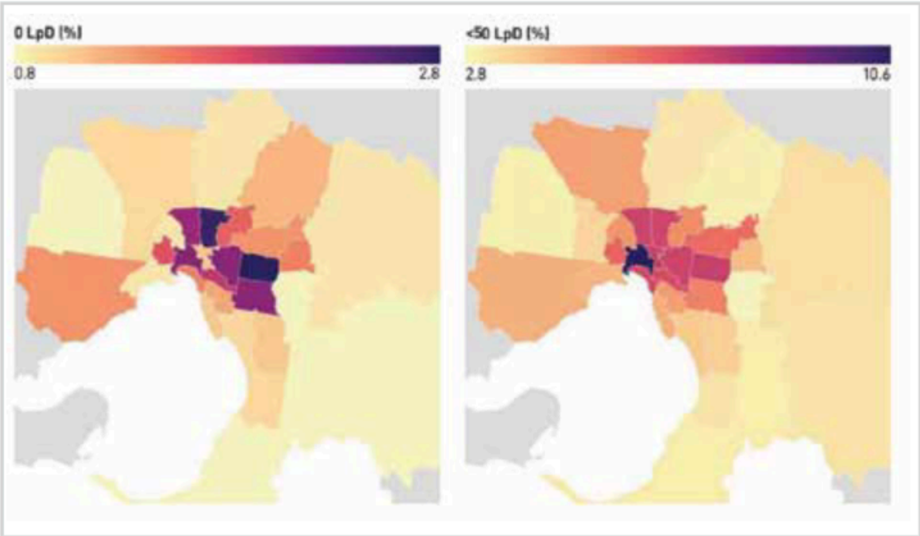


Figure 2: Low and zero-use vacancy rates by LGA, 2023

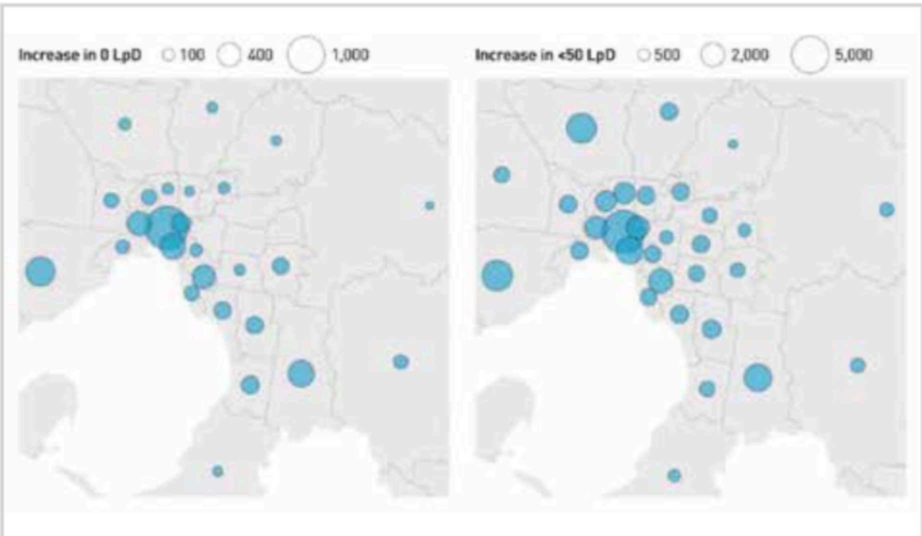


Figure 3: Increase in low and zero-use vacancy by LGA, 2019-2023

For every five new homes built over these years, two additional homes were left idle.

Empty homes remain widely dispersed across the city, but the fastest growth since 2019 has been in the City of Melbourne, where 10,000 homes are now vacant – equivalent to half the new builds in this area over the last five years.

In 2023, Whitehorse LGA had the highest zero-use vacancy rate at 2.8%, and the City of Melbourne had the highest zero plus low-use vacancy rate at 10.6% (Figure 2). Both LGAs recorded over 2,000 dwellings with zero water use in 2023.

The number of empty dwellings in the City of Melbourne almost tripled from 2019 to 2023, from about 800 to about 2,200. The central city saw a total of 10,000 dwellings either empty or underused in 2023 – a number equivalent to half of the dwellings added to the housing stock in this area by construction over the past five years (Figure 3).

That many renters cannot afford to outbid the convenience value of an empty property speaks of deep inequality, the root cause of unaffordable housing.

But vacant homes also illustrate how housing supply is at the mercy of speculative incentives. Low interest rates and taxes that favour capital gains over rental income make it rational for some owners to choose the flexibility of an empty home over the cash it could yield.

The economic explanation for vacancy boils down to the relative value of these two desirables – flexibility and yield – with the decision to leave a home vacant depending on the trade-off between option value and cash returns.

Empty property offers higher option value . If rents are low, landlords can avoid locking in low returns and the challenge of raising rent later. When sales prices are low, vendors can postpone sale, keeping the property untenanted to ensure the buyer pool includes owner-occupiers. If an owner plans to occupy their property in the future, keeping it empty makes this easier. The idea that property owners balance flexibility against yield is a catch-all explanation for these many and varied situations.

The pace of new housing construction results from the same economic tradeoff. Owners of vacant land can find land banking (preserving flexibility) more profitable than exercising their development option (taking the cash), which explains why the market supplies new housing well within regulatory limits.

Barriers to supply take centre stage in housing debates, with zoning rules often blamed for restricting supply. But this story underplays the role of land speculation. It is true that public rules limit what can be built, but within that, it is private incentives that determine how much housing we actually get.

As a stylised fact, most profitable (feasible) development sites are not developed in any given year. Prosper's Staged Release report illustrated this for greenfields land. Built properties are often also put to market slowly, with infamous examples such as the Gold Coast's "Jewel" tower giving lie to the claim that developers will ever voluntarily flood the market with product and drive down their own returns.

The reason the private sector regulates the pace of housing supply even with no public regulation in sight is that speculation pays. Developing land commits it to a specific use, but delaying development banks that option for the future, which can be even more profitable. The trade-off between these two sources of profit sets the market pace of new supply.

Taxing vacant homes or vacant land, as the Victorian Government proposes, can push more properties into use, but also carries risks. Broad-based land taxation would accelerate land development more efficiently, while also raising revenue.

Speculation is a contentious topic. The dominant narrative on housing supply, supported by vested interests, seeks to blame local democracy and public good regulation for problems that are not of their making. The natural monopoly inherent inland markets creates problems that policy can't break. These problems are being unfairly pinned on ordinary people and their desire for stable community The reality is far more nuanced.

For a more effective housing policy, we will need to confront not only inequality, but the impact of speculation on supply. Shifting tax off productive activity and onto land rents – the efficient and equitable source of public finance – is one way we can undermine the incentive to withhold land from productive use, making the most of our common wealth. •

Henry George Address

By Ross Garnaut

(Transcript of speech recorded at the Kelvin Club, Melbourne, 7 September 2023. Lightly edited for clarity and brevity.)

Thanks, Tim, and it's very good to be here with this group of people. Very good to know that such a group still gathers 132 years after Henry George came to Sydney and Melbourne.

Anecdote re: IRS v Esso

When Tim described the continuing influence of Anthony Clunies Ross and my work on mineral tax that began half a century ago, I wondered about that. But then I remembered the big tax case between Esso and the American Internal Revenue Service in the US Tax Court in Washington, IRS versus Esso., 1998. The case settled out of court for a large sum, that I thought could have been larger, The case hung on whether the British Petroleum Revenue Tax on North Sea oil was a tax on income, creditable against US income tax, or a royalty, which would only have been deductible.

Both sides were referring to our book Taxation of Mineral Rent. Anthony Clunies-Ross was a wonderful man and scholar from Melbourne, who died in Scotland eight years ago. Esso had engaged large numbers of barristers from London and New York. The IRS had advised me that many of the defendant's barristers would cross-examine me and that I should expect a week before the Court. About an hour into the first cross-examination, the defendant asked for an adjournment. The Esso lawyers returned after half an hour. "Your Honour," their spokesman said, "we have no further questions of this witness". I asked the IRS legal team what had happened. "They worked out", I was told, "that their prospects were better the less time the judge spent listening to you".

Henry George's legacy

It's remarkable that this society has an annual dinner and lecture 132 years after the great man visited Australia. We don't have a Parkes, Reid, or Lyne lecture. Those three Premiers of New South Wales through the 1890s were substantial historical figures. Neither do we have a lecture to remember any of the five Victorian Premiers of that decade.

Henry George certainly left his mark.

Bede Nairn's brief entry on George in the Australian Dictionary of Biography marks George down as a minor figure. That's not right.

George's *Progress and Poverty* sold several million copies. There is no near comparator for a book about economics. The world population then was one-fifth of what it is today, and the literate proportion of the smaller world population was a small proportion of humanity today.

The main ideas in George's work seem to me to be broadly right now, as they were then.

George supported free trade. That's as important now as ever for global development and Australia's prosperity and place in the world.

He wanted to tax land and other rent as the main source of government revenue. Rent taxes raise revenue without sacrificing total income and output. Governments spend a lot more now than then. Then there was no Medicare. No government then thought about spending $369 billion on nuclear submarines. It may have been realistic to think of rent taxes raising most government revenue back in the 1890s. We need other sources of taxation today, but we would be better governed if taxation of rent contributed a much higher proportion of the total. Back then, the Australian discussion of rent focused on the great agricultural and pastoral properties that had passed into private ownership with small payments unrelated to actual economic value.

George also wanted to promote competition and break up monopolies whenever this was possible. He noted that some economic activities are not suitable for competition and so are natural monopolies. It wouldn't be economically efficient to have multiple electricity suppliers running multiple transmission lines down the same street. George wanted natural monopolies to be held in public ownership. Railways were the most important natural monopolies in the 1890s.

George & Pigouvian taxation

Where the activities of one firm impose costs on others, George wanted to tax them to deter the activities and to balance the cost. That's relevant to my work on climate change in the tail end of my career over these last 16 years.

Taxing comprehensively one such external cost, carbon emissions would raise over $70 billion this year with today's European carbon price and exchange rate, and this year's expected Australian carbon volumes. We had a very good carbon price for two years, from 1 July 2012 to 30 June 2014. I've worked on many areas of public policy over a lot of years and have learned that modelling of economic effects of new policy is usually only the roughest of guides to what actually happens. In the case of carbon pricing, the modelling for my Climate Change reviews and the Commonwealth Treasury predicted outcomes with close accuracy–the increases in prices of goods and services as reflected in the Consumer Price Index; the tax cuts, and social security increases to make sure that there was no reduction of real incomes for people on low and middle incomes; the assistance for trade-exposed and emissions-intensive industries; and the reductions in emissions.

The Gillard Government, through Minister for Climate Change Greg Combet, reached agreement with the EU to merge the Australian and European Emissions Trading Schemes from 1 July 2015. The second Rudd government brought the date forward to 1 July 2014. That would have equalised carbon prices in Australia and Europe; provided Australia with secure access to European markets for products of what we are now recognising as Superpower industries; and ensured that competitors in third countries who were not facing similar incentives to reduce emissions did not receive an unfair advantage. Prime Minister Abbott got rid of carbon pricing the day before we were due to join the EU ETS, on the 30th of June 2014.

Without the Abbott blot, the Commonwealth government could be collecting over $70 billion a year from the ETS. That's not a tiny bit of money. We could pay for the nuclear submarines with five or six years of the carbon price. One year would pay for more than two years of Medicare. We could cut every personal tax rate by 30% from the highest to the lowest. Some members of the Australian Parliament support raising the GST rate to pay for cuts in income tax rates. Re-introducing the European-linked carbon price would give all of the presumed benefits of a higher GST–and efficiently reduce carbon emissions as a bonus.

We wouldn't raise $70 billion per annum forever from a carbon price. The Government wants Australia to have net zero emissions by 2050. In a talk to the Melbourne Energy Institute earlier today, I said we would be richer if we got to zero emissions by 2035. The carbon price revenue would phase out over a generation. In the meantime, it would pay for a lot of tax reform.

In the past, we have had to pay for tax reform. When John Howard introduced the GST, the compensating income tax cuts and expenditure increases cost over 1% of GDP more than the GST raised. In today's GDP, that's an increase in the budget deficit of more than $25 billion to make the GST package politically more acceptable. The really hard part of tax reform to improve equity and increase efficiency is the transition. By the time we had zero net emissions and so ceased to receive revenue from carbon pricing in 2035 or 2050, the new and more efficient tax system would be generating large economic benefits that would make their own case for continuing with it.

George's *Protection or Free Trade*, rent, and the historical Australian case for protection

Back in 1986, Kym Anderson and I published a book on Australian protection. We noted George's influence in the attractive policies of the New South Wales Free Trade governments supported by Labour in the 1890s. That's a really interesting period for Georgists in particular and for Australians and Australian public policy in general. The young Labour Party was strongly committed to a more equitable distribution of income and wealth. The understanding that held together Premier Reid, the Free Trade Governments, and the Labour Party was around collecting more revenue from the sale and leasing of land and using that to make up for revenue losses from free trade and the introduction of Australia's first old age pensions and some other social security payments. Victoria headed in another direction, favouring protection and collecting less revenue from land. That led to a battle between Free Trade and New South Welsh interests led by Reid and Protection and Victorian interests led by Deakin through the first decade of Federation. That's mostly another story.

There's no doubt about the Georgist influence on the excellent innovations in trade and financial policy in New South Wales in the 1890s. And there's no doubt about the Georgist influence through Marion and Walter Griffin on the financial model applied to Canberra from its commencement of Canberra in 1927. The Griffins were fans of Henry George. Canberra had in place for several decades a fiscal system with no private freehold land, long leases of land from the Government, and payments for land leases, periodically adjusted, that was meant to reflect economic value. Prime Minister John Gorton mucked up the arrangements in the hope of winning one seat. But he didn't win the Canberra seat. In the twenty-first century, only the Teals, Independents, Greens, and Labor win Canberra seats. I hope that John Gorton's ghost thinks that his 1969 policy was an awful waste.

Free trade became anathema or curiosity or joke to most Australians in the generations that followed Federation. Hancock's marvellous book "Australia," published almost a century ago, has a chapter about Australia's love of protection. Australians loved even the word itself with all of its friendly connotations. However, protection was costly for Australians. The intellectual rationalisation of Australian protection was worked out in the 20s by a few economists from Tasmania with very good minds: Giblin, Brigden, and Copland. Copland ended up being the first Professor of Economics, and Giblin the first Ritchie Research Professor of Economics at The University of Melbourne.

The three Tasmanian economists and one other were commissioned to write a report on the Australian Tariff for the Bruce Government. The Brigden Report actually advised caution on the level of the tariff. But it is famous for developing what came to be known as the Australian case for protection. The idea is that in a country whose main exports depended on land, protection effectively placed a tax on export revenue and therefore on the rent of land used to produce exports, and increased demand for labour in the import-competing industries. Increased demand for labour either put upward pressure on wages or allowed more immigration. Protection was an indirect tax on rent, which paid for more employment or higher wages.

The logic of the Brigden Report is sound as far as it goes. But it misses the point that if higher wages and employment is the goal, you could get more of it at the same cost to owners of the land used for exports, or the same amount at less cost to exporters if you tax rent directly and use the proceeds directly to support labour in one form or another.

Protection in practice was very costly for Australia. On the eve of the First World War, we had the highest per capita average real incomes in the world. Our wages were the highest in the world. People in other economically advanced countries wrote about Australia being the working man's paradise. We lost that favourable position through our poor economic performance as protection rose between the wars. Per capita real income in the US and several other countries rose above levels in Australia. The slide down the per capita real income table continued after the Second World War. Gradually economists and others began to notice that protection was contributing to the slow rate of increase in living standards relative to other developed countries. The critique of protection grew from the 1960s but nothing much was done about it for quite a while. The Whitlam Government implemented the 25% tariff cut in 1973 but introduced new protectionist measures when unemployment rose for other reasons in 1974 and 1975. The Fraser Government greatly increased protection in the most protected industries, mainly through quantitative restrictions on trade.

Prime Minister Hawke set us on a path to having an open economy, by combining economically efficient trade policies with use of the budget to raise living standards of the general population. The Hawke government reintroduced Medicare after its abolition by the Fraser Government. It extended and strengthened the social security system, including through expanded family payments. The superannuation system was extended to cover almost all workers. There was a big increase in expenditure on education, with large increases in the proportion of children finishing high school, and the proportion going on to tertiary education. Total factor productivity grew faster than in any other developed country in the 1990s for the first time in Australia's history since Federation.

Garnaut citing Friedman citing George on Protectionism

Despite the successes from the reform era of the late twentieth century, Australians tired of open trade. We have been drifting back to protection in recent years. If we partially reverse the reform policies that gave us sustainable increases in living standards, don't be surprised if we also reverse the increases in living standards. I don't cite Milton Friedman on everything but he's sound on free trade. Here is Friedman citing George:

"It's a very interesting thing that in times of war we blockade our enemies in order to prevent them getting goods from us. In times of peace, we do to ourselves by tariffs that which we do to our enemies in times of war."

Samuelson, Solow, and the erasure of land rent in neoclassical economics

Kym Anderson and I discussed the Australian and international literature on the Australian case for protection in that book four decades ago. Marion Crawford Samuelson published an article that clearly put the Australian case. Then her husband Paul Samuelson, probably the most influential American economist in those decades, developed an elegant neo-classical model that purported to present the Australian case for protection. In the model, in a country that had an abundance of capital and a shortage of labour relative to the rest of the world, protection would shift the distribution of income towards labour as anticipated in the Australian case for protection. But Samuelson's model was a huge oversimplification of what had been a different Australian case. There was no land in the Samuelson model, yet the core of the Australian case was that protection operated as an indirect tax on land. Samuelson omitted land from his simple and elegant model because the algebra didn't work if you included a fixed factor of production.

Samuelson was a colleague at the Massachusetts Institute of Technology of the young economist Bob Solow. Solow was working on a theory of economic growth based on the Samuelson-type neo-classical model in which there was free movement of capital and labour, automatic adjustment of labour and capital to changes in wages and interest rates (and therefore no unemployment), and no land.

At exactly the same time in the 1950s, Trevor Swan at the Australian National University was working on growth models of a similar kind (Vines, forthcoming 2025). Swan and Solow are recognised as having both developed the model that is the foundation of subsequent growth theory. Swan tried to keep land in his model to make it more realistic. He recognised that economic growth would be associated with rising land rents and their effects on income distribution and the growth process.

Solow's model without concern for a fixed factor of production was simpler, more elegant, less realistic, and won the Nobel Prize for Economic Science. It set economics on a wrong course. Half a dozen years ago my close friend and colleague Max Cordon showed me a letter that he had just received from Bob Solow. Six decades after Solow's article, Bob wrote to Max:

"We conventionally allocate all of the value added to either compensation of labour or return to capital, as debt and equity. That would be fine if there were perfect competition. In reality, there is a third component, monopoly rent. It gets allocated to labour and capital in unknown proportions. What one would like to see is a three-way breakdown in market return to labour, market return to capital and rent."

Changing role of rent

Henry George in the 19th century focussed on agricultural and urban land rents in the United States, where rising incomes and a rapidly growing population were raising the rent value of land. Moving from New York to California helped George to recognise the pivotal role of economic rent in economic growth. Growth in population and demand for goods and services in New York had made land more expensive. George foresaw that Californian land would eventually be expensive like New York land. He started to think about how a tax on the increasing value of land could generate value for the community rather than delivering windfall benefits to individuals.

George focussed on agricultural and urban land rents. But at other times and places, other sources of rent were important. Piketty's "Capital in the Twenty-First Century" presents the results of painstaking statistical work using the official records of the major developed countries. In the couple of decades before the Civil War, half of the value of capital in the southern states of the United States was the capital value of the slaves–the capitalisation of the rent value of slaves. At the time, agricultural land and urban land generated rent, but the rent of slaves was the big one. At different times in history, different sources of rent have been important.

The rent share of income has become much more important so far in the 21st century. We are seeing this in many countries but especially in Australia. We are seeing it in the rising profit share of national income. The large increases in the profit share sit uncomfortably alongside a falling price of capital in competitive markets. In that old Solow growth model, if the price of capital falls, without any change in technology, labour and capital move smoothly from one activity, and technology to others. As capital becomes cheaper, you get a movement towards more labour-saving technology which is associated with higher wages.

Keynes' on the falling cost of capital

Ninety-three years ago, John Maynard Keynes, the world's greatest public intellectual in the 20th century, wrote an essay for his Cambridge students: "Economic Possibilities for our Grandchildren".

Remember the context of the time: the rise of fascism in Europe; the attraction of fascism and Communism in Britain; division in society; and unemployment around 30%. It was a time for holding out hope of progress in a capitalist democracy. He went through the arithmetic of continued capital accumulation and technological progress. Putting aside the effects of unnecessary wars and economic depressions, the economy's productive capacity would increase many times. Savings out of increased income would provide an abundance of capital. Demands for investment would decline as a share of the economy. Capital would be abundant and interest rates fall to very low levels. No one would have a very high income simply because they owned a lot of capital. High incomes would come only from innovation and entrepreneurship–producing new goods, or old ones in more productive ways. That would make labour scarce and expensive. The real rate of return on low-risk investment would be low.

Now, the real rate of return on low-risk investment in the twenty-first century has fallen much as Keynes expected it to do. The average interest rate on long sovereign debt in most developed countries has been lower than the inflation rate over the past decade and a half. The real cost of long-term safe debt has been negative, zero, or slightly positive.

In Solow's model, with perfect competition and no rent, this abundance of capital would lead to lower returns on business investment and a higher labour share of total income. But exactly the opposite has happened. In the last decade, we've seen an historic increase in the profit share and a fall in the wage share of national income.

The increase in the profit share of total income as measured in the national accounts has no precedent in our history. It began in the first decade of the century and has gone much further and faster since then. **The only explanation for such a divergence between the rate of return on competitive riskless capital and actual business rates of return as reflected in the profit share of GDP is a rise in rent.**

What has caused the rise of rent? There is an extensive recent literature on this question. It has been developed best in the US, partly because the US has a larger and more diverse economics profession, and partly because they seem to have better data. There is also extensive recent literature on the fall in real interest rates in competitive markets.

The increase in the profit share and the fall in the wage share is actually bigger than the statistician makes it look. When Qantas paid CEO Joyce tens of millions in recent times, that would be mostly classified in the wages and not the profit share. The Joyce arrangements are not unique, or even unusual today. They were unknown in the twentieth century. There has been an explosion of executive remuneration this century, starting in finance and other high-rent parts of the private sector and extending into the public sector including the Universities. It has gone much further in Australia than in Europe or Japan. It was apparent in the US before Australia, but seems to have caught up in Australia over the past decade–and may have gone further when size of enterprise is taken into account.

Much of the increase in executive remuneration shows up in the wage and not the profit share. When it is really the sharing of rent between owners and managers of businesses in rent-rich sectors. But the lift in the income share is large even counting executive income as wages, so we can make the point without challenging the established statistical base.

The increase in rent is happening in other English-speaking developed countries but seems to have gone furthest in Australia. Why is it so?

Reasons for the increase in profit share

One is the huge growth in the role of minerals and mineral rent in the economy. That followed the growth in Northeast Asian and especially Chinese demand for our minerals. From 2002 until 2012, the then most populous country on Earth experienced the fastest sustained rate of growth over a decade of any substantial country ever. And the Chinese pattern of growth was highly complementary to our resources. Chinese growth required iron, fossil energy, other metallic minerals, wool, and other raw materials in immense quantities. There was a huge increase in demand for Australian exports and a big lift in prices and profitability of Australian export commodities, especially minerals. This was Australia's China resources boom.

The boom eased from 2012 with changes in China's pattern of growth and is changing again post-COVID. But much of the boost to global demand for minerals remained. Prices eased from the giddy heights of 2012 but remained much higher than before the China resources boom. On average and in real terms, the price of iron ore over the last half dozen years is about four times as high as it was in the 1990s. It went much higher during the China Resources Boom, and at times has dipped lower, but the average that can be expected in the future is several times higher than in the last decade of last century. After all the fluctuations and adjusting for inflation, coal and gas prices in normal conditions seem likely to settle at about double their levels in the 1990s. The last year and a half have been abnormal and prices much higher, through the disruptions following the Russian invasion of Ukraine. A wide range of other products behaved similarly. Prices of commodities used intensively in the zero carbon economy–so-called critical minerals–have increased in larger proportions.

The large miners were making good profits from their established Australian mines in the 1990s, There has been a huge increase in rent for anyone with an established mining business. Already in the 90s, we had begun to see the effects of rising demand for minerals in China and other Northeast Asian countries. I wrote that story in my 1989 report to the Commonwealth Government, "Australia and the Northeast Asian Ascendancy". By the end of the century, mining contributed 5% of Australian GDP. That ratio has increased to 15% since then.

We went through a period towards the end of the last century when exports of manufactures, services, minerals, and agricultural products were of similar value. Now minerals are twice the value of all the others put together.

The division of costs between rents and real costs are very different between the four sectors. Payments for labour are very much lower for mining than for the other sectors. In the last quarter of 2022, mining profits exceeded those of all other sectors of the Australian economy added together. Yet mining employed only about 2 percent of the Australian labour force.

Taxing mineral rent

The increase in the annual value of mineral sales over this century is over two hundred billion dollars per annum in today's purchasing power. We apply the corporate income tax at 30% of the value of accounting profits. This is after artificial deductions for costs attributed to offshore "marketing hubs" and services of other kinds in low-tax countries. High proportions of the increase would be rent. The corporate income tax collects a modest minority of the rent for the public revenue. A general reduction in the corporate tax rate, as sought by the Business Council of Australia on behalf of big foreign and Australian businesses, would reduce the tax on mineral rent with very little positive impact on the level of investment or output in the mining industry.

The states have constitutional rights to minerals and powers over mining royalties. They have the rights and responsibilities to require payments from private companies equal to the value of the resources for access to mineral resources. The value of the resource is the economic rent. The states apply royalties in various forms and at various rates, which are deductible against income for Commonwealth income tax purposes. These collect rent, but usually take forms that reduce investment and output in marginal activities as well. The rates are generally low, so the balance between avoidance of distortion and collection of rent is calibrated in favour of avoiding distortion. The Australian system of horizontal fiscal equalisation reduces States' incentives to extract the rent–under the principles applied by the Commonwealth Grants Commission, the state receiving royalties eventually retains only its national population share of total payments for mineral leasing. Western Australia's objection to this principle led to the Morrison Government's agreement on a floor to West Australia's share of the GST pool. The issue will arise in Queensland as the Grants Commission brings the State's new coal royalties to account in distributing GST revenues. Mining companies now use the redistribution of State royalties under the Commonwealth Grants Commission in the political debate about economically rational pricing of access to mineral resources.

Western Australia applies a 5–7% royalty to the value of iron ore sales. This might have corresponded to a reasonable share of the mineral rent in the 1990s but represents a small proportion of the total today.

It generates large State revenues that are large enough favourably to transform the State's budget.

The Queensland government has raised significant total royalties from coal mining from low royalty rates. When coal prices rose strongly in response to the Russian invasion of Ukraine, it introduced higher rates of royalty when coal was sold at high prices–with a maximum ad valorem rate of 40 percent applying to a substantial proportion of revenue when prices were at their peaks in 2022 and early 2023. This favourably transformed Queensland's budget prospects. A large part of the increased revenue was used to fund energy infrastructure for the transition to zero net emissions. Part was used to shield lower-income power users from energy price increases that would otherwise have followed from the Russian invasion of Ukraine. Part strengthened the long-term fiscal position by reducing public debt.

New South Wales mines contribute a substantial proportion of Australia's coal exports. The Government raises significant revenues, but at rates that leave most of the rent with the mining operators. So far Governments have chosen not to increase the proportion of rents going to the public revenues as payment for public resources being depleted by mining.

The Commonwealth administers mining leases only offshore. The Hawke Government came to office committed to introduce a national resource rent tax, but limited its application to offshore petroleum when the States declined to cooperate. Western Australia joined the Commonwealth to apply a resource rent tax in one onshore petroleum field. The Commonwealth's resource rent tax raised substantial taxation but was rendered much less effective in the early 2000s by changes in deductions for processing not directly related to exploration and mining. These changes were in response to industry pressures at the time of debate over mineral rent taxation that followed the Henry Tax Review.

The Henry Tax Review commissioned by the Rudd Government proposed the comprehensive taxing of mineral resources by the Commonwealth Government. This was linked to a recommendation to lower the rate of corporate income tax. It would have had the effect of shifting a substantial part of the tax burden from the general corporate taxpayer to the mining industry. As minerals prices have turned out, it would also have greatly strengthened the Commonwealth's general fiscal position, including as coal and gas prices rose in response to the disruption of global markets after the Russian invasion of Ukraine.

The Henry Review recommendation on resource rent taxation had several weaknesses. It introduced a novel taxation model without the prior public discussion that would have allowed the building of support within the community. The novelty made it easy for vested interests to misrepresent its character and effects. Extensive public discussion and understanding is a precondition for successful reform. And the tax itself contained one structural weakness. It proposed to balance the 40 percent tax on positive cash flows (the rate of tax in the Hawke Government's resource rent tax), with a payment for unsuccessful exploration and development expenditure paid at the time of surrender of a mining lease. Such a payment for negative cash flows is sound in principle and is a feature of the reform of business taxation that is advocated later in this lecture. However, delaying payment until the surrender of the lease required the investor to believe that the taxation regime would remain stable over a long period. Some would have discounted the value of the payment for the chance of changes in the regime.

There is no more important issue in Australian taxation reform than replacing current arrangements with efficient mineral rent taxation. That requires large analytic effort and effective political leadership. Success would bring high rewards to the Australian polity, and I expect electoral rewards to the Government that is seen as being responsible for a good outcome.

The Henry Review proposals and carbon pricing were both defeated by massive campaigns by vested interests, harnessed by the Commonwealth Opposition of the day led by Tony Abbott. When Abbott won government in 2013, it encouraged vested interests to see investment in the political process as a rewarding path to defeat proposals for reform in the public interest that challenged their own interests. I do not see this as a sound interpretation of what happened in 2013. And if it were, I think that Australians' commitment to the integrity of our democracy would allow that perspective to be challenged politically.

I have spent a lot of time in this lecture on mineral rents. They are more than half the rents in the Australian economy over the past year and are growing rapidly. I will run through more quickly the other main sources of rents. These others are the main sources of the rise in rents in other countries, and they have been causing the rent share of income outside mining to rise in Australia–more strongly in Australia than in other developed countries.

The Network and Intellectual Property Rents of Information Technology

The new information technology industries draw rents from two sources–networks with characteristics of natural monopolies; and intellectual property protected by patent. They are the source of much of the increase in global rents in the twenty-first century. Once established, they are well protected from new competitors by the usual network economies. Once established, they serve new customers at very low marginal costs and with little incremental fixed expenditure. Their sales account for a large and rapidly growing share of expenditure everywhere. They contribute to the low share of investment in expenditure and through the high rents incomes to the high savings shares of incomes that are contributing to low real interest rates on low-risk debt in competitive markets.

Australia cannot expect to establish a competitive supply of information technology services. The ACCC has identified some measures that can improve the competitive environment, without fundamentally changing the oligopolistic structures, We should do what we can. Australia can ensure that the public revenue receives a reasonable proportion of the rent generated by sales within Australia. This is best achieved by denying deductions against corporate income as assessed for corporate income or cash flow tax purposes, of payments for imported services that are not associated directly with supply to the Australian taxpayer.

Urban land rents

The increases in land and housing costs in Australia over the past couple of decades have transformed unfavourably the lifetime economic prospects of younger Australians who do not have the support of wealthy relatives. That's a tragedy. There are two sources of higher house prices. One is the increased rent value of land, which is capitalised in the asset price. The other is the fall in the discount rate–which increases the capital value of a stream of rents. I have already mentioned that interest rates on low-risk debt have fallen to near zero in real terms in the twenty-first century, and won't go further on that in this lecture.

Taxing the rent would reduce the capital value of the asset. It's worth discussing why the rent value of land has increased, as well as how it should be taxed. The value of land in a good urban location is the difference between the cost of the land on the frontiers of the city–the open fields being subdivided on the way to Ballarat–and the value of the land in good locations.

That differential, which sets the value of land in attractive areas, is very much affected by the quality of transport and communications. We haven't invested in transport infrastructure in line with the growth of our population. We are starting to catch up in recent years, but have a long way to go. The new transport infrastructure increases the value of some urban land while reducing the scarcity or rent value of other property. Taxation on the increases in land values resulting from improvement in transport infrastructure is an important source of public revenue in some of the countries and cities that have managed the transport infrastructure problem best. Changes in urban planning that allow denser housing near the centres of urban employment and the transport nodes will also reduce land scarcity and rents throughout the city.

High population growth from immigration increases the scarcity and rent value of land–especially if it has not been carefully calibrated to the expansion of the supply of transport and other urban infrastructure. Australia (and New Zealand, Tim, our Chair, reminds me) currently stand out with immigration rates that are extremely high by international and our own historical standards. Immigration brings many benefits for Australians. But the rates since its resumption after COVID have been beyond the capacity of our infrastructure to absorb. It is much of the reason for the extraordinary shortage of housing and increases in land values and rents. Let's make sure we tax land rents in the public interest, But let's also think more strategically about the contributions of immigration and underinvestment in transport infrastructure to the increases in land prices.

Standard monopoly and oligopoly are more serious here than elsewhere

So the larger role of mining and higher population growth are two large reasons why the rent share of income has risen more in Australia than elsewhere. A third is that standard monopoly and oligopoly are more serious and have deteriorated more in Australia than elsewhere. The Qantas story that's become news over the last few weeks is one manifestation of a much more general problem. Increased concentration of banking business is a large problem. Four big banks all putting up their interest rates or putting them down on adjacent days by the same amount. No effective competition. They know how to work together.

I worked with Hawke on the liberalisation of the financial system in the mid-1980s. That was meant to increase competition. It did for a while. The older participants in this meeting will remember the state banks, the building societies, and the credit unions that played a large role in accumulating household savings and providing housing loans 40 years ago. The increased concentration in banking has its parallels in many sectors–although not all as extreme as in banking.

Australians have been in denial about increasing oligopoly and the rise of rents. A very good book has just come out by an American academic Phillippon an American academic, discussing how much less effective competition is in the US today than in Europe. Europe has done much better than the US. Amongst other things, the EU has had stronger antitrust laws and enforcement. He says that one of the reasons is that many countries becoming part of the one market disrupted the organisation and effectiveness of national business lobbies that place pressure on the policy-making and enforcement process.

The problem is much greater in Australia than in the US and has probably deteriorated more in recent times. And in America, there has at least been much serious analysis and discussion of the problem in recent years. We haven't done as well in Australia. There have been lonely minds and contributors in discussion in the Henry George Society, in and around the ACCC including through its past senior executives, our few genuinely independent think tanks. But discussion has been at the fringes of policy-making.

There are signs that this is changing. There have been two splendid speeches on the issues over the past month. One was by Andrew Leigh, Minister Assisting The Treasurer on Competition Policy.–a highly reputed Professor of Economics at the ANU before entering Parliament and still a highly productive contributor to Australian economic analysis beyond his official responsibilities. He spoke about the Australian oligopoly problem at the Conference of Economists in Brisbane in July. Drawing on the international literature, amongst other things he draws attention to the ways in which more powerful oligopoly has increased profit margins and placed downward pressure on wages. The second was by Rod Sims, former Chair of the ACCC, a few days ago. He presents data in awful detail on the reduction in numbers of suppliers in many Australian industries, to levels that are inconsistent with effective competition. It is more good news that the Treasurer has just established a review of competition policy, to which Leigh and Sims will contribute in different ways. I made my own contribution to the discussion in the ACCC's 2023 Bannerman lecture a few months ago.

So while the problem of increasing rents is growing, we are starting to focus on it. Now is the time to focus on the rise of rents, policy to slow or reverse the increase, and taxation reform to secure for public revenue, part of the rents that cannot be removed by sound policy.

Add up all the opportunities for economic reform to reduce economic rents or to tax them efficiently and equitably and you have a transformational economic reform programme to increase productivity and equity. Resource rent taxation. Tax on carbon externalities, Tax on land and housing rent–and urban infrastructure and planning and immigration adjustments to reduce urban land rents. Increased competition.

And to provide an overarching framework for raising revenue from business rents, the replacement of standard corporate income tax with a tax with cash flow as a base.

Cash Flow Tax

Craig Emerson, Reuben Finighan, Stephen Anthony and I proposed the replacement of the standard corporate income tax with a cash flow tax in a paper in the Australian Economic Review in December 2020. The Cash Flow Tax would be a tax on economic rent. The paper focussed on the replacement of the corporate tax, but it actually could be a tax on all business income.

The Cash Flow Tax, or Business Rent Tax, would

- allow immediate deduction of any capital expenditure
- provide a cash credit at the tax rate for negative cash flows.
- deny any deductions for interest or any other payments for financing, and
- deny a deduction for imports of services, unless those imports of services related directly to provision of the service within Australia.

The paper proposes various practical details and costings and suggests transitional arrangements.

The cash flow tax is a tax on economic rent. On average, firms in competitive businesses would pay little or no tax. The successful would pay tax at the designated rate; the unsuccessful would be reimbursed their losses at the tax rate. Competitive businesses include the marvellous restaurants of Melbourne, most of whom struggle to survive, many without surviving. Those who are making losses would get a bit of a payment, and those who are making profits would pay a bit at the tax rate.

Companies that are innovating would find this tax system very much more congenial, than the corporate income tax. The current tax system systematically discriminates against any company that takes a risk and cannot rely on deductions against a secure flow of established income. For the innovator with limited secure cash flows, there is asymmetry between the treatment of success and failure. Success is taxed, and failure is not compensated. This is different from the company with a secure flow of rents. Think Rio Tinto, Qantas, or Westpac. And if they make some investment, they know that if it is unsuccessful, they will be able to deduct the cost against income for standard income tax purposes. So the cash flow tax supports innovation. It also supports the firm that is investing and expanding.

We calculated, based on public information, that at a 30% tax rate, the cash flow would be roughly revenue neutral over time, even if the expected positive effect on investment, innovation, and output did not materialise. The suggested transitional arrangements may make it revenue-negative in the early years and revenue-positive in later years. Any decision on application would require an analysis of revenue impacts based on information available only to the tax office.

Companies that are innovating and investing at high rates would pay less tax than under current arrangements. Companies that are receiving high rents and not investing much would pay more. The tax is less vulnerable to international tax avoidance than the corporate income tax in its current form.

Now is the time for the cash flow tax and for other reform measures to make Australia a more prosperous and equitable economy and society and a successful democratic polity. There is a lot of work in turning these broad thoughts into a programme for effective reform, in explaining and building support for the programme. That is a task for this venerable society in its 133rd year, Prosper Australia. There is a large challenge of political leadership in making it happen.

Some of the policy disappointments of the twenty-first century so far may discourage ambition for Australia. The lesson of our history is that our democratic polity is capable of productive change when some Australians are prepared to put the necessary effort into the development of ideas, public education, and political leadership.

I have pointed to a few indications this evening that after a dark decade, the prospects of reform to increase prosperity and equity in Australia might be turning a little bit. Let's, we who have been thinking about these problems for a long time, let's help things turn.

Singapore: Economic Prosperity through Innovative Land Policy

Stephen Hoskins, Research Director, Robert Schalkenbach Foundation

Singapore's founding mythology goes as follows. After the departure of the British Empire from Singapore and its expulsion from the Federation of Malaysia in 1965, the island nation faced a litany of challenges: a population with low literacy rates, living in kampong-style informal dwellings or crowded shophouses, with wide divisions across ethnic and political lines, under constant threat of military confrontation by large neighbouring states.

From the Kampong to HDB

Enter Lee Kuan Yew (LKY), Singapore's first Prime Minister, whose bold statesmanship would rapidly propel the 'little red dot' to become a unified, multicultural, prosperous nation. At least, that's the story the nation tells itself. For the most part, this narrative is correct: Singapore today is world-renowned for its competitive business environment, sustained by the culinary delights of hawker centers, clean streets and lush greenery, all knit together by an efficient transportation network.

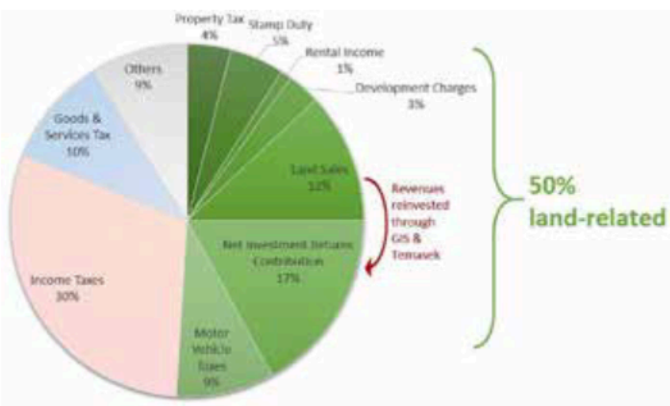
Less agreed-upon is the question of how exactly this was achieved. Libertarians like to associate Singapore's success with laissez-faire capitalism; those on the left argue that this perspective ignores Singapore's bold history of industrial policy. As a matter of fact, both of these narratives-of-convenience overlook the vital core of Singapore's economic policy. In this article, I'll demonstrate that the key factor behind Singapore's success is a set of policies firmly guided by the Georgist mindset of capturing and sharing land value. We will look at the way in which Singapore's land was restored into public hands, deployed to build wealth, and redistributed through a near-universal program of subsidised housing.

> The basic ideas of Henry George have been implemented, in effect .... and interestingly constitute the core of economic and social policy for Singapore.
>
> *-Phang Sock Yong, Professor of Economics, Singapore Management University*

How Singapore recaptured land value

To many Georgists, 1965 Singapore may have appeared poised to repeat the mistakes of many states gone before. Fewer than 10% of the population owned property; this small group was likely excited to extract rents from kampong-dwellers and enjoy speculative growth in the value of their land as Singapore developed. But that was not to be Singapore's path.

Instead, in 1966, the government passed the Land Acquisition Act, granting broad powers to acquire land "for any public purpose". Crucially, the rate of compensation to be paid to landowners was fixed at the land's value on the 'statutory' date of 30th November 1973. Freezing the price of land immediately sent a strong signal to landowners that speculation was not going to be a lucrative business in Singapore, and that they'd better find a more productive pathway to profit. At the same time, Singapore introduced development charges which require landowners to pay a levy when the value of their land is increased as a result of planning permission being granted. Current rates are set to capture at least 70% of the land value uplift, which generates land revenues while also discouraging landowners from speculative lobbying over development rights.



Sources of Revenue for the Government of Singapore, FY2017

8 in 10 Singaporeans live in HDB housing

These key policies, implemented in the early days of Singapore's independence, are Georgist to their core. Singapore immediately recognised the need to capture land value for public purposes, the economic threat posed by land speculation, and the injustice of private landowners profiting from government actions. Lee Kuan Yew explained that the above policies were explicitly intended to prevent landowners receiving unearned windfalls:

> *"First, that no private landowner should benefit from development which had taken place at public expense; and secondly, the price paid on the acquisition for public purposes should not be higher than what the land would have been worth had the Government not contemplated development generally in the area."*

Singapore's government proceeded to engage in an aggressive process of land acquisition, raising the publicly-owned share of land from 44% in 1960 to 76% by 1976. Today, more than 90% of the land is owned by the state. While many Georgists may balk at the idea of the government controlling so much land, to LKY's credit, he immediately set about having land rights auctioned off for private use through the 'Government Land Sales' program. Land was typically sold on 99-year leases, after which it would revert back into public hands. Again, this sent a clear message to landowners that speculation was not going to be profitable long-term.

Further sources of land-related tax revenues include stamp duties on property transactions and annual property taxes which are levied as a percentage of the annual rental value of a property. Electronic Road Pricing (ERP) charges drivers each time they pass through gantries on heavily-used roads, with prices being higher during rush periods. Although not a policy immediately associated with Georgists, congestion pricing is an excellent example of the application of Georgist analysis to particular economic issues; it requires drivers to compensate society for the privilege of excluding other drivers from scarce slots of space-time on the road. Singapore's ERP is considered world-class, and has enabled average speeds on expressways to be maintained as high as 65km/h even during peak periods.

Land became a factor of production, a driver for economic growth unhindered by social and political disputes over ownership. There was no landowners' class to hold back economic development. Government land serves the whole economy as well as public finance, creating the ideal conditions for public housing.

-Anne Haila, once called "the most important Georgist in the World".

Using land rents for all of society

The considerable revenues generated by the above policies have not been frittered away. Instead, they have been put to work for the benefit of all Singaporeans. Proceeds from land sales form part of government reserves, and have been funneled into Singapore's two sovereign wealth funds, GIC and Temasek. Together, these funds have amassed a net asset value of US$740bn, more than double Singapore's GDP. This comprises the fourth-largest sovereign wealth fund on the planet, among the ranks of Norway (another Georgist success story), petrostates like the UAE, and China, with a population 250 times larger than Singapore.

GIC & Temasek put these funds to work earning returns on behalf of all Singaporeans. One quarter of Temasek's portfolio is invested within Singapore, providing capital which helps grow employment and productivity among domestic firms such as DBS Bank, Singapore Airlines and Sea. Like most large funds, they appreciate the value of real estate, and have around US$71bn invested in property, including in one of Asia's largest real estate companies, CapitaLand. Singapore's reserves are also deployed for land reclamation and the creation of underground space, with the land value which is created accruing fully into increased reserves.

Freeing capital & labour

The substantial revenues generated by the above policies of land value capture have provided a huge amount of financial freedom to the government of Singapore. Half of GIC & Temasek's returns are recycled into the government's operating budget as the Net Investment Returns Contribution. As depicted below, fully half of all government revenues derive from land in one way or another.

Being awash with cash, the Singapore government is able to maintain remarkably low taxes on both labour and capital, while still returning a balanced budget. Corporate tax rates are 17%, below the 21% charged in the US, which has enabled Singapore to market itself as a highly attractive destination for multinational corporations, draw high levels of foreign investment and establish itself as a global business hub. Likewise, incredibly low rates of income tax combined with a luxurious standard of living have enabled Singapore to poach talented workers from around the globe (and also, me!). Around 40% of Singapore's population are foreign-born.

The median full-time worker in Singapore earns a gross wage of US$42k per year, and is required to pay only US$1,200 in taxes, an average tax rate of only 3%. Knowing they will get to keep such a large share of their wages, the local workforce are highly motivated to work and develop their skillset. Prior to the pandemic, unemployment rates averaged only 2%. 8 in 10 Singaporeans aged 25–34 have attained tertiary education, higher than any country in the OECD.

Thus, we observe that shifting the tax base off workers & their savings can free labour and capital to be put to their most productive use, generating prosperity for the nation as a whole. Singapore verifies Henry George's predictions on the results of shifting a tax base to land: "With all the burdens removed which now oppress industry and hamper exchange, the production of wealth would go on with a rapidity now undreamed of". The country's GDP grew by 6% a year on average over the last 50 years.

Sharing land rents with subsidised housing

The social benefits of Georgist policies are not purely limited to economic efficiency. The substantial revenues that can be generated from land provide many opportunities for redistribution in ways that will ensure a baseline level of wellbeing for all members of society. In Singapore, this has taken place through near-universal access to subsidised housing.

Public housing in the Singapore context refers to housing built by the Housing and Development Board (HDB) and 'sold' to Singaporean households under 99-year leases. New HDB flats are sold at subsidised prices, and a range of grants are available. For example, couples applying for a Build-To-Order (BTO) flat can obtain the Enhanced Housing Grant of up to US$60,000 depending on their income. In the most recent BTO exercise, 4-room flats (which typically have 3 bedrooms and 2 bathrooms) were being offered for between US$200,000 and $380,000, excluding grants. Including grants received, households may even find themselves paying less than construction costs.

Revenues from one project are recycled into subsequent waves of development, ensuring a constant supply pipeline; 750,000 units were built between 1970 and 2010. This has helped to keep house price growth rates relatively low; the SRX property index for resale (open market) properties has risen by only 3% per annum over the past 25 years. Homeownership rates have risen from 30% in 1970 to 90% by 2017. Marriage has become so strongly associated with immediate access to homeownership that marriage proposals in Singapore are often said to be phrased as "want to BTO together?". Even the remaining 10% of households who truly cannot afford homeownership are eligible for rental units offered by HDB at subsidies rates, through the Public Rental Scheme. Assuming that the poorest 50% of all households reside in 4-room or smaller HDB flats, they own around 25% of the nation's housing wealth, which closely approximates Thomas Piketty's 'ideal society' distribution of wealth.

Such policies effectively share the nation's land rents across the entire population by reducing the burden of housing costs, which is most households' largest expenditure item, globally. This helps cushion Singaporean households against the threat of rising land rents as the country develops, which is the cause of much displacement and homelessness worldwide.

Purity-testing Lee Kuan Yew

Despite the above successes, Singapore falls short of 'pure' Georgism in a number of ways. First, Henry George did not advocate public ownership of such large volumes of land, instead preferring private ownership paired with a tax to capture land rents: "I do not propose either to purchase or confiscate private property in land ... it is only necessary to confiscate rent." High rates of public land ownership can raise concerns around inefficient land use decisions, such as those seen in the perverse population-density gradient of many former Soviet cities and still somewhat seen in Singapore. While the land sales program does incorporate some market feedback into land use decisions, mechanisms for private allocation are likely more desirable. Likewise, while stamp duties ultimately capitalise into land values, they also reduce household mobility and result in inefficient matching of households to locations.

Second, despite the financial freedom created by the policies described above Singapore still falls short of full capture of land rents. Leasing land for 99 years at a time only enables the public to accrue the present value of future land rents at the moment of sale. This is followed by a long period of time over which the true rental value of land can increase without being captured. This could be mitigated by shorter lease periods, or including mechanisms for increasing lease rates in areas where land value has risen. One way of achieving this is to increase the annual property taxes charged to homeowners, which could simultaneously be made more purely-Georgist by calculating taxes only on the basis of the underlying land value, rather than also including the dwelling built on top of the land.

Finally, as many land leases head into their final 30 years of life, many Singaporean homeowners are concerned that the value of their homes will decline to zero. Unfortunately, the government is beginning to show some signs of bending to the political will of homeowners, and has used the Selective En Bloc Redevelopment Scheme to renew ageing HDB blocks and grant displaced homeowners with brand new 99-year leases. All homeowners in these blocks enjoy a large windfall gain at public expense. I would instead advise the Singaporean government to allow ageing leases to expire, and maintain the stance that land rights are not granted in perpetuity. Those households who do face financial stress as a result of their expired lease can best be targeted on the basis of their specific socio-economic characteristics.

Lessons from Singapore

Singapore clearly provides a shining example of the prosperity that can arise from Georgist principles put into practice through pragmatic policy. In the early years of independence, land value was rapidly restored into the rightful hands of the public. While widescale land acquisition may be beyond the political appetite of Western voters, the use of a statutory date demonstrates one way in which speculation can be stopped dead in its tracks. Georgists who are willing to accept some compensation of landowners during the transition to land taxes could use a similar method to determine an acceptable payment based on past property values. Singapore's development charges demonstrate a Georgist tool for capturing some of the windfall gains earned by landowners as the result of planning changes. Cities with clogged road networks can copy Singapore's congestion pricing and improve efficient use of this public resource.

Singapore also serves as a model of the way in which proceeds from land sales can be invested in the interests of all Singaporeans through a sovereign wealth fund. Likewise, revenues from all of these Georgist policies provide the bulk of Singapore's budget and reduce the tax burden placed on workers and their investments, providing a boost to economic growth. Finally, Singapore's model of highly-subsidised access to HDB housing serves as a unique example of the way in which the revenues from land value capture can be redistributed throughout the population, ensuring a baseline level of prosperity for all members of society. •

Australia's big tax project

Restoring the intergenerational bargain

Thomas Walker, CEO of Think Forward

The intergenerational bargain is fraying

The relationship between older, younger, and future Australians and our tax and spending priorities is based on an implicit generational bargain. Working-age taxpayers support older and younger Australians and can expect the next generation to support them in the same way, and economic and social development will enable each successive generation to enjoy rising living standards. At the very least, we should not leave the next generation worse off.

In practice, this means that governments make choices that do not consistently favour one age group over another. They consider the rights and opportunities of young and future generations and share the costs and benefits of taxation fairly across time.

However, this generational bargain is under severe pressure. The Commonwealth Budget is projected to be in deficit for the next forty years, and declining homeownership rates, the rising costs of tertiary education, low rates of entrepreneurship, climate change and intergenerational wealth inequality are all downstream impacts stemming from our inequitable tax and transfer system.

Although many of these issues have been evident for years (the first intergenerational report was drafted by Peter Costello in 2001), little action has been taken. This is leading to growing frustration toward the political class and democracy, and though often over-egged by the media, growing resentment towards for the Baby Boomers. Younger Australians feel that their voices and values are not being included in the crucial economic and tax debates that are shaping their futures.

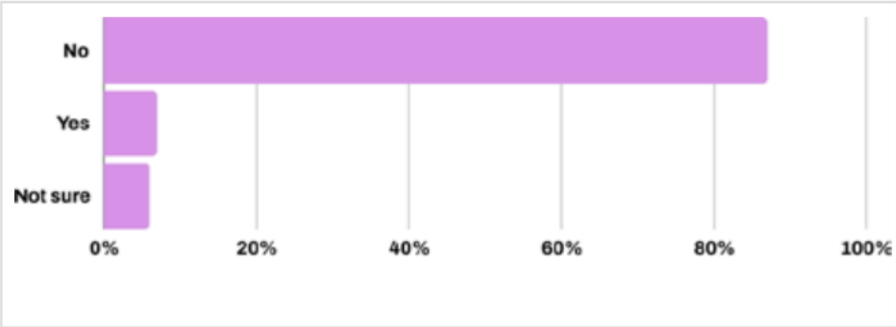


Figure 1: Is the government doing enough to support young people in achieving their goals?

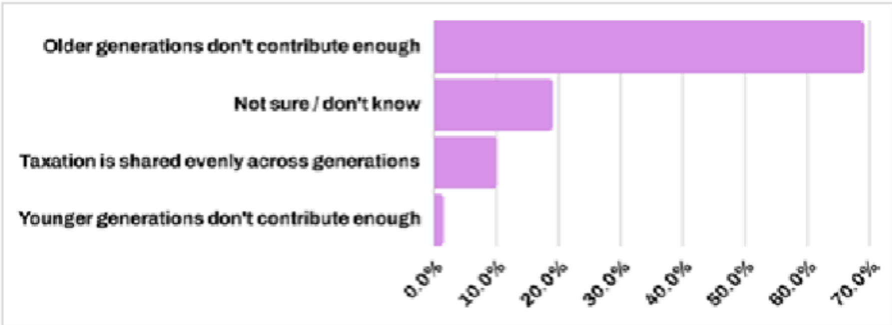


Figure 2: How intergenerationally fair is the tax system?

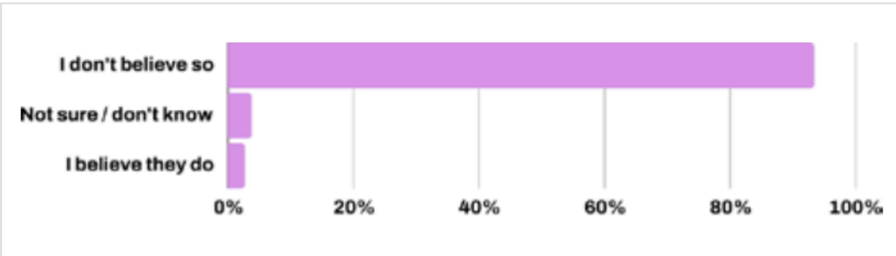


Figure 3: Do you think australia's political leaders think longterm and have a good plan for the next 20-50 years?

What do younger people think?

To bring younger generations into these critical policy debates, Think Forward surveyed 1,000 Gen Zs (born between 1996 and 2010) and Millennials (born 1981 to 1995). What we found challenges the status quo. Younger Australians are calling for a radical rethink of our tax and economic systems to restore the intergenerational bargain.

Do younger generations feel supported by their government?

We started our survey with a question to gauge how well government is doing in supporting younger generations to achieve their goals. Overwhelmingly, our survey responders (87%) said they did not think the government was doing enough.

Young people talked about how hard it is to live a good, economically secure life. The kind of life older generations seem to have.

"It has become more and more difficult to live on what would have been a decent wage 20 years ago. I'm back living with parents now". Full-time worker, 30-34 years old, Victoria.

"The ability for a young person to get anywhere close to the experience of our parents and grandparents is near impossible". Full-time worker, 25-29 years old, Queensland.

"I am in a well earning job with a partner in the same boat and we both feel the financial stress. We feel hopeless about our financial security." Full-time worker, 30-34 years old, NSW.

The cost of education is a prominent issue. Young people identified how HECS-HELP debts take a significant portion of their incomes when they are trying to buy a home, have a family or start a business. Current students discussed the cost of living and the need to reduce their study load or drop out as they can't afford rent or food without working more hours.

Many others identified the housing crisis as an impediment to economic security. Unaffordable rents mean that young people lack security and can't save, and combined with the price of buying, homeownership has become a pipe dream. Others mentioned challenges with finding stable and well-paying employment or their difficulties in achieving the economic security required to start a family.

> *"As a young person, both finding job security and being able to afford a house are incredibly difficult ... I'm scared." Student, 20–24 years old, NSW.*

> *"I'm 36 years old and have $80k of student debt. I will never be able to have children because I can barely afford to look after myself. The window for me is rapidly closing... for me to buy a house, clear my debt, and have children." Student and worker, 35–39 years old, NSW.*

Are the costs and benefits of the tax system shared evenly across generations?

An intergenerationally fair tax system aims to share the costs and benefits of taxation fairly across generations and time. However, only ten per cent of respondents believe that the costs and benefits of taxation are shared evenly. Sixty-nine per cent believe that older generations don't contribute enough.

Many respondents expressed a feeling of injustice:

> *"Australian tax settings are rigged against the young and are destroying them, and really the entire country. Changes are needed." Full-time worker, 20-24 years old, NSW.*

> *"The tax system was built primarily to benefit those in it at the time, which has been sustained as the generation grew older. Now younger generations are struggling." Full-time worker, 25-30 years old, regional Victoria.*

> *"All I see are tax cuts to the rich and a system that only cares about making boomers richer. We are literally paying for their debts and we are drowning." 30-34-year-old from Western Australia.*

Do young people have confidence in their political leaders?

Finally, we asked "Do you think Australia's political leaders think long-term and have a good plan for the next 20-50 years?". The response was overwhelming to the negative. Only 2.7 per cent believed that their political leaders are thinking for the long term.

Younger generations gave three primary reasons as to why:

1. **Politicians are trying their best, but outside forces make long-term thinking difficult:** Many pointed out that politicians have a challenging job due to Australia's short electoral terms and the poor state of media and online debates.
2. **Politicians are just in it for themselves:** Others were less forgiving, arguing that politicians are self-interested and focus on keeping their jobs, creating a situation where politics has narrowed to politicking and point-scoring rather than long-term policymaking.
3. **Politicians act for donors and lobbyists:** Politicians are influenced by donors and corporate interests, meaning they lack integrity and don't prioritise the community's long-term future.

Our survey tells the story of younger generations struggling to get ahead. Troublingly, they have little confidence that their political leaders can develop long-term, bold, and well-designed policy responses to the difficult structural problems we face. A lack of long-term planning and policy action leaves younger generations in a precarious position with an uncertain future, buffeted by overlapping crises and declining economic outcomes.

What do we do?

Good policy - restoring the intergenerational bargain

The story of Think Forward is that we founded our organisation to work with Australia's political leaders to make the required tax reforms that would restore the intergenerational bargain. We believe in the power of pre-distribution and a more equal distribution of economic power across time, including access to land and housing, access to capital and a political voice. We are not looking for handouts but rather an even playing field.

We still advocate for these things but have come to realise that advocating for beneficial policy change, even if supported by evidence, won't bring about change. At the heart of these challenges lies power. Power between corporations and people, landlords and renters, employers and employees, or polluters and future generations.

As one federal politician said to me, I agree with what you are saying, but feel no political pressure to act.

The pressure instead comes from the other direction, from those wanting to maintain the status quo and their privileged position.

The power and knowledge gap

As our survey revealed, younger generations can recognise that the system is rigged against them, but struggle to articulate an alternative vision. Our tax and economic systems feel set in stone, handed down by policy experts and lobbyists in far-away office towers and TV studios.

A recent study[1] found that males, older Australians and those with higher incomes have high average economic literacy scores, while those aged 18–24 years, unemployed persons and those without a degree had the lowest scores. Economics has become the domain of experts and older Australians rather than commonly practised.

Economics knowledge grows over time as people buy assets and build wealth, but there has also been a sharp decline in economics education. According to the RBA, enrolments in year 12 economics have fallen 70 per cent in Australia in the last 30 years, with the decline sharpest among girls and students from lower socio-economic backgrounds.[2]

In addition, the education resources pitched at young people are about individual financial success (budgeting, investing, cryptocurrencies), not collective wellbeing. We've been taught to focus on our narrow interests, not how to participate in a society. Tax-paying is demonised and avoidance is encouraged.

At a societal level, the inaccessibility of economics and the drop in economic literacy means a smaller and more select group of people are making decisions that impact how societies are designed. The political power and economic literacy advantage experienced by older, wealthier Australians, we believe, maintains the status quo and prevents reform, even as all the evidence points to intergenerational bargain slipping away.

A change in focus - pulling back the curtains and reimaging the future

We've decided to ignore politicians for a while. Ultimately, the political system has become a protector of the speculator and rent seeker. We know now that change has to come from the grassroots. This starts with younger generations understanding how the economic system disadvantages them.

A challenge we have set for ourselves is to make tax and economics engaging for younger generations and involve them in economic and tax debates. We want to give younger generations the skills to advocate for and design a fairer and better future. With Gen Z and Millenials making up nearly 45% of voters at the next election and beyond, that is a significant voting block we can empower for change, telling an alternative story.

In all this, there is an opportunity for Georgist thinking. Geogism helps us understand the deep-seated structural inequalities in our tax system and offers an alternative vision for how those systems can be organised. Prosper's recent work too provides inspiration, particularly the idea of a 'tax shift' from taxes harming workers and industry to taxes on unearned income and monopolies. At the heart of this shift is intergenerational equity, which gives younger generations access to capital and land that supports work and entrepreneurship rather than the privileged position of landholders who just happened to be born earlier.

The task ahead of us is monumental, and we are tiny. But we have already launched Tik Tok Tax, our tax education program, and Think Forward Treasury, an online platform for economic debate and consensus building. By working together and drawing back the curtain on the real structural causes of the issues we face, rather than playing whack-a-mole with the downstream impacts, we can see a vision for the future and a path forward.

Young people are full of energy and ideas. We just need to share power, resources, and opportunities with them so they can reach their potential and build Australia's future.

1 McCowage, M., (2023). Economic Literacy in Australia: A First Look. Published by the Reserve Bank, Bulletin – September 2023 Australian Economy. Retrieved from https://www.rba.gov.au/publications/bulletin/2023/sep/economic-literacy-in-australia-a-first-look.html

2 Livermore, T., & Major, M. (2020). Why Study (or Not Study) Economics? A Survey of High School Students. Canberra: Reserve Bank of Australia. Retrieved from https://www.rba.gov.au/publications/bulletin/2020/jun/pdf/why-study-or-not-study-economics-a-survey-of-high-school-students.pdf

A Georgist Approach to Emissions Rights

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Climate change is one of the most important problems of our time. One of the most important aspects of this problem is determining who should bear its costs. Climate change is, among other things, a problem of distributive justice.

My aim in this essay is to sketch a view about how to distribute the costs of climate change. This approach will consist of two claims: one analytical and the other normative. The analytical claim is that we should think about the atmosphere–specifically, its ability to absorb greenhouse gasses–as a scarce natural resource that commands an economic rent. The normative claim is that we should use Georgist (rather than Lockean) principles to distribute this economic rent. In *Progress and Poverty*, Henry George wrote: "The equal right of all men to the use of land is as clear as their equal right to breathe the air–it is a right proclaimed by the fact of their existence. For we cannot suppose that some men have a right to be in this world and others no right."[1] Following George, the cornerstone of my view is that all people have an equal right to use the atmosphere.

Analytical claim: The atmosphere as a scarce resource

Humanity has been turning biomass into usable energy for a very long time. Like other animal species, we eat plants and meat and turn them into calories, even storing some for later as fat. But about a million years ago, humans started to use woodburning for other purposes, like cooking food, keeping warm, and eventually, for manufacturing useful tools. Burning wood emits carbon into the atmosphere, just like burning fossil fuels. At first, the human population was so small, and it used so little energy per capita, that the atmosphere could easily absorb the carbon we emitted.

Fast forward to the dawn of the industrial revolution, when the human population was much larger, and big portions of it started harnessing fossil fuels–mostly coal in England and the Eastern USA–for industrialization. Here there was a step change in the amount of carbon humanity emitted. At first, the atmosphere still retained the capacity to absorb the amount of carbon that was emitted.

But sometime later, perhaps in the mid-20th century, the human population had grown larger, more people were using fossil fuels for industrial applications, and the use of this energy per capita had grown too. The atmosphere's capacity for safely absorbing the carbon we emitted had been exhausted. But humanity kept emitting, and increasing its emissions every year. Some now think that humanity's emissions have finally peaked.

Let's suppose that the turning point happened around 1950. Before this turning point, burning fossil fuels had no adverse impacts on the atmospheric commons. After about 1950, burning fossil fuels began to have adverse impacts on the atmospheric commons. Before 1950, humans could all freely use the common pool resource of the atmosphere's ability to absorb greenhouse gas emissions. But after 1950, there was not enough of this resource to satisfy everyone's desire to use it. The resource became scarce. Compare this situation to our use of another natural resource: land. Originally, there was ample land for everyone to farm on. But eventually, all of the best land was claimed and there was not enough good land to satisfy everyone's desire to use it. Land became a scarce resource.

There are some dissimilarities between land and the atmosphere. Land is an *excludable* resource, but the atmosphere normally isn't. I can put up a fence around a portion of land that I use or claim to keep other people out, while it isn't possible for an individual to exclude others from using specific portions of the atmosphere. But both resources are *rivalrous*, meaning that one person's use of the resource depletes the quantity or quality available to other users.

1 Henry George, Progress and Poverty, p.300

All rivalrous resources are scarce but only natural resources are absolutely scarce. Ordinary consumer goods like beds are relatively scarce because you have to pay for them–they aren't available for free. But the supply of consumer goods can change in response to changes in demand. Natural resources are absolutely scarce because their supply is fixed independent of any human actions. Therefore, if demand for natural resources increases–as demand for the use of polluting fossil fuels has over the last several centuries–then their price increases.

The absolute scarcity of natural resources is the reason why they command an economic rent, a long-run income above the minimum required to produce them. When landowners receive a "rental" payment from tenants, the economic rent is the portion of the payment for the use of land, separate from the portions for the use of labor (e.g. maintenance) or buildings. Landowners can also collect imputed economic rent as owner-occupiers. As simultaneous owners and users of land, they benefit from free use of an absolutely scarce resource.

The atmosphere also commands an economic rent, since it is absolutely scarce. Since the atmosphere is not excludable, this economic rent is collected implicitly by the current users of the atmosphere, who use a scarce resource for free. But it is future generations who pay this rent: they will suffer from the adverse impact on the atmospheric commons caused by present and past economic activity. In other words, people who burn fossil fuels today benefit from the fact that a negative externality of their behavior is not priced, which harms future generations.[2]

Normative claim: The just distribution of atmospheric rents

We have just established that the atmosphere's capacity to absorb greenhouse gasses is an absolutely scarce resource that commands an economic rent. Currently, people who emit greenhouse gasses by burning fossil fuels collect this economic rent because most countries do not impose carbon taxes and the countries that do set them too low. Instead of making the people who use fossil fuels today pay the economic rent for the resource they use, society has chosen to defer the payment of the rent to future generations, who will pay it in the form of resource depletion, environmental damage, forced migration, natural disasters, property damage, and the other harms that climate change will cause. Members of the present generation, in proportion to how much they choose to emit, receive this rent paid by future generations in the form of economic surplus that is subsidized by the degradation of natural resources.

International climate negotiations aim to gradually shift the economic burden from future generations to the present generation, by raising the cost of emitting. This is what distributive justice requires, since we have no right to soil the prospects of future generations. Hence, our question is how this rent should be distributed among members of the present generation.

Broadly speaking, there are two prominent approaches for how to distribute natural resource rents, exemplified in the works of John Locke and Henry George. Locke's approach is to assign a natural resource rent to the person who first uses the resource by "mixing their labor" with it. George's approach is to socialize the natural resource rents and let everyone in the community have an equal share of them. Which approach should we use to distribute rights to emit greenhouse gasses among members of the present generation?

Luc Bovens (2011) develops a Lockean account of how to distribute emissions rights. The idea is that Western countries, like the UK and USA, should have more emissions rights in virtue of the fact that they have been emitting large amounts for a long time. By starting to farm on a piece of land, you "mix your labor" with that land and hence become entitled to its future economic rents and to continue to use it. Here, by burning fossil fuels for some economic purpose, you "mix your labor" with the atmosphere and hence become entitled to the future economic rents commanded by that portion of the atmosphere's absorption capacity, and entitled to continue to use it by burning more fossil fuels in subsequent periods. In both cases, being the first to use a resource for a productive purpose gives you an entitlement to that resource's economic rents.

The Lockean approach would have emissions rights distributed to countries corresponding to how much they emitted when humanity's emissions first exceeded the atmosphere's ability to absorb them–1950, as we are supposing here. This proposal would

2 Ecological economists sometimes use the concept of natural capital to discuss these issues. Present generations are depleting natural capital at the expense of future generations who will have less.

assign almost all of the emissions rights to Western Europe and the United States. If a cap-and-trade system were implemented, then other countries could buy emissions permits from the Western countries who gained an original title to them by emitting first.

A Georgist proposal for distributing emissions rights would look quite different. Georgists deny that one can do anything to gain an entitlement to use a natural resource in perpetuity, or an entitlement to its economic rents. "Mixing your labor" gives you a right to the value that your labor adds to the natural resource, but does not give you a right to the resource's economic rent, because this rent was not created by your labor. As such, Georgists think that natural resource rents should not be allocated to whoever happened to productively use the resource first. Rather, Georgists think that natural resource rents should be distributed equally to everyone in the community. This is because no person created natural resources, and we all have an equal right to use them.

How would a Georgist cap and trade system function in practice? First, a global carbon budget would be set each year. The budget would be less than we currently use, and would decline each year until we eventually reach net zero. How quickly the global carbon budget shrinks represents how quickly we transfer liability to pay the atmosphere's rent to present generations from future generations. Rights to emit greenhouse gasses would be distributed equally among all people. And a global carbon market would be established to allow trading of emissions rights. The price of emissions rights would be modest at first but would grow as the global carbon budget shrinks.

Under a Georgist cap and trade system, people in the global south would sell their permits to people in the global north, because people in the global south do not use as much energy as people in the global north. Resources would flow from north to south as permits flowed from south to north. A Lockean cap and trade system would initially allocate most emissions permits to people living in the global north, where most of the permits would ultimately be used. But as the global south develops and industrializes, global south countries would have to purchase rights to emit carbon from the global north. Permits would flow from north to south as resources flowed from south to north. The Lockean system is just the opposite of what justice requires. People in the global south do not need to buy permission to develop from people in the global north, but rather, people in the global north need to buy permission to continue to use so many fossil fuels from people in the global south.

To put some numbers on things: the world's average CO2 per capita emissions in 2022 was 4.84 tons. The US emits 14.44 tons per person, France emits 4.76 tons per person, Brazil emits 2.15 tons per person and India emits 1.91 tons per person and almost every country in Sub-Saharan Africa emits less than 1 ton per person. In the first year that the Georgist cap-and-trade system is implemented, each person would be assigned, let's say, 4.5 tons. The average person in Sub-Saharan Africa would have 3.5-4 more tons of permits than they need, and the average American would need to buy about 10 tons of permits on the carbon market or reduce their emissions. The cost of emissions permits would be determined by supply and demand in the marketplace, but it would rise over time, eventually equaling the social cost of carbon. Probably the initial cost would be between $25 and $100 per ton, let's say $50. This would mean that Americans would start by paying, on average, $500 for the carbon that we use every year–we would get 4.5 tons for free, but would have to pay for the other 10 tons that we use. Each year, the amount that we get for free would have to decrease slightly, and so the amount we would have to pay for our fossil fuel dependent lifestyles would increase slightly, perhaps by about 10% per year. What's more, each person in Sub-Saharan Africa would receive between $150 and $200 from selling their emissions permits to Americans, which would be a much-needed step to advance economic development and alleviate poverty on that continent.

The Georgist cap-and-trade system would also present an effective compromise between the interests of developed and developing countries in international climate negotiations. Developing countries usually argue that developed countries should assume more of the burden because they already burned a lot of carbon, which helped them get rich in the first place. The flaw in this argument is that most of the industrialization and development took place before the atmosphere became a scarce resource, so this development did not come at a cost to global south countries. Developed countries usually argue that they owe some assistance to developing countries in helping them develop in a green way, but the assistance they offer often falls short of distributing emissions rights equally. Developing countries should not get more than their equal share of emissions rights because developed countries burned fossil fuels well before the atmosphere became a scarce resource. But neither should developed countries get more than their equal share of emissions rights because they have been emitting for a longer period of time. Everyone should get the same emissions rights, because everyone is an equal owner of the atmosphere.

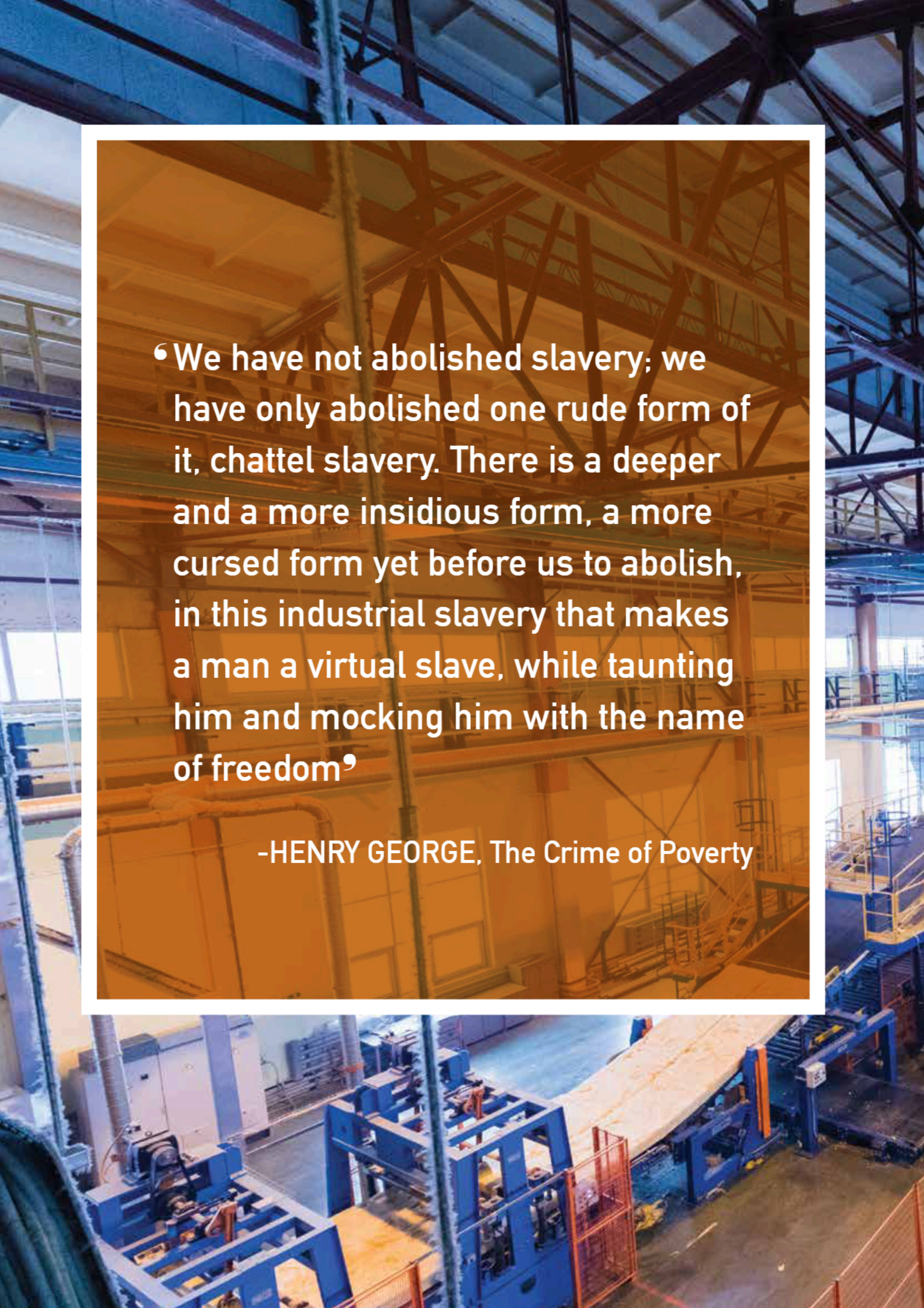
Economists will point out that a cap-and-trade system is economically efficient no matter how the emissions permits are initially distributed, as long as the market works well and there are low transaction costs. And they are right about this. Whether the Lockean cap-and-trade system or the Georgist cap-and-trade system is adopted, the invisible hand of the market will move the emissions permits to their most productive use, as long as the market functions correctly. Both systems are efficient, but only one system is equitable. The Lockean system allows the resource rents to be largely captured by people in the global north, but the Georgist system distributes them equally to everyone.

Conclusion

Henry George's system shows us how to equitably distribute natural resources among members of the present generation as well as between the present generation and future generations. I will conclude here with a fitting quote from George himself:

> *"If we are all here by the equal permission of the Creator, we are all here with an equal title to the enjoyment of his bounty–with an equal right to the use of all that nature so impartially offers. This is a right which is natural and inalienable; it is a right which vests in every human being as he enters the world, and which during his continuance in the world can be limited only by the equal rights of others... If all existing men were to unite to grant away their equal rights, they could not grant away the right of those who follow them. For what are we but tenants for a day? Have we made the earth, that we should determine the rights of those who after us shall tenant it in their turn? The Almighty, who created the earth for man and man for the earth, has entailed it upon all the generations of the children of men by a decree written upon the constitution of all things– a decree which no human action can bar and no prescription determine."*[3] •

3 Henry George, Progress and Poverty, p.300-301



> 'We have not abolished slavery; we have only abolished one rude form of it, chattel slavery. There is a deeper and a more insidious form, a more cursed form yet before us to abolish, in this industrial slavery that makes a man a virtual slave, while taunting him and mocking him with the name of freedom'
>
> -HENRY GEORGE, The Crime of Poverty

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