

In "Georgism in Trouble" I identified the main agents of change as national governments, world movements, corporations, and the larger non-governmental organisations. I argued that Georgism cannot effectively reach the decision-makers within these agents of change, principally economists and legislators, until it understands what modes of discourse (manner of communicating via language, symbols and specialised concepts) they respond to. In this article I want to look at the gap between the Georgist and the modern economist mode of discourse, and ways of bridging the gap.

### The Georgist mode of discourse.

What might be called "strong" Georgism claims to remove poverty by the immediate replacement of all taxation by a single tax on the full annualised value of all land. What might be called "weak" Georgism advocates a gradual implementation, in time and rate, with exemptions, deferments, and the retention of some other taxes. Regrettably, with few exceptions, the mode of discourse used in either case has not changed significantly from that used by the classical economists. Also, Georgist initiatives tends to be local, whereas those of more recent social movements tend to be global. This need not be the case. Georgist analysis is highly relevant to problems of aid, development, debt, structural adjustment, conflict resolution, human displacement and migration, human rights, sustainable development, and environmental degradation.

### The neoclassical mode of discourse.

Inheriting the concepts of the classical economists, neoclassical economics then emulated modern science, using graphs, equations and economic models to illustrate and quantify concepts inherited from Smith and Ricardo. Regrettably, the classical economists' concern with equity has been replaced by concerns for efficiency. Also regrettably, as capitalism replaced feudalism, and land became more widely owned and frequently traded, land was assumed to be equivalent to other forms of capital. We can thank environmental economists for starting to question this assumption.



What, in modern economics, are the main concepts we should understand, adapt and use to plead our case? I will omit macroeconomics since Georgism, particularly strong Georgism, favours a minimum role for government, and since in any case there is little agreement amongst economists as to how a country should be run. Economists are, however, in general agreement on how markets work, how they can fail, and how government intervention can fail. It is in these areas that Georgist strengths should be exploited and Georgist weaknesses corrected.

### How do markets work?

Those who have attended the standard Georgist courses will have no difficulty in understanding how supply and demand determines what goods and services are produced, what factors are employed and what returns are distributed to them. The superiority of the market to any other method of allocating scarce resources is widely accepted, and well illustrated in the parable of Zig and Zog in early editions of Samuelson's *Economics*, which I have paraphrased here. Two countries, Zig and Zog, were threatened by famine. In Zig, a command economy,

the president requisitioned all grain then rationed it out at low prices. As the famine hit, the dying citizens saluted their dying president. In Zog, a market economy, merchants bought up the grain then sold it at high prices. This powerful price signal caused extra grain land to be brought into cultivation and also encouraged the production of alternative animal and vegetable foods. Small quantities of grain also came from as far away as Zig. When the famine ended the citizens were alive but the merchants were cursing the competition which had held their profits down.

### How do markets fail?

Markets may fail to prevent monopoly, to provide public "goods" such as education and welfare, to control externalities such as pollution, and to reduce unemployment. Developments from monopoly theory in the last 30 years are of vital importance to Georgism. Monopoly theory, in the context of industry but not as yet of land, measures the amount of a social surplus called economic rent transferred from society to the monopolist, and the amount of dead weight loss, the Harberger triangle, suffered by the whole economy. A recent extension, the theory of rent seeking, calculates further economic losses, the Tullock rectangle, when rent seekers divert their energies from productive activity to unproductive lobbying and bribery. The first study of rent seeking found that lobbying for import licences in India was consuming 14 percent of GDP. It would be interesting to know the dead weight loss of land monopoly,

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or the costs of land rent seeking and rent protection, which include the quite enormous costs of armed conflict over territories and natural resources.

Markets fail to provide welfare leading, rightly or wrongly, to a major example of government intervention. The strong Georgists claim that the size of land rent

sets a moral limit on the size of government revenue regardless of that set by democratic public choice from time to time in elections, and that private charity is sufficient and redistributive taxation is stealing, claims often regarded as absurd. The weak Georgists claim that LVT would meet most needs of governments, also regarded as absurd. In Europe, for example, these needs range from about 30 to 60 percent of GDP. So, how absurd are these claims? Data are



**David Smiley's still hittin' the curls when he's not writing - a bit wobbly nowadays but, hey, at 72 he's looking pretty good.**

scarce. Antiquated national accounting systems suggest that land rent is a very small percentage of GDP. But new research reported by Tony O'Brien (Progress, September-October, 2001) indicates that revenue from LVT would, once present tax revenues were discounted for the dead weight loss of their inefficiencies, more than satisfy Australian government needs.

Markets are not good at reducing unemployment, again leading to government intervention. And again, strong Georgism may be thought absurd in claiming that LVT would remove unemployment by giving everyone access to land. From definitions found in the Oxford Dictionary of Economics, LVT would reduce cyclical unemployment, but by reducing speculation, not by giving everyone access to land. In the third world LVT would certainly reduce structural unemployment. But demand-deficiency, demographic, disguised frictional, long-term, and involuntary forms of unemployment all have other causes, mostly technological change.

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### What is government failure?

Since governments are less efficient than markets, the costs of intervention may often exceed the benefits. Two very large costs are "bureaucratic rents" (the opportunities and temptations of office) and inefficient taxation (see the research results of Nic Tideman in *The Losses of Nations* and the LVRG estimate of 25 percent reported by Tony O'Brien).

### Conclusions.

I have tried to explore important differences in the ways Georgists, and the decision-makers we seek to influence, think and communicate. I have suggested some repair work on Georgist discourse which might increase our credibility, and some areas, particularly in monopoly theory, where we should try to catch up with mainstream economics. I have not touched on environmental or human rights problems because Georgist opportunities here are too big to be addressed in this particular article. And I have not touched on the superiority of LVT over other sources of revenue because you know that already. Or do you? Let me set you some homework. You are to respond to the following three standard objections to LVT found in texts on land economics. But, in responding, you must use the language and concepts of a typical economist in the tax department, Oxfam, Exxon or the World Bank, not a Georgist. Otherwise in ten years time text-

books will still be printing the same objections, which are:

1. LVT, in making rent equal to zero, is equivalent to confiscation.
2. If the net return is zero, bureaucrats, not the market, will decide land use.
3. It is difficult to separate unimproved from improved values.

These are paraphrased from O'Sullivan's *Urban Economics*, but in your answer, you should consider equivalent objections from other texts on land economics. I will mark your answers out of ten and offer to co-author the best one in a submission to the American Journal of Economics and Sociology.

This article carries a warning that it may contain misconceptions regarding economics. If you know an economist, or someone studying economics, get him or her to check it out. This may even lead to the sort of professional alliance I am advocating.

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## IT'S WORTH SHOUTING ABOUT!



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On 2<sup>nd</sup> September, Tony Lamb delivered the address at Melbourne's annual Henry George Commemoration Dinner. Tony is the President of the Association of Former Members of the Parliament of Australia, having been the member for La-Trobe and Streeton, the Caucus Secretary, and Deputy Government Whip during the Whitlam and Hawke governments. As a member of Prosper Australia, it was fitting for Tony to speak, as it was 63 years to the day since Tony's father, Hamilton Lamb MLA gave the Centennial Oration in Melbourne marking the Centenary of Henry George's birth.

Tony's speech covered a sweeping range of economic, political and social issues, far too lengthy to reproduce here where only excerpts can be reprinted. Those wishing to read the full text of Tony's speech need only to email me and I'll happily forward it. It's makes for a great read.

### HISTORICAL PERSPECTIVE

My, how Australia has changed since my children's grandfather was born on the 1st January 1900 and later when he adopted Georgism and entered parliament during the Great Depression and then over the last 30 years since I entered the Federal scene with the election of Gough Whitlam on December 2nd 1972. But what is more startling is that the struggle for equality and social justice although somewhat advanced is still under attack. As we shall see, many of Henry George's basic tenets still ring true and provide an avenue for salvation.

I have long realised that the Right side of politics will never deliver the Australian dream of fairness, greater equality, even a fair go and social cohesiveness. John Curtin put it better than I when he said "You can't get from anti-labor governments great changes in social practice. Their main purpose is to resist innovation, to delay reform, to prop up vested interests, and to maintain the existing order."

### DEMOGRAPHICS AND POPULATION



following, cornered the country vote outside the provincial cities and secured the support of the ageing end of the electorate.

Idealism and protest from the younger voters has subsided as they battle to keep afloat academically and financially but they are concerned about the environment and their future. Yet for all that Labor needs only a swing of 1% and a handful of seats to achieve victory.

### DISPARITIES OF WEALTH

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The income of the richest 20% Of Australians is seven times that of the poorest 20%, a multiple not much better than the

factor of nine that prevails in the US, a record infamous in the eyes of the UN Human Development Report of July this year. The Australian Treasury reveals that over the last 12 years Australia's private sector real wealth doubled to \$3,000 billion with real estate accounting for half of that amount.

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Another comparison will illustrate my point. Recently its was reported that thirteen people competed to purchase the single imported Ferrari for \$1.7m while thousands could not afford the registra-

tion and basic insurance for their clapped out family car.

### AN INDICTMENT OF OUR PRESENT GOVERNMENT

Take John Howard. During his visit to America earlier this year he embraced the American values that individuals were greater than the State, that the family played a central role in society and that competitive capitalism was the key to national wealth. He welcomed the tide moving to the Right around the world. He praised Margaret Thatcher and Ronald Reagan as the two people he regarded as the towering figures of world conservatism.

"Their legacy has instructed me in my understanding of what my own party stands for", he said. Should we remind him that it was the Baroness herself who said, "there is no such thing as Society."

### SYNERGY

I am reminded once again of my father who as I mentioned died on the Burma Railway. When his comrades returned home they reported that the rate of British deaths were two to three times that of the Australians because the Diggers shared their meagre rations and helped each-other to survive as a group whereas the British imbued by class distinction made sure the officers were seen to first and the rest could make do. Surely a basic lesson that each is better off when the group is better off – synergy in action!

### THE HAWKE & KEATING LEGACY

Poverty remained and unemployment rose while the national economy grew as a whole. The stage is set for the ALP to reinvent itself, to recover its lost soul, redefine its social & economic objectives and communicate with the electorate in a way that unites them behind a banner for a better, fairer,

more just, encouraging and rewarding Australia for more than the few. Georgism as I will show has a major role to play in this resurgence.

## THE NEED FOR DIRECT POLITICAL INVOLVEMENT

Labor's first task is to establish which economic model to follow. Early in our history Georgist economics were Labor's choice with the exception of free trade. There was a recognition that supply and demand left to market forces were basic, and that the public be protected by government owned instrumentalities such as the Commonwealth Bank, the GPO, the PMG [*govt. postal service*], Industrial Courts and basic

pensions. Government income was raised from a range of sources including land taxes. The

Depression, the experience of the Premiers' Plan and the rise of Keynesian economics during the mid 30s and 40s saw Labor adopt more centralised economic controls as they realised tweaking interest rates alone could not control the economy. Keynesian and Galbraithian economists reigned supreme even under Menzies, Gorton and Fraser.

Now we face among other matters the challenges of globalisation, pressure on our environment, urban expansion and an ageing population - all tasks for true members of Prosper Australia to confront. In my Centennial view of The Single Land Tax and Australian Party Politics, delivered two years ago, I explained that Georgist economics which had played such a large part in Australian Politics over the early part of the last Century had faded as the movement which had split from the ALP failed to be politically involved either as an alternative party or as a lever to influence one or more parties. Prosper Australia needs to become directly involved as a political partner.

### LAND

Only the ALP offers a partnership to adopt elements of your platform as a "Third Way". Raising revenue through land is the key. There is a lot of confusion in the housing business. While economists and real-estate people see the so-called housing boom as a sign of a healthy economy, and lower interest rates desirable as it feeds the market frenzy, younger people and battlers see their dream, their security, their basic shelter,

slipping further away. Older people see their paid-off property as their security yet it is largely illiquid for their needs. Let us be clear about all this. People rarely own only housing; they are not simply buying a house. There is no housing boom, it is a land and house purchase and essentially a land boom.

It is the community which creates the value of the land, not the owner. Mowing the lawn each week-end didn't add much value.

### THE CANBERRA SAGA

Early Canberra was a model for this "third way". In the lead up to Federation there was fear that speculation

would rake off the increase in land values in any new capital so the Constitution included a clause that the land of the Federal Capital should be vested in the Commonwealth. Freehold was forbidden by the Seat of Government Act in 1910 and a system of 99 year leaseholds was established. Leases were of two parts - a premium and rent. From 1924 the first lease rent was set at 5% of the UCV reassessed every 20 years. The 20 year assessment shocked lessees in 1969 when inner properties had increased in value from \$3,000 to \$400,000 and their rent from \$150 to \$20,000 pa .... the increase going to the public. This was Henry George's policy in practice

Jealousy erupted as newer and older residents were paying largely different contributions in rent - commerce was unequal between centres. Prices were frozen and water and sewerage rates introduced. John Gorton in 1970 at a by-election he hoped to win announced unexpectedly at a public meeting "here and now land rent in Canberra is abolished." Loud clapping all round but he did not win that by-election ... the Whitlam caravan was on the move. Since then profits have gone to landholders and people seeking their first home site have not been thankful to John Gorton as prices soared and taxes remained unabated.

The ACT has sold land for income and the Federal Government has been recently accused of breaking the Constitu-

tion after it sold for more than \$6m. land in the southern Canberra area of Tuggeranong for 'vested' purposes i.e. income. The battle between Wilson 'Ironbar' Tuckey, the responsible Federal Minister for Territories, and the ACT Minister, Labor's Simon Corbell, continues as the Federal government tries to over-ride the new Labor government's attempt at controlling prices, earning income and improving town planning.

Outspoken Labor frontbencher, Mark Latham, Shadow Minister for Urban Development and Housing is a rare Canberra fan applauding the ACT government's plans to use their unique leasehold system to resume planning through government controlled land management or in partnership with commercial developers.

### THE PROPERTY SPIRAL

The governor of the Reserve Bank, Ian Macfarlane, a Liberal appointee, is nervous about the housing market. He was reported as saying "the situation over the last eighteen months where more than half of the total increase in housing loan approvals has gone into the investor market". House prices have jumped 40% in the last five years - while it may give home owners a happy feeling we cannot but help think of the people, mainly in the younger age

groups who aspire to own a home. If land prices are to be harnessed the ALP would need to declare a halt to any further sale of Crown land and impose strict pro-environment leases on renting of any Crown land, State or Commonwealth..

### COMPETITION

It has been open season for big business to attack the Australian Competition and Consumer Commission and to personalise it by demonising its head, Alan Fels. The corporations would love to continue their mergers and takeovers, leading to bigger but less oil companies, banks, airlines and so on in the interests of economies of scale to deliver lower prices to the consumer. Or should that be higher payouts to the shareholders and bigger bonuses to those who sit on the Boards?!

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