July - September 2012

PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER

Ireland's Sovereignty Crisis
Maireid Sullivan writes from the Hill of Tara

What is The Carbon Tax?
Shirley-Anne Hardy writes from Scotland

Speculative Vacancies Report
Karl Fitzgerald & Philip Soos Team Up Again

Reckless Endangerment
An Insiders Account of Fannie Mae

A Simpler, Fairer Tax System
ACT Government Announces 5 Year Tax Plan

Using Georgist Insights
Paul Meleng Makes Sense of the World

A New Vision for Our Mission - Geoists in History - Economic Vandalism - Primer on Land Values

Renegade Economists Radio Show

Wednesdays 5.30 - 6pm

Each week host Karl Fitzgerald workshops sayings like:
If time is money and money makes the world go round, why are so few interested in where the elusive dollar hides?
Land Tax is the counterweight to mortgage debt.
Location, location, location is crucial in real estate strategy - but irrelevant to economists. Here's why...
The show features in-depth interviews with heterodox economists from around the globe on the frontiers of monopoly. Tell your friends to listen in on the looming age of economic literacy.
The last 6 shows can be listened to via: tinyurl.com/933k8y5

Presented by Karl Fitzgerald.

Tune into 3CR, 855 on your AM dial, listen online or get the podcast later... Download the podcasts from: iTunes

Members Discussion Nights

Hosted by Lloyd Churches

Prosper Australia has introduced new regular monthly meetings for members only. The main purpose of the night is discussion. We are united by a passion for economic justice and the principles of good government. You are encouraged to come and access the library and bookshop, meet with others and hear our news. Refreshments are provided.

First Thursday of Every Month

Start Time: 7pm

Event Calender

All events 6.30pm, 1/27 Hardware Lane.
Reminder, we will be moving premises in March 2013,
so let's enjoy this prime location whilst we can.

Blowing Bubbles with Negative Gearing

Philip Soos, Tues Oct 4th

Philip promises the most in-depth research of this troubling subsidy for property investors. Jaw dropping graphs to come.

The Barometer of the Economy (KP Index)

Gavin Putland, Tues Oct 30th

An update on the role rising land prices play on economic outcomes. An LVRG highlight.

Total Resource Rents of Australia

Karl Fitzgerald, Tues Nov 20th

This report will outline resource by resource how we could fund the total abolition of production based taxes. Based on Tony O'Brien's landmark 1999 report.

"The value of land rises as population grows and national necessities increase, not in proportion to the application of capital and labour, but through the development of the community itself. You have a form of value, therefore, which is conveniently called 'site value,' entirely independent of buildings and improvements and of other things which non-owners and occupiers have done to increase its value - a source of value created by the community, which the community is entitled to appropriate to itself. ...In almost every aspect of our social and industrial problem you are brought back sooner or later to that fundamental fact."

Herbert H Asquith,
Prime Minister, United Kingdom. 1908 - 1916

PROGRESS

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JOIN US

If you like the ideas you read here please join our organization, Prosper Australia. Membership costs $30 and includes a subscription to **PROGRESS**. Overseas members $35. Progress subscription only $15.

Our mission is to replace all existing taxes with an annual charge on government granted priveleges and natural resources, including land.

Contents

"The purity of his motives, the rugged integrity of his character, the power of his intellect, commanded universal recognition. As a thinker, a philosopher, a writer, he was great, but he was greatest as an apostle of the truth as he saw it – an evangelist carrying the doctrines of justice and brotherhood to the remotest corners of the earth."

The New York Herald on Henry George

"The injustice, the stupidity of the arrangement consists in the fact that our immediate predecessors granted away for ever and ever in fee simple, free of rent, the best lands we had, and left the present generation to wilderness."

Paterson, A.B. 'Banjo' (1864 – 1941)

" Not one solitary square inch of English soil remains unclaimed on which the landless citizen can legally lay his hand, without paying tax and toll to somebody ; in other words, without giving a part of his own labour, to one of the squatting and tabooing class (the landlords), in exchange for their permission (which they can withhold if they choose) merely to go on existing upon the ground which was originally common to all alike, and has been unjustly seized upon (through what particular process matters little) by the ancestors or predecessors of the present monopolists."

Allen, Grant (1848-1899)

"Every man is equally entitled to protection by law; but when the laws undertake to add... artificial distinctions, to grant titles, gratuities, and exclusive privileges, to make the rich richer and the potent more powerful, the humble members of society - the farmers, mechanics, and labourers - who have neither the time nor the means of securing like favours to themselves, have a right to complain of the injustice of their government."

Jackson, Andrew (1767 – 1845)
President of the USA 1829-37

Using Georgist Insights to Make Sense of the World

By Paul Meleng

"I do not talk to people about bringing in land tax. I suggest we never ever begin the subject that way. I talk to them about how utterly stupid and wasteful it is now, in this new world, to be using "income" as a basis for national revenue."

My first profession was as a Licensed Land Surveyor. I trained in the Lands Department of WA and then contracted to Main Roads in the remote Kimberley. After a couple of years in mineral exploration work I set up my own wide ranging "practice" in a regional coastal centre, where I carried out complete design through to sale development projects for land owners. The whole land title and valuation system is studied and deeply understood as a core part of that profession.

After selling that regional business, I moved to the coast near Perth, and learned and worked in direct real estate sales, but this was during a deep price collapse after the 1982 bubble. My understanding of the psyche of property investment and the pain on the downside was deepened further as I presented ruthless offers to wiped out speculators on behalf of some hard money men.

I then learned the life insurance and superannuation game, expecting to do serious work, but once deep inside the beast, I found that it was just a rude scramble for commissions which lead to bad warped advice. With my accountant buddy, I wrote a guide on how to survive it and still win. This sold 30,000 copies at $15 over the next decade while I built myself a grass roots financial advice business alongside his accounting practice.

Along the way I studied and got involved in Permaculture, which is amazing when you realise how much further it goes into complete sustainable living, not just funny looking gardens. The aims and design methods of Permaculture create a common language and an objective of real sustainability into which any useful skill or profession can contribute and also learn. From that I could see that there had to be better ways to operate as a community, sharing common resources and easily having an abundance in all of life's essentials.

It now looks fairly certain to me that all of our big problems are an "own goal".. Greed is not good.. People are amazing in the way they can cooperate and innovate for the common good when the shared goal is fair and uplifting.

Eventually a copy of PROGRESS was given to me by a long time fellow land surveyor and fellow closet rational greenie. I got into it, and the lights went on again, just as they did when I was learning Permaculture.

Reading The Secret Life of Real Estate by Phillip Anderson added another layer. That insight in turn has enabled me as a financial adviser to understand the propositions put by Prof Steve Keen on how credit grows to an unsustainable level in step with a property bubble, and hence the current state of affairs.

I attempt to explain it to others this way:

We start with the common land or as a colony with "crown land". We put pegs in the ground and create parcels of land and hand them out to favourites of the rulers as crown grants. The army of the king or republic stands behind the title.

With that as "security" and a good indication that one can make money from it over time, credit can be created. New money. A Bank can create money to represent the land's "value" and put it into the landowner's account which he can then use to get things happening and hopefully create enterprise.

Point 1:

Credit is not necessarily created by me having money that is loaned to you via a bank. It is created by the bank exactly as intended by the system as the monetisation of standing assets and the promise of labours and repayments to come. The loan secured by the privatised land creates the money, which you might say represents that land. The money does not start as someone else's savings. One man's debt is not really another man's wealth.

So the simple message is that the level of private debt and confidence in long term employment really does matter, and that when private debt reaches a point where people are not willing or able to borrow and repay any more, then it stops dead in its tracks.

This is what is happening now. Australians have flipped from 1% net spenders to 10% net savers and the whole "buy now pay later" part of the economy is unravelling. I am now able to explain to younger clients how not to get caught.

Point 2:

The core Georgist story is about the equitable source of taxation that puts all the energies in the right direction. I do not talk to people about bringing in land tax. I suggest we never ever begin the subject that way. I talk to them about how utterly stupid and wasteful it is now, in this new world, to be using "income" as a basis for national revenue.

Young people who are global citizens and who do most of their business on the net can easily see how an entire parallel financial universe could bypass the old system and make it a joke.. They can also see how stupid it is to tax work and enterprise instead of one's call upon the common wealth and services of the nation.

Once that discussion is illuminated, the question then arises as to the alternative. It is obvious. We defend the country and keep it safe and clean and operational in every way. It is a great privilege to be a citizen here. The more or less of it you use, the more or less of it you should pay. Exactly like shire land rates or body corporate levies. Land cannot be sent via cyberspace, parked in an offshore tax haven or undeclared. It is undeniably there. It is on Google Earth. You need it to stand on. It has title guaranteed and recorded by Government. It is already valued, professionally, for the purpose of local and state government revenues.

I say imagine that you could make a fortune as a global business or skilled worker and yet pay next to no tax by living very simply in Australia and taking up as little room as possible. Example. A software developer making millions in royalties could rent a room in my house and pay one quarter of my total government contribution. He can bank the rest or use it to employ and train more people and expand his global IT empire.

If we replaced income tax with land rent, our country would be a magnet for all the best and brightest entrepreneurs and skill workers in the world who were happy to live lightly on the earth. Just exactly what we want.

The best way to play the system would be to make as much as possible while having the smallest "footprint" possible. It would be to use your patch of dirt far more productively than the average similar patch of dirt in your area as they would all be valued and taxed a similar amount. Just exactly what we want.

All of the complexity in superannuation would be reduced to something that made sense to the average worker. Super should be about a high level of security and regulatory safeguards of people's retirement funding and not all about the tax concessions. There would still be plenty of good work for the accounting clerks to do. Probably 100,000 good legal, accounting and clerical workers could be switched to useful work from mindless income tax compliance, or detailed finangling avoidance. Truth in accounting would be driven by a market that desires accurate valuation and accountability of businesses for the reasons of business rather than endless games with the ATO daleks.

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No income tax. No payroll tax, company tax, superannuation tax, GST and no need to argue deductions. Goodness me. Ordinary hard workers might even be capable once more of running their own small business with just a cash book. I find that people do get it. Their response is then: "You are right. but THEY will never allow it to happen"...

I think with wisdom, persistence, tact, and a sprinkle of wry humour, we can do something about that.

To the Prime Minister

After seeing Real Estate 4 Ransom - A new supporter of Prosper Australia (KD) was inspired to write directly to the Prime Minister, What a fantastic effort! Reprinted here with permission:

To: The Hon Julia Gillard
(Prime Minister of Australia),

Dear Julia,

I am a resident of Glen Waverley, Victoria, in the federal electorate of Bruce and firstly, I would like to thank you for having the vision and strength to initiate the Carbon Tax and Mining Resources Rent Tax.

As a result of why these taxes are needed, I am extremely concerned about the future socio-economic, political and climatic conditions my children will be forced to live with. Over the last few years I have been on a learning journey to try and better understand "the big picture" and have come to the conclusion that many of our current financial, ecological and social crises are all interconnected and inherent to the current economic system and how it manipulates the political process. My professional background is in engineering, management and continuous improvement (not politics, economics or ideology). I have been seeking to find the key levers or mechanisms for change whatever they are, if they do indeed exist, often fearing that there is no hope and it is now too late for change. I believe we need visionary leadership and real action to address the features of the politico-economic system that are the root causes of much of our current crises. I wish to share my key conclusions with you, and ask that you and your Federal Government take urgent action to provide the foundations for a much better future for my children.

My first conclusion is that our current political process is being undermined and manipulated by ideological and commercial interests (inherent in the economic system). Without an independent process for decision making and public policy setting, how can any of us have faith in politicians and what they say? I believe this is fundamental to democracy and without change there is minimal hope for the future. Please would you and your Federal Government change the current laws to make all forms of political donations to parties or candidates illegal. This is so that the wealthy minority cannot unfairly influence the political/financial system such that it will always benefit them. Why can't campaign funding come from a taxation levy (like the Medicare Levy for public healthcare)? We must ensure for future generations of Australians that politicians are NOT being compromised by the vested interests donating to them.

My second conclusion is that the laws under which business and corporations operate i.e. the legal goal being the pursuit of self-interest, competition and profit maximization - are driving the wrong behaviours. This legal goal is continuing to result in many negative (and catastrophic) outcomes for our economy, ecology and human species. Systems drive behaviour. We need to change the system to drive the behaviors we need. Please would you and your Federal Government change the current laws so that the legal goal of business and corporations is the pursuit of the common good and co-operation. By changing the laws, this will help:

- Free companies from the force of continual growth.
- Reward ethical behaviours and activities (not the egoism, greed, narcissism we see now - and link the rules of the market to common values, link the economy to peoples needs and the natural environment.
- Measure a company's performance on a range of values including ecological sustainability - that contribute to the common good - rather than in purely monetary terms (no blind focus on GDP).
- Eliminate the harmful effects of profit maximisation and the consequences of capitalism (e.g. financial surplus cannot be used for profit distribution to shareholders, for risky financial investments, for hostile acquisitions, or for donations to political parties and candidates, put in place measures to prevent inequality, ecological damage and encourage democracy).

There are already movements in USA and Europe doing this now. Some examples for your information are:

www.bcorporation.net
www.corporation2020.org
http://www.common-welfare-economy.org/

My third conclusion is that our current taxation system is also driving the wrong behaviours, resulting in increasing inequality, and social, financial and ecological damage. Please would you and your Federal Government change the entire taxation system so it is:

- Totally equitable.
- Applied to all in accordance to the benefit received from the community,
- Hence inbuilt in this is a natural ability to pay.
- Simple, easy and cost-effective to collect.
- Unavoidable, so that people cannot cheat.

I have recently watched a documentary called 'Real Estate 4 Ransom' that shows very strong data indicating the benefits of such taxation reform. I urge you and others in your government to watch it, if you have not already.

www.realestate4ransom.com/

I have learned that there is much research being done to support such a reform of our taxation system by a group called Prosper Australia, and the explanations and benefits outlined are compelling.

www.prosper.org.au/

If you have already seen this documentary and data, I'd like to know why the Federal Government is not actively working with all state governments in reforming our current taxation system to raise the majority of government revenue by using Land Value Tax.

The analysis from Prosper shows that if everybody in Australia paid 6% of the value of the resources they controlled to the Government, then other taxes would be unnecessary. This would cover all resources such as land, water, oil, coal, and the electromagnetic spectrum. No longer would we require PAYE income tax, GST, sales tax, company tax, FBT, duties, tariffs, FID, BADT, excise, nor capital gains or payroll tax. With these taxes removed, prices of general goods and services would fall significantly making life fairer for ALL Australians, not just the wealthy minority. There are many other benefits clearly and thoroughly articulated on their website, including stopping land speculation which seems to be a key factor in driving the prices of housing up and making home ownership for many impossible.

So in conclusion, please; would you and your Federal Government take action to:

1. Change the current laws to make all forms of political donations to parties or candidates illegal.
2. Change the current laws so that the legal goal of business and corporations is the pursuit of the common good and co-operation, rather than pursuit of self-interest, competition and profit maximization.
3. Change the current taxation system so that it is equitable; applied to all in accordance to the benefit received from the community, hence inbuilt in this is a natural ability to pay; simple, easy and cheap to collect revenue; and most importantly - unavoidable, so that people cannot cheat.

Or /- please advise me why these three root causes will not be acted upon to provide the foundations for a much better future for my children, and help Australia become a leader and role-model for the rest of the world.

Yours Sincerely,

KD
Glen Waverley
Victoria

A Primer: The Australian Land Market

By Philip Soos

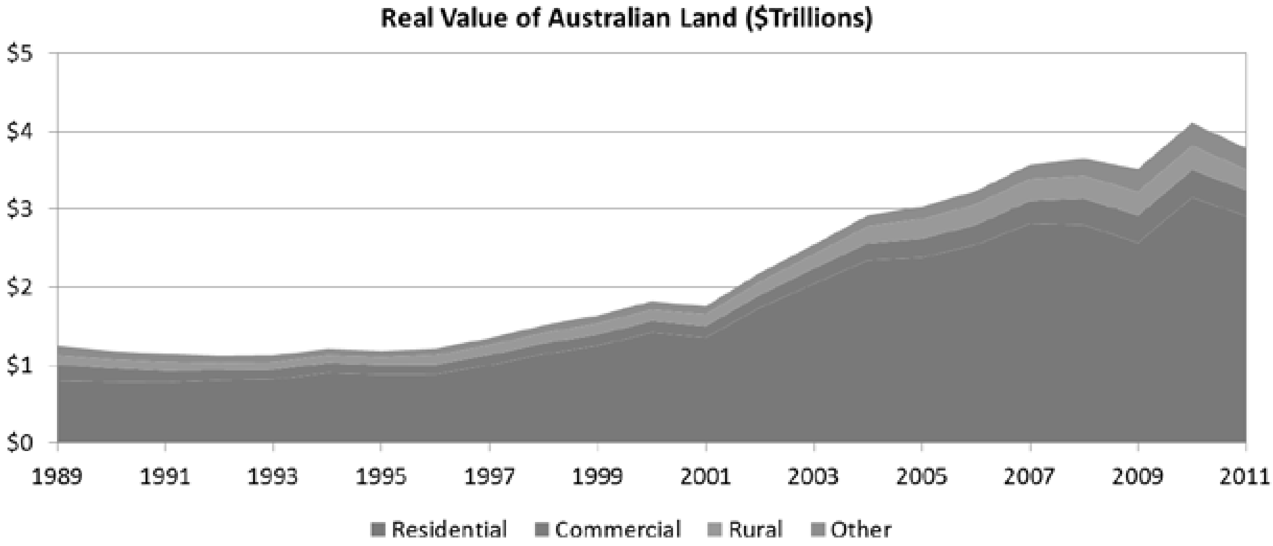
Australia is the least densely populated continent in the world. Most of Australia's 23 million people live in a handful of major cities.

- Land is the largest tangible market in Australia.
- Peaked at a value of $4.1 trillion in 2010.
- The land market is around 300% of GDP (a common measure of the economy's size).

Components of the land market

The Australian Bureau of Statistics has provided data on land values since 1989, dividing the land market into four uses. When land values peaked in 2010, they had a value of:

- Residential: **$3.1 trillion**
- Commercial: **$353 billion**
- Rural: **$311 billion**
- Other: **$294 billion**

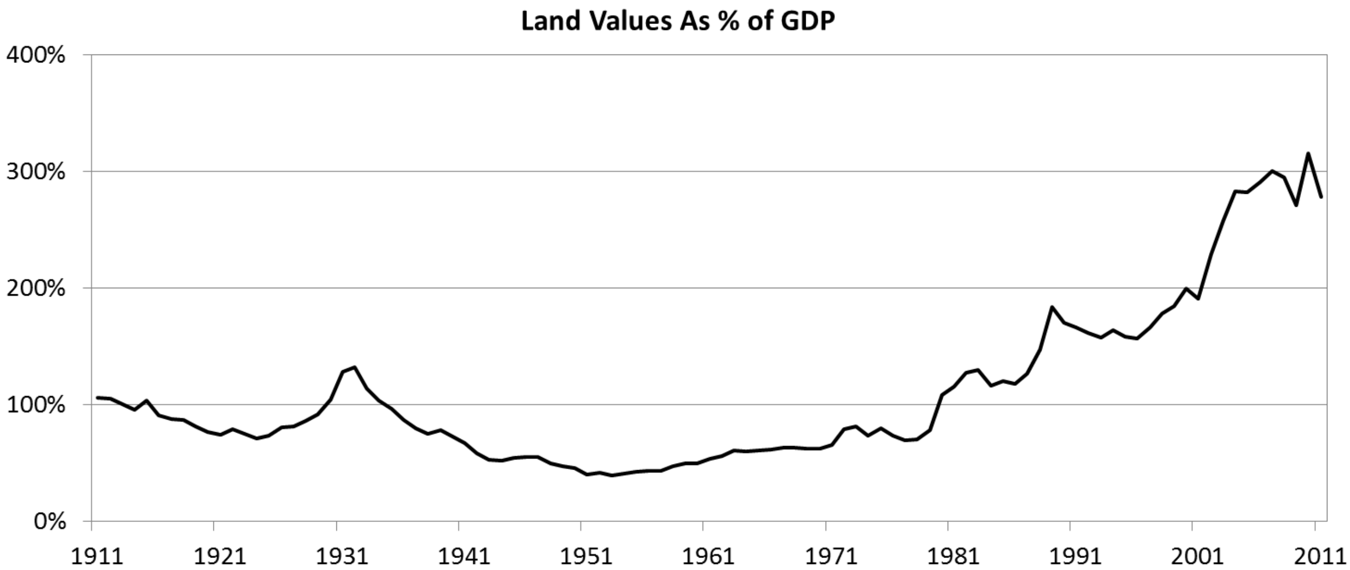


A rollercoaster ride of booms and busts

History shows land prices fluctuate continually in boom bust cycles.

- A depression occurred during the 1890s when a land bubble centred in Melbourne crashed. It was relatively worse than the 1930s Great Depression.
- The next major boom occurred during the late 1920s, peaking in 1931. The resulting bust was the primary driver of the Great Depression.
- Land values did not recover until after World War 2 and remained fairly stable over the next couple of decades.

- The mid-1970s recession was caused, in part, by another land bubble bursting.
- Yet another residential bubble occurred during the early 1980s, resulting in recession.
- The late 1980s saw a huge commercial sector land boom. High interest rates eventually burst the bubble, resulting in the early 1990s recession.
- The largest, sustained increase in land values began in 1996, centred in the residential property market. This boom dwarfs all previous cycles in size and duration.



What causes these bubbles?

The boom bust cycle in the land market has two primary causes.

1. The low level and inconsistent treatment of land value taxes (LVT):

- Encourages speculation based on expected future increases in property capital values by bidding up housing prices using large amounts of debt (leverage).
- Provides the incentive to seek profits in lightly-taxed capital gains ahead of rental income.
- Currently, LVT accounts for a tiny proportion of total tax revenue, it needs to be much higher to act as an automatic stabilizer, rising as prices advance and shrinking as they retreat to moderate land price fluctuations.
- Makes land prices highly volatile, delivering profits to some and losses to many.

2. Banks' loose lending practices:

- Financial lenders will often over-extend credit to homeowners and investors so they can speculate in the property market.
- Based upon past success, speculators commit to even higher debt/equity ratios, unaware they are participating in a pyramid scheme based upon unrealistic expectations.
- Currently, household debt is $1.3 trillion or 95% of GDP, a staggering financial burden.
- In 2008, before the effects of the global financial crisis hit, almost all mortgage loans offered to homeowners and investors were for 80% or more of the property value, and amazingly, 26% of all loans offered were for 100% or more.

What can be done?

- Substantially increase land value taxes while removing 125 other badly designed taxes with large deadweight costs and high administrative burdens.
- The land market comprises a large enough revenue base to replace these inefficient taxes.
- Regulate mortgage lending to 10 times a property's potential annual rent.

No-Deposit Home Loans Hit Election Campaign Trail

By Eric Tlozek

The Northern Territory Government has partnered with lender TIO to allow people to borrow up to $750,000 dollars to buy a home without paying a deposit or mortgage insurance.

The My New Home scheme is one of two new programs unveiled in the lead-up to next month's election to help people buy property. The other, Homestart Extra, allows low-income earners to borrow more money from the Government in exchange for a share of equity in their property.

Treasurer Delia Lawrie says the schemes are designed to reduce rental pressure in the Top End and increase the number of properties on the market. "These products are deliberately designed to be stimulus," she said. "My New Home is for new construction, for buildings that haven't been occupied or sold." Ms Lawrie says it will help people buy a home if they can't save for a deposit. "This will give them a way through to home ownership," she said. "This is a product that backs the Territorian to benefit out of the strong Territory economy."

Opposition spokesman John Elferink says a lack of land releases is what has kept people out of the housing market. "Now we have a Labor Government pretending that they have the solution when in actual fact they were the problem," he said. "It is a scheme designed not to get people into the housing market, it is a scheme designed to get a Labor government elected."

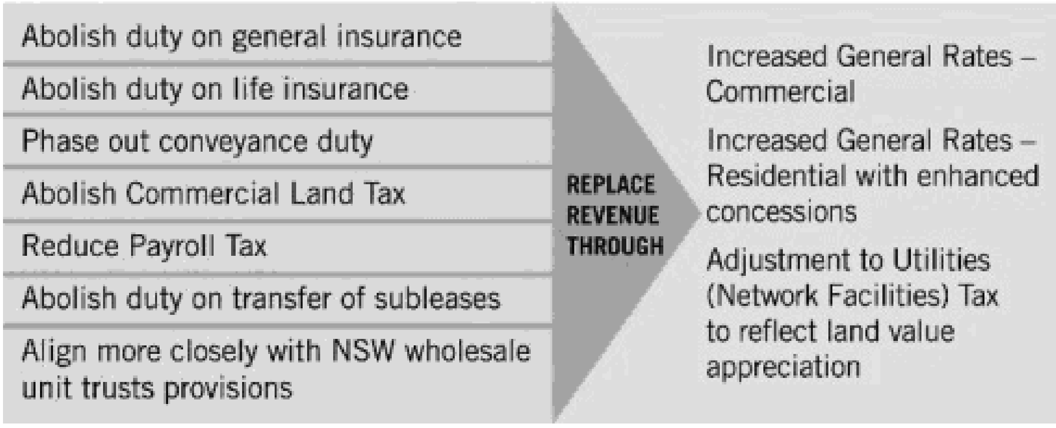
TIO says it expects a 15 per cent increase in construction loans linked to the schemes. Chief executive officer Richard Harding says default rates in the Territory are very low and he does not expect that to change because of the new programs.

Master Builders Association executive director Graeme Kemp says the new programs will help developers by giving people easier access to housing finance. "We have got a market in the Territory of around about 1000, give or take, new starts every year," he said. "We have currently got a log-jam where people can't get off the rental merry-go-round. "What this is going to do is free up that log-jam."

The Real Estate Institute of the Northern Territory has called on the Government to release more land to make its new scheme work. Chief executive officer Quentin Kilian says the initiative will encourage people to get into the housing market. "The Government then must play its role and ensure that there is adequate supply," he said. "We are not just talking about greenfields development; keep it going further out. "We need to come back and also look at inner city developments, and say to developers, let's cut the red tape, let's allow for inner-city development."

A Fairer, Simpler and More Efficient Taxation System

Canberra: 5 Year Reform Plan



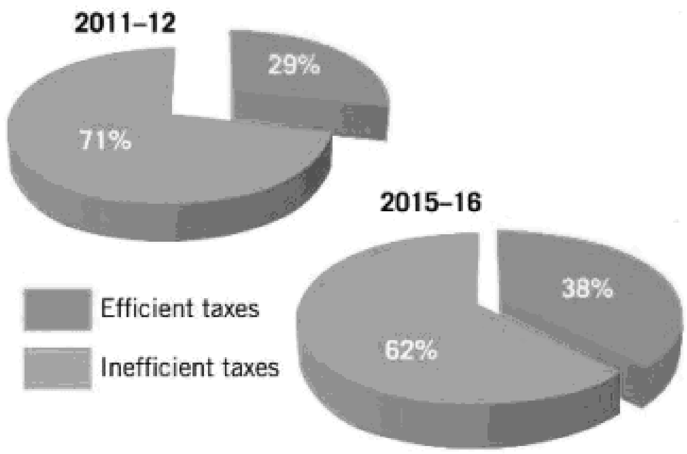
A fairer, simpler and more efficient taxation system is the first stage of which will be a long-term reform of the ACT's taxation system. The Plan will support economic growth, make the Territory's taxes sustainable in the long-run and allow the Government to sustain services to the community.

A Simpler Tax System

The measures in the package are not developed as annual initiatives; they represent a five year Taxation Reform Plan. The Plan sets the broad direction for reform, and makes some measured changes to the taxation system. Taxation reform will take place over the next 20 years. Reform will be implemented in five year periods. The first 5 year tranche of reform will commence 6 June 2012.

A Fairer Tax System

- The Government will abolish conveyance duty and insurance taxes.
- Residential General Rates will be made more progressive – tax brackets and increasing marginal tax rates are being introduced.
- Residential Land Tax is being made more progressive.



A More Efficient Tax System

- Tax reform will reduce the share of inefficient taxes and increase the share of more efficient taxes over the next five years.
- The share of inefficient taxes will reduce and the share of more efficient taxes will progressively increase over the next five years.
- The ACT Taxation Reforms will increase the overall economic efficiency of the ACT's taxation system by an estimated
- $14.5 million in the first year of reform, increasing to $57 million in 2016-17.

Is This Rail Line Too Good to be True?

By Alan Davies

"A tax on the increase in property values arising directly from the rail line would raise enough revenue to fund construction."

Here's some great news. A consulting team led by Curtin Uni's Peter Newman has apparently found a way to reduce significantly the stratospheric cost of new urban rail lines in Australia's capital cities.

Professor Newman reckons a 12 km rail line running down the central median of Melbourne's Eastern Freeway from inner city Clifton Hill to suburban Doncaster could be built for a mere $840 million. The costing includes five stations and 2-3 kilometres of tunnel.

And for another $300 million, the team reckons a further 3 km of tunnel could be constructed between Clifton Hill and near-city Parkville. And it could fund itself! A tax on the increase in property values arising directly from the rail line would raise enough revenue to fund construction.

Compare it to the likely $5-$7 billion cost of the proposed Melbourne Metro, and Doncaster rail is a bargain. Compare it to the $560 million the Brumby Government spent to extend the Epping Line just 3 km to South Morang and it's the bargain of the century.

Around half of that South Morang money went on indirect works, but even so the comparison is extraordinary. Professor Newman and his team appear to have found the gunzel's equivalent of Valyria.

Professor Newman is a credible authority. He's on the board of Infrastructure Australia and,according to The Age, was the architect of WA's fabulously cheap 70 km Mandurah rail line (circa $2 billion in today's dollars). He's also done this sort of work before – in 2004 he was part of the team who prepared a feasibility study for a rail line to suburban Rowville in Melbourne's south-east.

I've argued before that a rail line to Doncaster can't be justified for a whole host of reasons. At this price however, I'd have to seriously consider eating my words. The Age's leader writer also thinks it's a great idea (no surprise there, though).

The absence of a rail line is a longstanding issue in the Doncaster region. The Baillieu Government promised during the 2010 State election to undertake a feasibility study and it'snow underway and well advanced. The separate Newman study, which was commissioned by the City of Manningham and five other municipalities, is no doubt designed to put pressure on the Government to commit to the line.

Unfortunately I haven't read the Newman report because it's still secret. It was splashed across the front page of The Age earlier in the week, but the six municipalities won't even meet to consider it until Tuesday.

I must say I think it's appalling that extravagant claims with important public policy implications are made publicly without the supporting information being made available for examination. However since I'm assured by the City of Manningham that the facts reported by The Age, including the costs, are perfectly consistent with what's in the report, I'll press on.

The trouble with those reported costs is they're too good to be true. The most credible estimate we have for the

Doncaster rail line was prepared by the Eddington Task Force in 2008. It put the price at $1.8-$2.1 billion. Allow for optimism bias and cost increases and it's likely to cost $3 billion and counting just to get the line from Doncaster to Clifton Hill.

There's no spare capacity from Clifton Hill to the city, so an additional 3 km tunnel would have to be constructed to Parkville where it would meet up with the proposed Melbourne Metro. To suggest that would cost a mere $300 million in the current cost environment is……well, to be polite, too good to be true.

As another point of comparison, the Federal Government's High Speed Rail feasibility study estimated it would cost $1 billion just to build underground station facilities at Southern Cross.

The reason the cost estimates are optimistic is they're reportedly referenced from WA'sMandurah rail line, which commenced operation in December 2007. While they're presumably inflated to today's dollars, this method is just plain disingenuous because the Mandurah line is a classic outlier.

It's not clear why Mandurah cost so little compared to more recent projects. It might be because it was built on sand. Or because much of it was constructed through relatively undeveloped country. Or because it was built with a freeway. Or maybe some of the contractors took a bath.

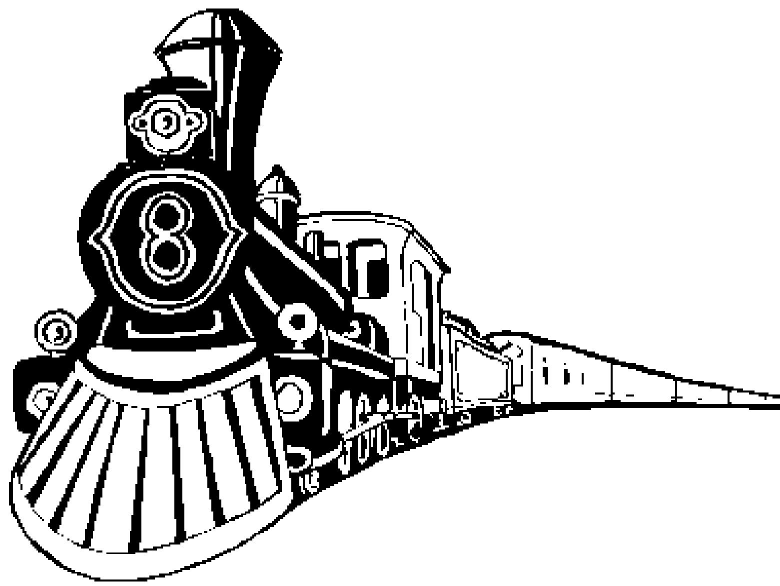
Like most, I suspect a key reason is it had the good fortune to be tendered before the full impact of the resources boom fed through to construction costs (construction commenced in early 2004). However costs have sky-rocketed since Mandurah was built.

Why that is so is an extremely important question and one I've discussed on these pages a number of times before (e.g. here, here and here). But the reasons appear to be structural so they can't just be wished away. Mandurah is simply not even remotely representative of current costs.

There is in any event enormous variability in the cost of projects both at the national and international level. Basing costs on just one project in another State tendered quite some years ago simply isn't a valid approach, especially when that one project is cherry-picked.

However that isn't likely to worry the six municipalities who funded the study. As it's a political stunt, they just want to pressure the Government.

I'm not sure they support taxing the increase in property values though. I like it, although I doubt there'll be as much value to capture as Professor Newman and his team assume.



But it's too politically difficult to be anything but a liability for most politicians.

There are other problems with a rail line to Doncaster which I've discussed before (here, hereand here). For example, it would replace one form of public transport (SmartBus) with another (train). I'll look at these other issues again in the near future when the Newman report is (hopefully) released publicly.

However it's worth noting some pertinent findings from the recently released Rowville rail stage 1 feasibility study undertaken by the Victorian Government. The proposed Rowville and Doncaster lines have a number of similarities e.g. in length, stations, proximity to existing lines.

Whereas the Newman study claims a Doncaster line would carry 100,000 passengers per day, modelling indicates the Rowville line will only carry 68,000 per day by 2046. That suggests the patronage claim is ambitious, to say the least.

The really interesting bit though is the Rowville line would increase the share of all trips carried by public transport in the metropolitan area in 2046 from 12.6% to 12.7%. Moreover, 57% of the rail patronage would be siphoned away from other rail lines. And the Rowville line would reduce the number of car trips on a typical weekday in 2046 by a relatively tiny 15,000.

There are other transport projects in Melbourne that are far more compelling than a rail line to Doncaster. They include elimination of the city's 170 odd level crossings and better bus services in the outer suburbs. What is needed is a sensible debate, with reliable evidence. **Based on what's been reported (i.e. leaked), it doesn't seem like this study will give us that.**

After 800 Years, Barons are Back in Control of Britain

By George Monbiot

The Magna Carta forced King John to give away powers. But big business now exerts a chilling grip on the workforce.

"those who control the land have enjoyed massive economic and political privileges. The relationship between land and democracy is a strong one, which is not widely understood."

Hounded by police and bailiffs, evicted wherever they stopped, they did not mean to settle here. They had walked out of London to occupy disused farmland on the Queen's estates surrounding Windsor Castle. Perhaps unsurprisingly, that didn't work out very well. But after several days of pursuit, they landed two fields away from the place where modern democracy is commonly supposed to have been born.

At first this group of mostly young, dispossessed people, who (after the17th century revolutionaries) call themselves Diggers 2012, camped on the old rugby pitch of Brunel University's Runnymede campus. It's a weed-choked complex of grand old buildings and modern halls of residence, whose mildewed curtains flap in the wind behind open windows, all mysteriously abandoned as if struck by a plague or a neutron bomb.

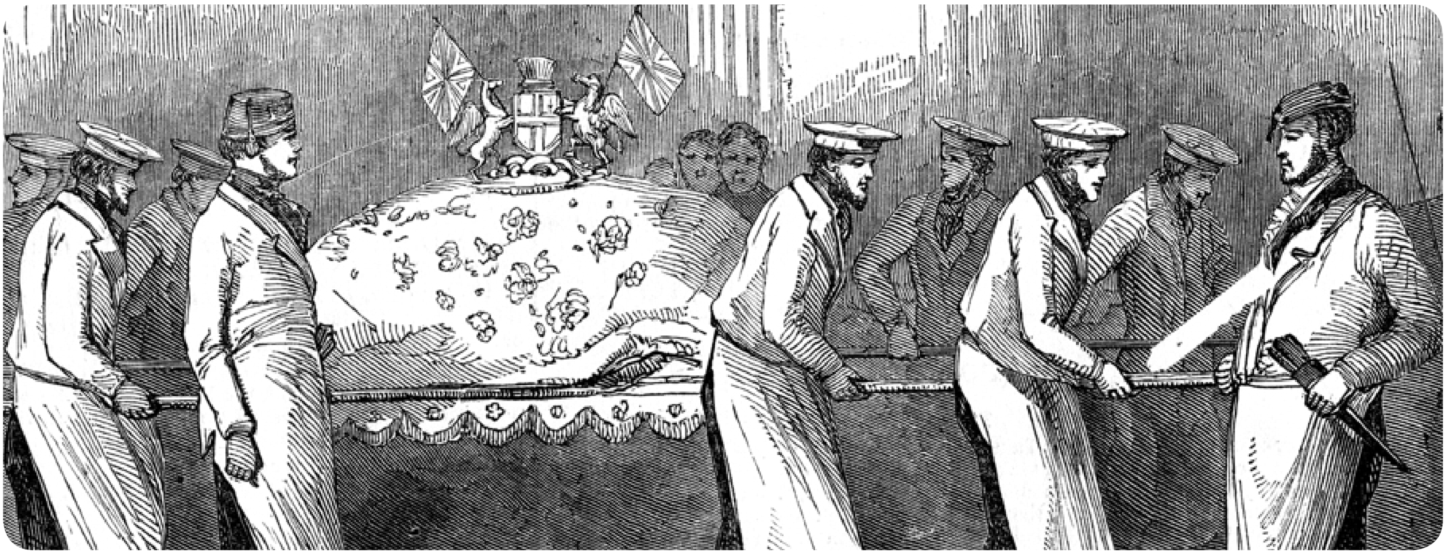
The diggers were evicted again, and moved down the hill into the woods behind the campus – pressed, as if by the ineluctable force of history, ever closer to the symbolic spot. From the meeting house they have built and their cluster of tents, you can see across the meadows to where theMagna Carta was sealed almost 800 years ago.

Their aim is simple: to remove themselves from the corporate economy, to house themselves, grow food and build a community on abandoned land. Implementation is less simple. Soon after I arrived, on a sodden day last week, an enforcer working for the company which now owns the land came slithering through the mud in his suit and patent leather shoes with a posse of police, to serve papers.

Already the crops the settlers had planted had been destroyed once; the day after my visit they were destroyed again. But the repeated destruction, removals and arrests have not deterred them. As one of their number, Gareth Newnham, told me: "If we go to prison we'll just come back … I'm not saying that this is the only way. But at least we're creating an opportunity for young people to step out of the system."

To be young in the post-industrial nations today is to be excluded. Excluded from the comforts enjoyed by preceding generations; excluded from jobs; excluded from hopes of a better world; excluded from self-ownership.

Those with degrees are owned by the banks before they leave college. Housing benefit is being choked off. Landlords now demand rents so high that only those with the better



jobs can pay. Work has been sliced up and outsourced into a series of mindless repetitive tasks, whose practitioners are interchangeable. Through globalisation and standardisation, through unemployment and the erosion of collective bargaining and employment laws, big business now asserts a control over its workforce almost unprecedented in the age of universal suffrage.

The promise the old hold out to the young is a lifetime of rent, debt and insecurity. A rentier class holds the nation's children to ransom. Faced with these conditions, who can blame people for seeking an alternative?

But the alternatives have also been shut down: you are excluded yet you cannot opt out. The land – even disused land – is guarded as fiercely as the rest of the economy. Its ownership is scarcely less concentrated than it was when the Magna Carta was written. But today there is no Charter of the Forest (the document appended to the Magna Carta in 1217, granting the common people rights to use the royal estates). As Simon Moore, an articulate, well-read 27-year-old, explained, "those who control the land have enjoyed massive economic and political privileges. The relationship between land and democracy is a strong one, which is not widely understood."

As we sat in the wooden house the diggers have built, listening to the rain dripping from the eaves, the latest attempt to reform the House of Lords was collapsing in parliament. Almost 800 years after the Magna Carta was approved, unrepresentative power of the kind familiar to King John and his barons still holds sway. Even in the House of Commons, most seats are pocket boroughs, controlled by those who fund the major parties and establish the limits of political action.

Through such ancient powers, our illegitimate rulers sustain a system of ancient injustices, which curtail alternatives and lock the poor into rent and debt. This spring, the government dropped a clause into an unrelated bill so late that it could not be properly scrutinised by the House of Commons, criminalising the squatting of abandoned residential buildings.

The House of Lords, among whom the landowning class is still well-represented, approved the measure. Thousands of people who have solved their own housing crises will now be evicted, just as housing benefit payments are being cut back. I remember a political postcard from the early 1990s titled "Britain in 2020", which depicted the police rounding up some scruffy-looking people with the words, "you're under arrest for not owning or renting property". It was funny then; it's less funny today.

The young men and women camping at Runnymede are trying to revive a different tradition, largely forgotten in the new age of robber barons. They are seeking, in the words of the Diggers of 1649, to make "the Earth a common treasury for all … not one lording over another, but all looking upon each other as equals in the creation". The tradition of resistance, the assertion of independence from the laws devised to protect the landlords' ill-gotten property, long pre-date and long post-date the Magna Carta. But today they scarcely feature in national consciousness.

I set off in lashing rain to catch a train home from Egham, on the other side of the hill. As I walked into the town, I found the pavements packed with people. The rain bounced off their umbrellas, forming a silver mist. The front passed and the sun came out, and a few minutes later everyone began to cheer and wave their flags as the Olympic torch was carried down the road. The sense of common purpose was tangible, the readiness for sacrifice (in the form of a thorough soaking) just as evident. Half of what we need is here already. **Now how do we recruit it to the fight for democracy?**

China's Answer to Subprime Bets: The 'Golden Elephant'

By Kelvin Soh and Michael Flaherty

The Chinese investment vehicle known as "Golden Elephant No. 38" promises buyers a 7.2 percent return per year. That's more than double the rate offered on savings accounts nationally.

Absent from the product's prospectus is any indication of the asset underpinning Golden Elephant: a near-empty housing project in the rural town of Taihe, at the end of a dirt path amid rice fields in one of China's poorest provinces.

"They haven't even built a proper road here," said Li Chun, a car repairman, who said he lives in the project. "The local government is holding onto the flats and only wants to sell them when prices go up."

Golden Elephant No. 38 is one of thousands of "wealth-management products", instruments aimed at monied investors, which have shown phenomenal growth over the last five years. Sales of them soared 43 percent in the first half of 2012 to 12.14 trillion yuan ($1.90 trillion), according to a report by CN Benefit, a Chinese wealth-management consultancy. They are usually created in China's "shadow banking" system - non-banking institutions that are not subject to the same regulations as banks - which has grown to account for around a fifth of all new financing in China.

Like the subprime-debt lending spree in the United States that helped spark the 2008 financial crisis, the products are often opaque, and usually dependent on high-risk underlying assets, such as the Taihe housing project.

WARNING BELLS

Financial instability in the world's second-largest economy could have global ramifications, and warning bells have begun to sound about the way these products are marketed in China.

It has become a mammoth industry, comprising an array of financial products. Analysts have different ways of measuring the size of the sector. Barclays estimates some 22 trillion yuan worth of wealth management products will be issued this year. Fitch Ratings says China's banks had about 10.4 trillion yuan in wealth management product liability at the end of June this year

Reuters reviewed more than 50 wealth-management and trust loan products, available online and at bank branches in China, with the aim of tracking, for the first time in certain cases, where investors' money in these products ends up. All, except two, failed to explain or even display the underlying asset behind the product.

The China Banking Regulatory Commission, which oversees banking products, said more than 20,000 wealth management products were now in circulation, from a few hundred just five years ago.

In an email response to the questions raised in this story, the regulator told Reuters new banking regulations require more transparency about these products. "It is uncommon to find wealth management products that fail to clearly specify the underlying securitized assets," it said, adding that a regulation issued last year "clearly states that WMP prospectuses must indicate how the money is being used, and the percentage of money that is being put into each asset class." The commission is looking into further strengthening the regulatory framework over these products, and "will continue to encourage the wealth management industry's growth under the principles of transparency and sufficient risk control".

"PONZI SCHEME"

After a five-year bonanza in sales of these products, signs of trouble are building. China Credit Trust Co, one of the country's biggest trust companies, has disclosed that one of its wealth funds, Jinkai #1, is at risk of default because of money it lent to coal company Zhenfu energy Group. Zhenfu's boss has been arrested, amid reports he owed a total of 500 million yuan.

"Zhenfu Group and related companies have already been sued three times in the second quarter, all because of off-the-balance-sheet fundraising from underground channels," China Credit Trust said on its website, adding that government teams were trying to sort out who was owed what. If the fund were to fail, it would be one of the first in China's fast-growing trust industry and open up a test case on who is ultimately liable when investment products go bad.

It called to mind the massive losses and widespread bankruptcies in China's trust industry a decade or so ago, when the Guongdong International Trust and Investment Corporation, then one of China's largest state-owned companies, went bankrupt. Some analysts are warning of potential fraud in the industry. "Some banks have been using new (wealth-management product) proceeds to cover losses from previous products in the pool," said David Cui, a strategist at BofA Merrill Lynch. "In our view, this is not fundamentally different from a Ponzi scheme. The music may stop at a certain point if and when WMP asset size stops expanding."

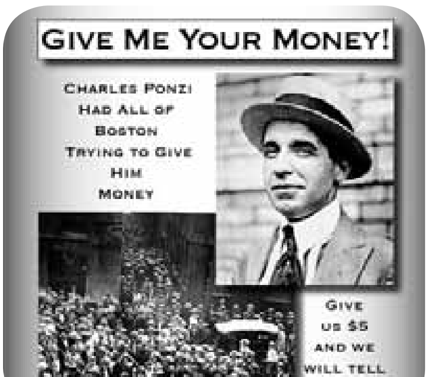
MANAGING TROUBLED LOANS

Wealth management products are investment tools with a short maturity that banks market as a low risk vehicle for returns higher than savings deposits. The products pool money to invest in a variety of different assets. Some of them, such as the Golden Elephant and Jinkai #1, are linked to high-risk trust loans, with the banks playing a middleman role between the trust company and investor.

At first, products such as Golden Elephant were viewed as a beneficial way for China's banks to manage troubled loans and for its citizens to grow their money by investing beyond the government-set savings rate. But as China's growth engine slows, concerns are rising that the mountain of products, many with a maturity of a mere four weeks, will struggle to keep the money flowing in. That would leave banks and investors on the hook for any bad lending stemming from these products and strain the financial system at a time when the country's economy looks fragile.

"The concern is if some investors begin to experience losses in these products, this could create a panic among other investors," said Mike Werner, an analyst at Sanford Bernstein. "This could result in investors fleeing these products and result in a liquidity squeeze for this market."

Especially worrisome is the quality and transparency of the products. Liu Shiyu, a vice-governor at the country's central bank, said in June many banks had failed to sufficiently disclose the risks involved in investing in these products, but he did not announce any measures to curb the sector's growth.



ENGINE OF WEALTH?

The 14-page prospectus for "Wealth Management Plan No. 350", sold by China Merchants Bank, says it aims to raise 200 million yuan ($35 million). Not until page 5 is it revealed that the product is linked to the Railway Ministry - whose 2.2 trillion yuan debt ($346 billion) exceeds the combined worth of all major U.S. banks. The railway operator is seeking to refinance 2.43 trillion yuan ($392 billion). The state-run Beijing Times said it lost 7 billion yuan in the first quarter of this year alone, hit by debt repayments of more than 28 billion yuan in January-March.The prospectus also says up to 70 percent of the product's proceeds can be used for investments in "other assets", without saying what these assets are. Bank officials said the money is usually put into a common pool for investments, but said they were unable to say exactly where the money was invested.

In the American subprime-mortgage bubble, much of the credit-derivative obligations and other investment instruments underpinned by risky home loans were deemed AAA by ratings agencies. In China, domestic agencies give the railway ministry's bonds their highest ratings -- higher even than U.S. treasuries. A product called "Wealth Accumulator," sold by Bank of China, only states that the money is being put into high-quality assets that will yield guaranteed returns "significantly higher than term deposits of similar tenor." No other details are offered.

"The problem is that not even high net-worth Chinese people may fully understand the risks involved," said Gigi Chan, who runs the China Opportunities Fund at Threadneedle Investments, which manages more than $123 billion in assets globally. "They're being told there are guaranteed returns, and people need to consider if these returns are really guaranteed."

SUBPRIME SIMILARITIES

The 5 trillion yuan trust industry, sometimes referred to as "shadow banks", emerged soon after China began opening up in 1979. It was meant to encourage innovation within the financial services sector by lending to higher risk companies that traditional banks would not lend to. Initially, the trust companies handed out loans by channeling money from institutional investors to companies that needed them, taking a cut in the process. That has changed in the past few years.

Banks started working closely with trust companies by packaging trust loans into bite-sized wealth management products to cater to yield-chasing depositors, or by selling trust loan products directly to its depositor base at their retail branches. Banks also began transferring non-performing debts to roughly 60 trust companies, which in turn packaged the debt into investment products that were sold back to retail customers or marketed with a bank. These vehicles typically focused on property investments, because Beijing was cracking down on bank loans to developers. Around the same time, many Chinese banks began offering higher returns on securities they labeled "wealth management products" to people looking for a better return on their money.

CASH PRESSURES

Deposit growth at Chinese banks, meanwhile, slowed to around 13 percent last year, its slowest pace in decades. Money flowing out of saving deposits and into wealth-management products poses a potential threat to banking stability, because it reduces the amount of money banks have on hand to lend and could lead to cash pressures, analysts warn.

"Fitch has long emphasized that the greatest risk associated with Chinese banks' wealth management activity is the strain it places on funding and liquidity," Fitch analyst Charlene Chu said in a research note. "The risk was easily controllable when the amount of outstanding products remained small. But it is increasingly difficult for Chinese banks to manage."

Chinese banks say they prefer straight deposits, but that the wealth tools are a response to the demands of a market that has shown explosive growth. "Customer expectations on financial services have been rising," China Construction Bank President Zhang Jianguo told Reuters. "To ensure our wholesome development, to keep customers and attract new ones, wealth management products have now become an essential part of any financial offering." All other banks mentioned in this report declined to comment.

TWO-WEEK TENURES

The banking regulator implemented rules last year to curb sales of some of the riskier products, including those with one-month or less maturity dates, and those linked to Chinese pawn shops. But most products still carry tenures of less than one year -- advisory firm KPMG says only 3 percent extend beyond two years. Information is opaque, rules are open to interpretation.

"One of the key problems is that short-term financing is being used to pay for a long-term project," said May Yan, head of China bank research at Barclays in Hong Kong. "Infrastructure projects should be funded by long-term bonds. Unfortunately, China doesn't have that."

"One of the key problems is that short-term financing is being used to pay for a long-term project. Infrastructure projects should be funded by ~~long-term bonds~~ *site values*. Unfortunately, China doesn't have that."

The banking regulator has tried to protect the small investor with a rule issued last year requiring that only individuals with more than 1 million yuan in cash could invest directly into trust products. At bank branches in two Chinese cities visited as part of the Reuters review, that rule was easy to get around. Customers at banks in Nanchang and Shenzhen, unable to cough up the initial 1 million yuan investment, were offered the option of pooling their money together with others to meet the minimum sum required.

"ON PAPER..."

The trusts, also called "shadow banks", create the wealth management products and then give them to banks to sell to their customers. The bank staff Reuters spoke to stressed the low-risk nature of the products, despite the higher-than-normal returns being promised. They often could not say where the proceeds of the product would be invested.

"On paper, these are not principal guaranteed but you don't have to worry about that," said a wealth manager at a local branch of Bank of Communications, China's No. 5 lender. "All our clients who've previously bought these products got their principal plus interest back."

It is not entirely clear who bears the risk if the products default. China's courts have in the past ordered banks to compensate investors who had lost money buying mutual funds and other financial products, prompting some to suggest a string of such defaults could weigh heavily on China's major lenders. But the fine print in most of the documentation for these products puts the onus squarely on the investor.

"The question really is, at the end of the day, who is on the hook?" said Werner at Sanford Bernstein. Hao Xueqi, a homemaker who was at Shenzen branch of China Construction Bank, was unfazed. "I've bought these products and have always gotten my money back," she said. "I usually go with the bigger banks because they have a better reputation and won't close down with my money."

SUBSIDISED HOUSING

The proceeds from sales of the "Golden Elephant" product were channeled to Taihe City Construction Co., a local government financing vehicle. Taihe is an agricultural town in impoverished Jiangxi province, where annual incomes reached 4,500 yuan a year in 2010, barely a tenth of Beijing residents.

Taihe City Construction Co. used the 50 million yuan raised to pay off part of the cost of constructing the subsidized housing units, according to the product's prospectus.

"The central government wanted more subsidized housing, so they just removed all the farmers here and told them to leave," said Taihe resident Xiao Hongmei. "The farmers who used to live here were promised flats, but many of them haven't got anything so far."

A spokesman at the publicity department of the Taihe government office declined to comment, referring queries to the Jiangxi provincial government.

Xu Weiguo, a deputy director at the province's economic planning department, said Jiangxi was a model province in keeping any economic risks to a minimum.

"We always study the central government's instructions very closely and follow the rules," Xu said in a telephone interview. **"There will not be any problems with our books."**

What Has Happened to Ireland's Sovereignty?

By Maireid Sullivan
GlobalArtsCollective.org

The campaign to redirect the M3 tolled motorway away from the Hill of Tara, in Ireland, marked the beginning of my understanding of land banking and speculative developers' 'boom-bust' business model. From the beginning of the Celtic Tiger era, the Irish Diaspora has witnessed speculation-driven economic corruption and political self-aggrandizement on levels beyond imagining.

Community concerns have been vindicated by The Mahon Tribunal report. After 15 years of hearings (1997 to 2012), The Tribunal of Inquiry Into Certain Planning Matters & Payments has uncovered corruption affecting 'every level of Irish political life'. The Tribunal brings to prominence the litany of corrupt practices and crooked dealings that characterized the relationship between 'certain developers and numerous prominent public representatives'.

On the domestic front:

Scandals surrounding land rezoning in the greater Dublin area have resulted in shocking planning decisions. Joe Higgins TD for Dublin West explains: 'For some of us, who were Councillors at the time, it brings back memories of the exhausting and fractious meetings of Dublin County Council in the early 1990's when we tried to stand against the tide of corrupt rezoning. It was difficult and frustrating. At the Council HQ in O'Connell Street we spent interminable hours in a sparsely populated chamber arguing against motions to destroy green lungs and sensitive landscapes for the benefit of developers, only to be outvoted by a surge of the rest of the 72 Councillors piling in from nearby Conway's pub intoxicated with the drink, which landowners, developers and their bagmen had plied them with.'

The Hill of Tara:

Hill of Tara was an ancient archaeological complex long before it became the seat of the High Kings of Ireland during a concerted effort to stop the incursions of the Vikings in the 9th century. Since 2006, those in the government who were entrusted with protecting Irish cultural heritage enacted new legislation to allow developers to destroy several interconnected sites surrounding Tara to make way for the M3 Tolled freeway through the Tara / Skryne valley.

Corrib-Shell to Sea:

The Corrib gas project is preparing to exploit a natural gas deposit, which was discovered over the past 15 years off the northwest coast of Ireland. Royal Dutch Shell (Dutch/ British oil company) owns 45%, Statoil (Norwegian state owned oil company) owns 36.5%, and Vermillion (Canadian oil company) owns 18.5%. The Shell to Sea campaign believes it is unsafe to develop the Corrib field as a sub-sea production facility with onshore processing.

Safety isn't the only concern. A member of the infamously corrupt Haughey government, Minister Ray Burke (later jailed for corruption), introduced changes to Irish resource laws in 1987, reducing the State's share in offshore oil and gas from 50% to zero and abolishing royalties. In 1992, Minister Bertie Ahern, who later resigned amid corruption and perjury charges, reduced the tax rate for the profits made from the sale of these resources from 50% to 25%.

Irish government figures conservatively estimate the value of these reserves at €600 billion, and the Irish people must buy it back at market rates. In addition, all exploration and development costs can be written off against tax.

On the European Union front:

According to the Tribunal's report, corruption, and dishonesty is the root of the current fate of the Irish economy, resulting in capitulation to the demands of the European Union's financial establishment that the speculators' losses be placed on the shoulders of the Irish people.

Major players in property development held inordinate influence on politicians, to the extent where the construction industry accounted for an unprecedented fifth of the economy during the Celtic Tiger years. We now know that the projects that resulted were financed by massive loans from assorted speculators, bondholders and major European financial institutions.

The Irish state has taken on huge debts by taking over the liabilities of privately-owned banks, with the majority of this cost related to the collapse of the Anglo Irish Bank and Irish Nationwide Building Society (IBRC), due to horrific losses on property loans.

€35 billion, representing 22 per cent of Ireland's GDP in 2011, has gone to paying debts incurred by investment corporations which have no sovereign guarantee and which occurred before the state took control of the bank.

The major debt burden due to the IBRC relates to promissory notes that the Irish government has provided, which in turn are largely being used to pay off Exceptional Liquidity Assistance (ELA) loans that have been provided by the Central Bank of Ireland.

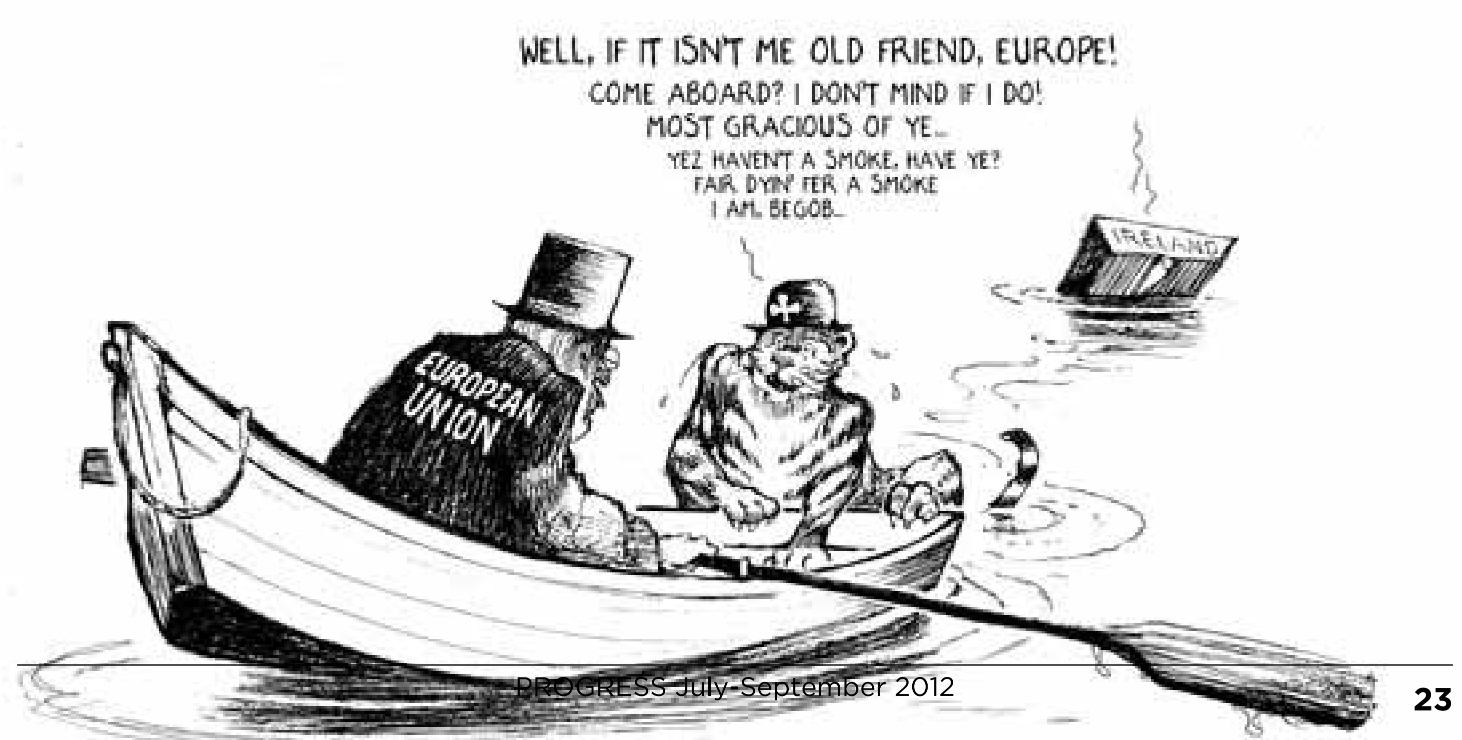
Irish and international advisers alike have said that the Irish government has no moral obligation to pay these debts; therefore, a change in its policy should be made in relation to payment of unsecured Irish Bank Resolution Corporation (IBRC) bondholders.

'This government came in on a wave of promises to negotiate hard to get write downs on this debt. They had a mandate from the people to do so. Major capitalists, like George Soros, said the bond holders should take losses. The IMF has said unsecured bondholders could take losses. But the government's negotiating strategy, instead, has been to do whatever the European Central Bank and the bondholders wanted. The Government said its negotiating strategy had moved on to the promissory notes. But a substantive deal on promissory notes hasn't happened – all we got was a one-year deferral that's going to cost us an additional €90 million.' Deputy Stephen S. Donnelly TD.

Interestingly, Stephen Donnelly studied engineering at UCD and MIT and in 2008 completed a Masters' degree in Public Administration and International Development at Harvard's Kennedy School of Government, 'examining, in detail, the interaction between the IMF and small states'.

The Parliamentary debate on Finance Bill 2012, with its 270 specific proposals, which claims to be an action plan for jobs in export-led growth, was held on 15 February 2012. Of the twenty or so Ministers and Deputies who contributed to the debate, very few appeared to have studied it in any detail.

Deputy Stephen Donnelly criticized the Bill for the lack of technical appendices: 'There are two interesting metrics. The first is the amount of technical detail supplied to parliaments in order to allow them to interrogate government proposals. Out of ten, we scored zero. The second is the amount of time parliament is given to interrogate government proposals on a finance Bill. The minimum recommendation is three months. Out of ten, we scored zero. It is another example of the most centralised decision-making process in Europe... The Bill forecasts growth of 1.3% when the Central Bank has downgraded it to 0.5.'



Without these liabilities, Ireland could have avoided the EU-IMF bailout programme, and could have prevented the consequent severe austerity measures that are being imposed on the people of Ireland. Moreover, it all goes back to the extreme levels of corruption described by the Mahon Tribunal.

The IMF regularly breaks down national sovereignty, as revealed by John Perkins, author of Confessions of an Economic Hit Man: 'You have a resource that corporations covet. You arrange a huge loan to that country and strike a really good deal for multinational corporations and then in the end the country can't pay off its loan. You've got em! They're part of the empire! You can ask favours. You can ask them to vote for you in the next UN vote. Whatever!'

According to Paul Krugman, Professor of Economics at Princeton University '... the key point is that the two false diagnoses [excessive welfare states & excessive deficits] lead to policies that don't address the real problem. You can slash the welfare state all you want (and the right wants to slash it down to bathtub-drowning size), but this has very little to do with export competitiveness. You can pursue crippling fiscal austerity, but this improves the external balance only by driving down the economy and hence import demand, with maybe, maybe, a gradual 'internal devaluation" caused by high unemployment.'

An alternative approach to raising government funds is available.

Fine Gael's 2011 election manifesto advocated Site / Land Value Taxation, rather than taxing house values.

On 18 April 2012, economists of the Economic and Social Research Institute (ESRI) dismissed the idea of taxing the value of the site the home is built on, recommending instead that the government tax the combined value of sites and homes —without reference to collecting royalties on sales of natural resources, aka Resource Rent.

As long as developers, speculators, and bankers dominate economic theorem, there is slim hope that 'the people' can implement a simple one-step change to the taxation system whereby only the site value of land is taxed, and in lieu of all income and business taxes. Numerous highly qualified Irish economic commentators are currently debating this approach: Examples include: feasta.org | irisheconomy.ie | smarttaxes.org | daft.ie/

Michael Davitt (1846-1906), one of the most influential leaders of Ireland's independence movement also advocated land tax: 'I would abolish land monopoly by simply taxing all land, exclusive of improvements, up to its full value...In other words, I would recognize private property in the results of labour, and not in land.' (Some Suggestions for the Final Settlement of the Land Question, by Michael Davitt, 1902)

'The Irish land struggle started out promisingly enough in the 1880s with a clear mandate for the three Fs of Fair rent, Fixity of tenure and Free sale of tenant improvements or tenant right. This provided an excellent structure with which to understand the dynamics of property in land. Michael Davitt of the Land League had a clear vision of what legislative and fiscal changes were needed for Irish peace and prosperity which he shared with Henry George, the American social and economic reformer.'

Emer Ó Siochrú (daft.ie)

Irish economist Ronan Lyons' proposal was relatively straightforward: 'use the best information we have currently (1.3 million sales and lettings ads posted on daft.ie between 2006 and 2011), and the best methods available for establishing the components of house prices to implement the best known form of taxation (Site Value Tax) on an interim basis, in an area where Ireland desperately needs new revenues: residential property. And when better information becomes available – in particular, the Revenue Commissioners register of transactions – then that can be used for a full Site Value Tax.' (ronanlyons.com)

The Irish Republic Proclamation of 1916 was a promise of national freedom, sovereignty and economic justice for all Irish citizens, and is as relevant today as it was then: 'We declare the right of the people of Ireland to the ownership of Ireland, and to the unfettered control of Irish destinies, to be sovereign and indefeasible.' This right must not be undone: **Collecting Land / Site Value Tax, aka Resource Rent, etc. in lieu of taxing productivity can achieve economic justice for all and protect Ireland's sovereignty, once and for all.**

'We declare the right of the people of Ireland to the ownership of Ireland, and to the unfettered control of Irish destinies, to be sovereign and indefeasible.'

Why it's Time to Vandalize the Economic Textbooks

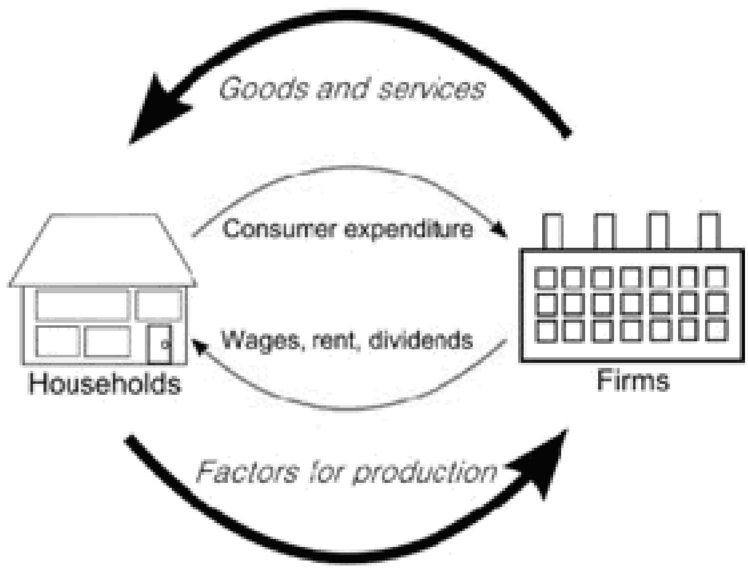
By Kate Raworth
Senior Researcher for Oxfam

Get ready to join the world's first guerrilla campaign to rewrite economics. The only weapon you need is a pencil...here's why.

When I studied economics at university twenty years ago, the concept of The Circular Flow of Money and Goods was the gateway to understanding macroeconomics – and it still is. It shows how households provide labour to firms, in return for wages, and then use their income to buy the stuff that firms make.

The money flows round and round and so do the resources. When the arrows are going round and round like that, the only question to ask seems to be, how can you make those arrows get bigger? And from there on out, the aim of the game is GDP growth. Very simple. (And if you think it's so simple that I'm making it up, go open an economics textbook – hey presto, there it is).

The circular flow of money and goods

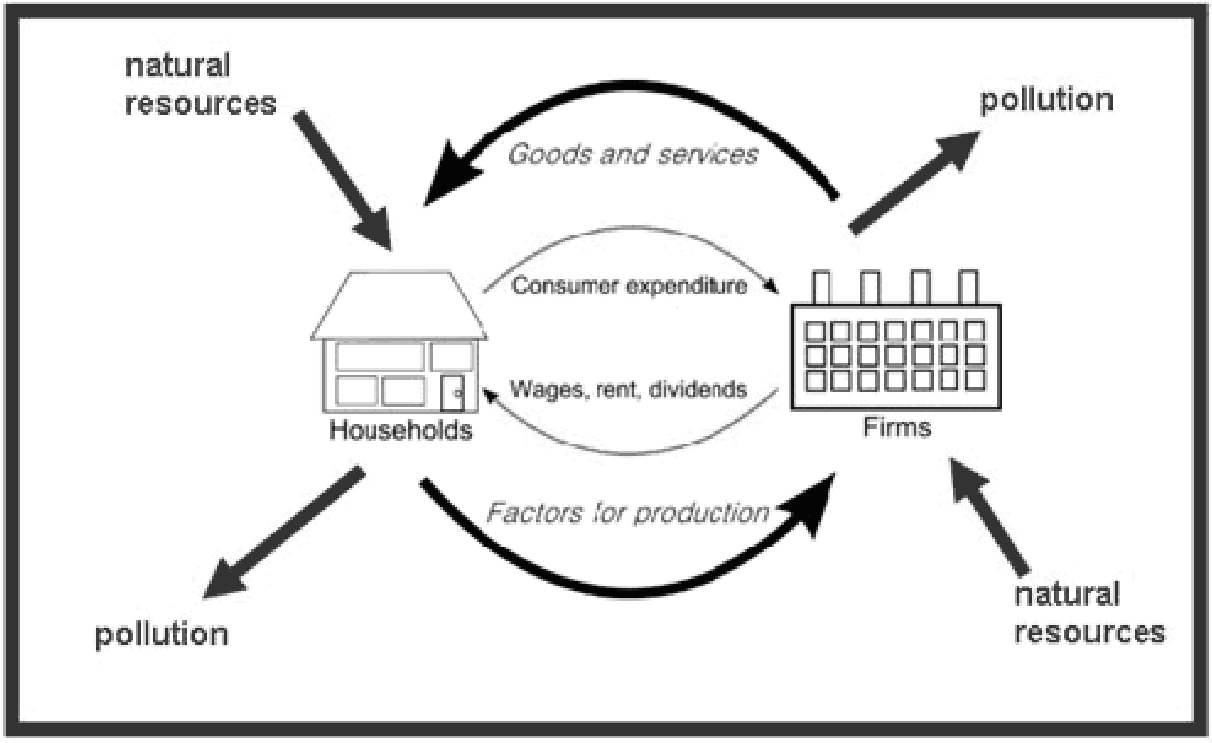


It's such a deceptively simple model of the economy that it quietly inserts itself into the back of the head of every economics student – so quietly that you don't even realize it is there. But it is there, and that's a problem because it's a deeply flawed view of the economy we actually live with. By focusing only on resource flows that are monetized, it misses much that matters in our lives. In fact it misses the big picture three times over.

1.It's not free floating

First, the economy does not float freely against a white background. It is embedded within the planet's environment, drawing on its natural resources and dumping pollutants back out into it. Mention that and an economist will say – ah yes, environmental externalities, we'll come to those later. But calling nature's resources 'externalities' and leaving them till later has led us to this crisis of climate change. How can it make sense to treat the fundamental resource on which all life depends as a factor external to the system? We have to draw a box around the economy and label in The Environment (a point that Herman Daly made some decades ago).

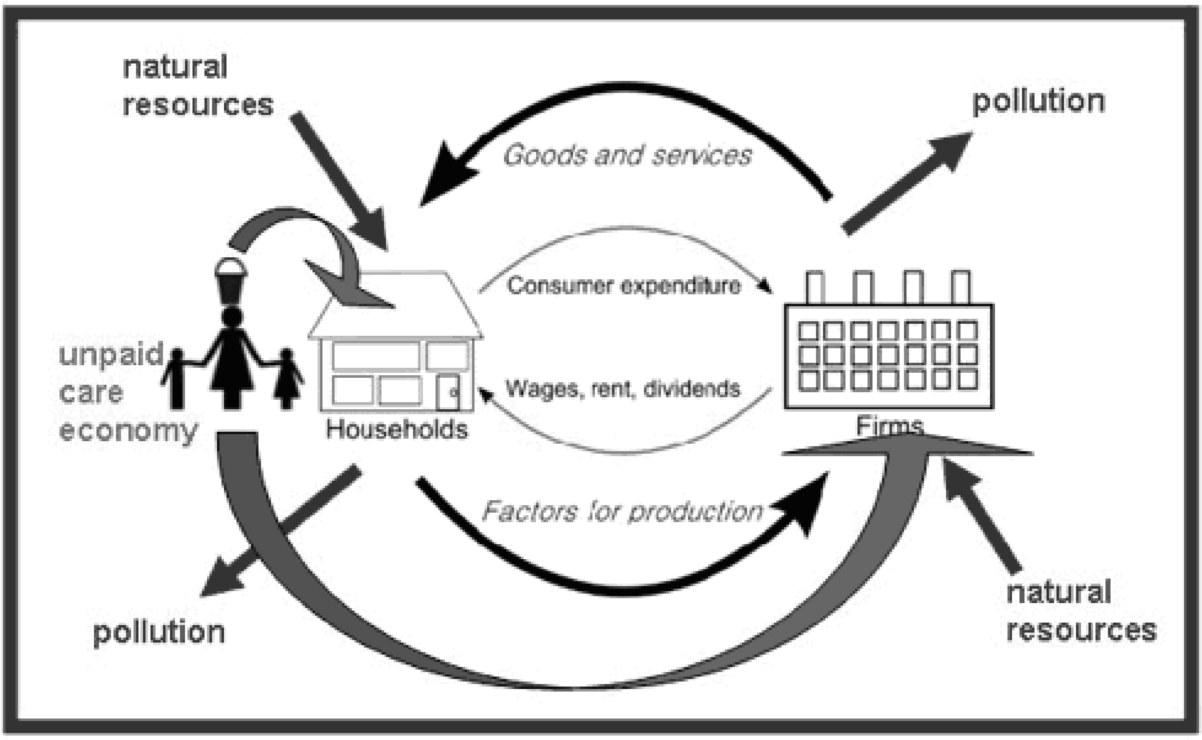
Oops it's not really circular



2. It's not all in the money

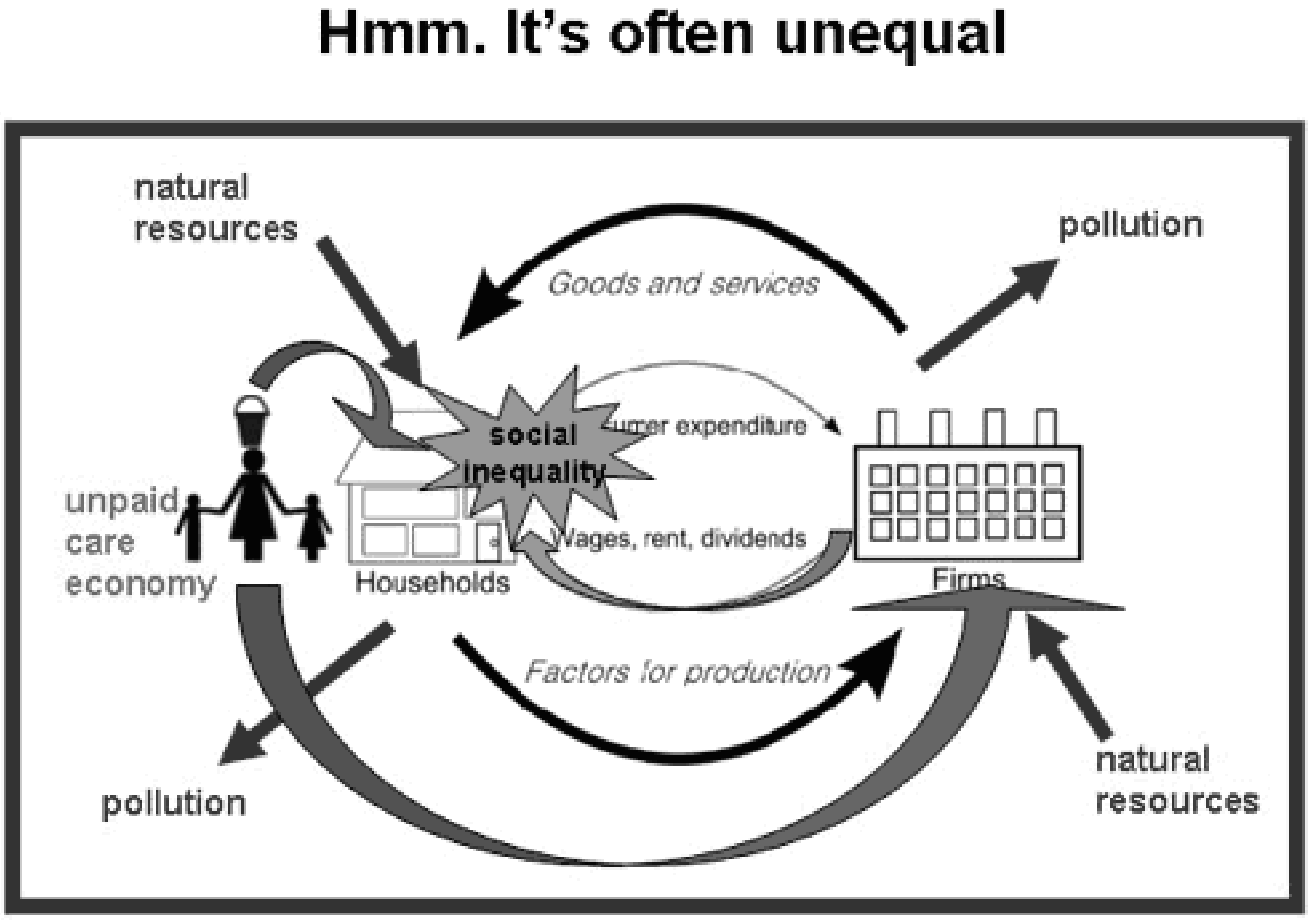
Second, the monetized economy is heavily supported by the unpaid care economy: the services provided by parents and carers (usually women) in raising children, getting the sick back to work, and caring for the elderly. In many low-income countries, that unpaid caring work also includes providing the family's water, firewood, and food every day – in other words, providing the most essential goods and services for well-being. And it's all outside the monetized economy. If we ignore it, we ignore many of life's most valued goods and services, and misunderstand the working lives of many of the world's women. So the unpaid care economy has to be drawn in.

Oh, it's not always monetized



3. It's the inequality, stupid

Thirdly, firms pay wages, rent and dividends to households, yes. But thanks to the kind of capitalism that most governments have been constructing, many people get low wages while a few get high rents and dividends. And, as the worldwide Occupy movement has made clear, that matters. Social inequality has been opening up at the heart of economies and needs to be brought to the fore. So it's time to draw it in.



Now imagine if this was the diagram that economics students encountered on Day One. For starters, it opens up so many more interesting questions. How big should the economy be in relation to the environment? How can policies in the paid economy best support the services that the unpaid economy provides? What could reverse the increase in social inequality? And – going for the really big picture – let go of 'growth' for a moment: what would economic development look like from this perspective?

I think economics students deserve this more realistic starting point – and the world deserves economists who have a more realistic model like this inserted into the backs of their heads. It would certainly give us a far better chance of living between the social and planetary boundaries of the doughnut.

So here's a guerrilla campaign to make it happen. Anyone can do it because all you need is a pencil. Here's the plan (umm, I have to say at this point, this is not Oxfam Policy…). Sneak into the bookshops, the libraries and classrooms, and into the office of every economics professor you know. Get out the macroeconomic textbooks and find that diagram. Take your pencil. Now draw in the environment. Draw in the unpaid care economy. Draw in social inequality.

With these few strokes, we could stick a great big spanner in the wheel of mainstream economic thinking. We'd save the next generation of economics students from having the wrong model of the world stuck in the back of their heads. And that would help save us all from another era of economic policymakers who unknowingly have the wrong model of the economy shaping their decisions.

I made a pitch for vandalizing economics textbooks like this at IIED's Fair Ideas conference at Rio+20 in June.

So it's time for a guerrilla campaign – and I propose these three pen strokes to launch it. **Got any suggestions for more?**

Commonwealth Bank Owned Bankwest Branded Heartless

By Helen Pow
The Sunday Telegraph

COMMONWEALTH Bank-owned Bankwest has been branded "heartless" by angry customers facing financial ruin after the bank slashed their property prices and began calling in loans.

In a wide-sweeping audit called Project Magellan, the bank has drastically revalued the loans of more than a 1000 commercial clients -- some by as much as 75 per cent.

The Sunday Telegraph has seen documents showing some properties have been sold for a fraction of their value. Bankwest sold a 2ha Mount Ku-ring-gai property for $635,000 in October despite a valuation by Alcorn Lupton & Associates valuing it at $3.5 million. It also devalued Ken Winton's nine-unit development in Nambucca Heads by 43 per cent and called in the loan even though he had never missed a payment.

Winton said: "I'm devastated by the way Bankwest has treated me. I can't believe an institution can do this to anybody and I can't believe ASIC would allow this to happen. It is the lowest of acts."

CBA took over Bankwest in 2008 after its former owner, British bank HBOS, ran into trouble during the global financial crisis. HBOS revealed in its 2008 annual report that the deal allowed CBA to knock any Bankwest loans that defaulted off the $2.1 billion it paid for the WA bank.

Nationals senator John Williams is pushing push for a senate inquiry into the bank's treatment of its commercial property clients. "I have some concerns that properties are being fire sold," he said. Greens leader Bob Brown said he would be "pleased to discuss the issue".

Under HBOS, Bankwest sought to lend aggressively in the commercial property sector, particularly in the eastern states. When CBA took over, it revalued the loans of more than 1000 commercial clients. Sylvia and Gilbert De Michiel are being chased for more than $830,000 after Bankwest devalued their motor inn in Nelsons Bay and sold it for around half of what they paid for it.

Disgruntled customers who've seen their livelihoods destroyed have joined a group called Unhappybanking set up to fight the bank.

Bankwest denied the allegations. A spokeswoman said: "Due to the GFC and the broader economic environment property values and property development in general suffered between 2008 and 2011. Bankwest assisted many customers through this period and continues to do so."

CBA declined to comment.

Australian News And Views

By Geoff Forster

Shadow Treasurer Joe Hockey condemned the widespread attitude of "entitlements" in western democracies. This led to a vigorous response from the sociologist Don Edgar, arguing that debate about "welfare benefits" must be replaced by focus on real needs, equal rights and the common good. He added that it was the rich and higher-status people who are more prone to feel entitled, not the poor.

From a Georgist perspective there are at least two fundamentals here. One is that citizens are entitled to the full fruits of their efforts, without depredations from privilege and arbitrary taxation. The other is that society as a whole is entitled to the ground rents its activity generates - not those fortunate enough to control locations yielding ground rents.

The Grattan Institute has come out advocating extension of the GST to food, as well as health and education services and giving mothers better financial services to return to work. It cannot be excessively emphasiazed that the GST is a bad tax: it is regressive (hits lower incomes harder, is compliance irritating, especially for small business, and by its intrinsic nature deters economic activity. As for mothers returning to work: if they freely wish to do so; that is one thing. But often it is the pressure of the mortgage repayment. And to be effective there, more land tax to lower land prices is essential. And finally, why on earth make food dearer?

For an incredibly superficial article on housing affordability, the effort by Ross Gittins in THE AGE early in July is hard to beat. It did mention that the Australian median house price rose from 2.8 times average annual household disposable income in 1993 to four times in 2001. He mentioned the phrase "better located" once, but nowhere was the distinction between the building and the underlying site made. We are told that "the value of you home is easily determined: it is what someone is willing to pay for it". What about the objective external factors involved in this process? Various refences were made to "the jargon of the economists". His own addition to this jargon obscured still further this vital social issue.

Data from the 2011 census has now become available. Fewer Australian households own their home outright and more are renting. Typical household incomes grew 20% in the five years to the 2011 census, but in the five years before it climbed 31%. Typical household rent has jumped 49%, the typical household mortgage 39%. Perth mortgage payments drove up the national total, soaring 54% over five years, while Perth rents soared an amazing 78%. The proportion of people living in stand-alone houses fell in every capital city, while the proportion living in town houses and apartments grew. Housing affordability has very pervasive effects. And of course basically it is the unacknowledged land price factor. This was underlying a powerful letter to the editor in THE AGE which reminded us that tens of thousands are homeless, many sleeping in parks, cars or impoverished dwellings.

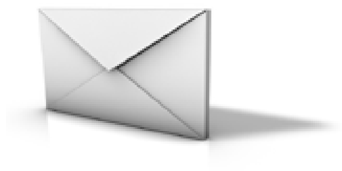
A couple of decades ago there was discussion about how people would use their extra leisure in view of the anticipated decrease in working hours. Of course it hasn't happened. Now there is talk about how to encourage older people and women in general to stay in the workforce longer. A former Federal Treasurer advocated raising the retiring age. Have economic and related needs been increasing? Or is it not the fact that despite overall improvements in the production and exchange of goods and services, our economy is in fact deteriorating? And surely our crazy tax system is largely responsible.

All six Australian mainland cities are more expensive than New York, three are rated dearer than London, according to the 2012 Mercer Worldwide Cost of Living Survey. No.1 is Tokyo, No.2 is Luanda (Angola), and No.3 is Osaka. Sydney is 11, Melbourne 21, Perth 19, Canberra 23, Brisbane 24, London 25, Adelaide 27, and New York 32. The Economist ranks Australia as having the most overvalued property markets. Again, more evidence of the failure to draw revenue from community created site rents and steadily lower taxes on buildings and building materials.

Postcodes are often associated with prestige in terms of livability. Some recently released data on bankruptcies according to postcode gave a different significance to that four figure combination. In the metropolitan area Cranbourne 3077 was the "winner", with Frankston 3199 at No.2 and Hoppers Crossong 3020 at No.3. In the country, Belmont, Highton and Waurn Ponds 3216 came first, followed by Ballarat 3350 at No.2 and Mildura 3500 at No.3. Mortgage stress was mentioned as a significant factor; often casual workers who could suddenly find themselves out of work were involved.

Yet again, more evidence of the flaws in our economy that Prosper is warning about.

Letters



Email to Daniel Parsons, Ministerial Advisor to Minister of Planning Matthew Guy

Dear Daniel,

I am writing to request a time to discuss these important planning issues with Minister Guy. Is your office aware of the land supply manipulation undertaken in Hume recently?

The AFR's Rebecca Thistleton writes in Greenfield Sales Remain Soft last thursday.

Key quote:

The most affordable land was in Mitchell at $171,500 and a median lot size of 512sqm. Mitchell recorded the largest shift in supply, dropping from a 20-month supply in the March quarter to 8.5 months in the June quarter. However this was due to stock being withdrawn from the market, rather than sales.

The people of Victoria deserve better than this. Developers have been given some 96,000 hectares to develop affordable housing here in Melbourne over the last decade. They are abusing their market power and determining that $171K is as cheap as land prices are to go.

Recently Marc Pallisco, from the Age's Capital Gain section wrote on a similar theme: (June 23, 2012):

The developer (Lend Lease) negotiated with council to create a community with 4900 blocks, but instead will offer just nine to the market this weekend, priced from $157,000. This stage follows the late 2011 launch when 20 blocks were offered using a ballot method to prospective buyers who registered an interest online.

Critics of the current taxpayer-funded public housing building boom, and housing affordability advocates, argue a dent could be made if developers were prevented from self-regulating supply, otherwise known as land banking.

Developers, however, argue land values are preserved selling land this way.

29 out of 4,900 lots = an unemployment rate for this zoning of 99.94%. People desperate for housing deserve better than this. The high cost of land and thus housing is curtailing consumption with families having to cut back on activities to service their mortgage.

Our 5th Speculative Vacancies Report (written up in the Age online this week) found a potential 90,700 empty properties within the UGB via our innovative water consumption methodology. This figure is conservative as it doesn't include unmetred land banks.

We can discuss how to assist land supply via further improvements to your recent changes to developer levies.

I look forward to a meeting time soon.

warm regards,

Karl Fitzgerald
Projects Coordinator
Earthsharing Australia
www.earthsharing.org.au

Must Try Harder
Mr John Quiggin
Author of 'Zombie Economics'

According to standard economic theory, the least distorting of all taxes is a land tax. This point can be pushed too far – for example, most land is improved to some extent, and that may be capitalized into land values. Nevertheless, given the financial difficulties of state governments, their failure to make use of this revenue source is an indictment, especially since they impose much more distortionary taxes on transactions involving land, such as transfer duties. All states exempt owner-occupied homes and primary producers from land tax, while taxing land sales and purchases across the board. The effect is to benefit existing landowners (except owners of rental housing) at the expense of new home-buyers and tenants.

It appears to be beyond the realm of political possibility to change this, but a government facing a supposed financial crisis, and looking for luxury items to cut, could start with land tax exemptions. As you might expect, Queensland has both a high threshold ($600 000) and a low rate (1 per cent increasing gradually).

None of the usual justifications for Queensland's low tax effort apply here. Land tax exemptions do nothing to attract business to Queensland. They are a straightforward handout to landowners, mostly wealthy households with investment properties.

Unsurprisingly, this handout attracts zero critical attention from the Commission of Audit which states "Queensland has historically maintained a competitive taxation environment compared to other states." This is entirely wrong as it applies to land tax. Since land is immobile, there is nothing competitive about low rates of land tax.

Press Release:

Holding land from being used is opposed by petitions with a total of 380 signatures lodged with the WA Parliament by John Quigley, MLA. on August 8.

Burns Beach builder John Hollywood in an independent effort started the petition and spent several weekends between June 6, 2010, and July 22, 2011, at Alkimos collecting signatures, with occasional helpers.

The petition wants the Alkimos development about 40km north of Perth G.P.O. to be subject to a rule that buyers must build within two years (159 signed) or three years (221 signed). Presumably if they don't build, buyers lose the land but get their money back.

The petitions also ask that no land sold there by Landcorp be allowed to be sold to other people unless a building has been completed on it.

The thought behind these two requests is to stop people speculating in land, thus putting upward pressure on prices, and so making it unaffordable for would-be homeowners. Homelessness is a serious problem in Perth.

Mr Hollywood says that Perth has 40,000 vacant blocks, and in some suburbs the number of vacant blocks is so large that it affects the viability of local businesses, and keeps schools from being used to their full capacity.

Issued by John C. Massam
President of the Georgist Education Association

Funding Infrastructure

Using the uplift in private land values to fund infrastructure projects ("Doncaster railway line 'could be built for $840m' ") is one of the recommendations of the Ken Henry review of taxes that was immediately abandoned by the federal government. Such a reform would threaten the windfall profits of too many powerful vested interests.

The proposed funding model actually has the potential to completely fund infrastructure projects. While British taxpayers paid three and a half billion pounds sterling to build London's Jubilee Line (tube) extension, a study found that the value of nearby properties skyrocketed over thirteen billion pounds.

The many losers and few winners of the present system of financing infrastructure is a great way to run a casino, but not a civil society.

Karl Williams, Tecoma

Email to the VLGA

HI Samantha,

I note your latest e-news on "why we keep using a nineteenth century property tax to provide for twenty-first century people and property services..... we think the proposed changes to differential rating may exacerbate the issue by having the potential to reduce even further the already limited capacity of councils to set rates at levels appropriate to meet their policy goals - the major reason that rates are levied - to deliver services and infrastructure for their communities."

Rating systems do more than raise revenue. They encourage good behaviour towards our most important resource - land , in particular, land in prime locations close to infrastructure. The current CIV/ NAV mess promotes the family home paying 30% more in council rates than a land speculator (or whatever the split of improvements). No wonder farmers are upset, they have high capital values too. Equitable treatment is one of the bedrocks to the justice and fairness that property (read Land Taxes) were originaly so well regarded for.

It is in your interests to improve the rating method rather than imply the inevitable move towards the regressive sales tax. Differential rates were always set up for such disputes. If you doubt the importance of deterring land speculation via Land Taxes and rates, please look at the damage the global property bubble has caused.

If you would like to understand more about why CIV / NAV is unfair, I would only be too willing to discuss this further with you.

Karl Fitzgerald

Against the Carbon Tax

In criticizing Richard Giles' article in the January-March issue of Progress, Karl Williams (April-June issue) complains among other things that it is difficult to follow. Personally I found it clear - rather clearer than Karl's, in fact.

Whether we agree with all of it, Richard gives valid arguments against the carbon tax, arguments that deserve consideration. But what I found disturbing about Karl's response was his description of Richard Giles as "the so-called Georgist". Richard is a Georgist, and has given many years to the promotion of Georgism.

John Young

Housing Shortage? Nobody's Home

By Chris Vedelago

PUBLIC NOTICE
ON
HOUSING SHORTAGE

Due to the Lack of Housing Accommodation in This City

Notification is hereby given to families residing outside this City, that THIS MUNICIPALITY WILL NOT ASSUME ANY RESPONSIBILITY OR PROVIDE ANY ASSISTANCE IN LOCATING LIVING QUARTERS for those families contemplating moving to Toronto.

The City has exhausted every available means of finding accommodation for those families already in the City and is unable to cope with an additional number.

For your own comfort and convenience DO NOT COME TO TORONTO FOR HOUSING ACCOMMODATION.

ROBERT H. SAUNDERS, Acting Mayor — J. W. SOMERS, City Clerk

Monday is bin day in Alistair McLean's street. The neighbours, like clockwork, line their bins along the kerb, ready for pick-up that morning. And like every week, there's always one house oddly out of sync. In more than two years, Alistair has never seen a sign anyone lives in the place on the corner — no bins, no cars, no lights. But the grass along the fence gets trimmed and the mail never piles up, so it's not as if the home has been completely abandoned.

"They've basically mothballed the house," Alistair said. "You'd only know it was empty if you lived in the area." In fact, there's good reason to believe there could be tens of thousands of similarly empty homes across Melbourne. (And, presumably, in every other capital city).

A study by Earthsharing Australia estimates there are 90,730 vacant properties around the city, enough homes to provide housing for nearly a quarter of a million people. It amounts to a vacancy rate of nearly 6 per cent, challenging industry claims the city is facing a housing shortage.

They arrived at this staggering statistic through an analysis of water use, with the Speculative Vacancies Report classifying as "vacant" any home that uses less than 50 litres of water per day over a six-month period. With average daily water consumption at 140 litres per person and 350 litres per household, the report's author Philip Soos considers 50 litres per day a conservative cut-off point. (A water-saving shower head uses six to seven litres of water per minute and a toilet about four litres per flush). Soos notes the data could be skewed by capturing low-use residences like holiday homes, blocks of units that run off a single meter or properties under renovation.

But it's a lot harder to dismiss the findings that tracked the number of homes using no water over a six-month period. This part of the survey covered the 361,410 residences serviced by City West Water, which accounts for about one-quarter of the homes in the city. Soos found 14,252 properties, or nearly 4 per cent, were effectively empty over that half-year.

Considering the vacancy rate in the private rental market alone is estimated at 1.9 per cent to 2.9 per cent, there appears to be a substantial glut of under-utilised housing out there.

Armed with the report - and a list of allegedly long-term vacant properties submitted by readers - I spent a day driving Melbourne's suburbs to see the state of affairs from the kerb-side.*

Broken windows and garbage-strewn gardens made the decrepit and unliveable homes easy to spot but they clearly account for only a handful of properties. Vacant lots were more numerous, fenced off and overgrown since the house that was once there had been demolished. But it's clear that the bulk of properties - if the data is correct - are perfectly good homes that owners are intentionally leaving empty.

Readers sent me addresses for well-kept properties where no living soul had been seen for a year, two years, even six years. Lawns were trimmed, mail was collected, but the driveway was always empty with shades drawn on perpetually dark rooms.

So why is it happening?

Earthsharing Australia, which is affiliated with tax reform group Prosper Australia, believe it's the direct result favourable tax and incentive-driven housing policies that encourage speculation, land banking and drive up house prices.

"The rapid run-up in housing prices has provided a lucrative torrent of windfall gains via capital appreciation for investors while rents have not kept pace," Soos writes.

"Faced with this set of circumstances, investors may conclude that renting properties make for dubious investments when factoring in the wide array of costs associated, including time and effort."

In other words, it's a better deal to turn a viable home into a lock-up-and-leave investment. And it's certainly been documented before in Melbourne, particularly at the top end of the market. Figuring out what to do about it, however, is a lot more problematic.

Private property rights recognise - with certain limitations - that an owner is free to do what they want with the land or home they purchase. It's hard to see a fair, or workable, way that councils or governments could force the owner of an unused home to rent it out.

Vacant land is another matter. Some councils already charge a premium to rates for residential land left fallow Others do not, meaning owners are able to reap a windfall in rising land prices while paying less than others to hold their property. In one case, a vacant 167-square-metre block was charged $991 for the year, while the liveable house next door on a 158-square-metre allotment paid $1540.

Valuers will also tell you that vacant blocks and derelict homes can hurt the values of other property holders in the street, especially direct neighbours. For their part, Earthsharing Australia and Prosper Australia argue that a "substantial" land value tax would help "blunt" capital growth and encourage owners of unused homes to put them on to the rental market. At the very least, the Speculative Vacancies Report chips away at industry claims the city is facing a serious housing supply shortage.

*The data provided by City West Water and Yarra Valley Water was aggregated at the suburb level and no individual properties were identified.
I would also like to acknowledge the work of my Age colleague Henrietta Cook in tracking down these vacant properties.
(Disclaimer: I am an owner-occupier of a single-dwelling home in Melbourne's inner suburbs. I do not own any investment properties. I am not in the market to sell or buy)

Earthsharing Australia's Speculative Vacancies report has come a long way. It started off with a bicycle led survey of one ward, Bluestone Ward in Footscray West. Our 5th report was authored by Philip Soos and is our most extensive yet.

Speculative Vacancies Report Summary

By Karl Fitzgerald

Analysis of 1,015,599 residential properties shows that 60,103 properties (5.9%) were potentially vacant over the study period, having consumed less than 50L/d. This figure rises to 90,730 when extrapolated across the entire residential property market. A large number of commercial properties (24.2%) were also potentially vacant in the suburbs where data are provided. These potential vacancy rates suggest a considerable underutilization of business-related property, analogous to the unemployment rate for labour. Caroline Springs had a 64.4% commercial vacancy rate.

One hypothesis to account for why these properties remain vacant is the escalation in capital appreciation of property values (specifically land values) as housing prices in Melbourne have risen by 180%, adjusted for inflation and quality, between 1996 and 2010.

It is argued that a substantial land value tax would serve as a withholding cost and helps to blunt capital appreciation, ensuring landlords cover costs through rental income, not capital gain.

It is arguable the $4 trillion dollar land-owning class is the most powerful lobby in the country, ensuring that the government attends particularly to its wishes, first and foremost. For these reasons, politicians and government bureaucrats have been falling over each other to subsidize and protect land owners, despite the very real economic costs and social problems their behaviour generates.

Phillip went to extensive lengths to meet past criticisms of our report:

- According to Melbourne Water per capita residential water consumption was 140L/d during 2010/11. During one week in April 2011, consumption reached record-low levels at 120L/d per capita.
- The occupancy rate is approximately 2.5. Using the average per capita figure of 140L/d, an estimate of household water consumption equates to 350L/d. This is seven times our deemed cut-off point of 50L/d for a property.
- It is possible for water leaks on a property to 'consume' a level of water daily above this cut-off point- estimates

range between 20 and 300L/d for a leaking tap or toilet. A 1mm hole in a pipe can result in leakage of approximately 3,000L/d.
- Water tanks - as of 2009, 78% of households did not have a water tank installed on the property. Of the 22% with a water tank, 7% had the tank plumbed into the dwelling and the remaining 15% were not connected.
- A downward bias may be present in the data if blocks of apartments and units are serviced by a single water meter.
- Sole person households whose occupants are fly in, fly out (FIFO) workers could account for some low water readings. Evidence suggests that one and two occupant households consume an average of 231 and 382L/d, respectively.

REIV Methodology Flawed

Philip's desire to get to the nub of the story saw him visit the REIV offices in person after a number of week's of fruitless emails and phone calls. He found that widely quoted REIV vacancy rate was a voluntary measure completed via an online survey.

Other key findings on the REIV vacancy method:

- Approximately 70% of all agencies in Melbourne are affiliated with the REIV
- The sample size used to derive the vacancy rate tends to be around 15-20% of total rental stock on agency rental rolls.
- When the current vacancy rate for an area differs substantially from last month's rate, it is excluded on the basis of inconsistency.
- The data and methodology are not audited by an independent third party to verify quality outcomes, and performing the analysis in-house leads to a conflict of interest, as the REIV ultimately represents real estate agents, not vendors or the public.

Suburb	Total	<50L/d	Ratio
Essendon North	1,449	212	14.6%
Docklands	1,951	275	14.1%
Williams Landing	1,476	200	13.6%
Truganina	3,636	468	12.9%
Niddrie	2,484	289	11.6%
Footscray	7,351	842	11.5%
Albion	2,003	206	10.3%
Maidstone	3,483	353	10.3%
Altona	5,327	545	10.2%
Airport West	3,552	359	10.1%
Tullamarine	1,875	186	9.9%
North Melbourne	5,574	529	9.5%

Table 3.1

Findings

Table 3.1 shows the top twenty suburbs by potential vacancy rate, excluding those with less than 1,000 properties to eliminate statistical anomalies. 19 of the 20 suburbs were in the area managed by CWW, suggesting that residents prefer the eastern rather than western suburbs. Essendon North ranked at the top, with 212 out of 1,449 properties (14.6%). Surprisingly, many of these suburbs are in inner and mid-rim locations, while some are out on the fringes. Given the desirability of close proximity to the city, inner suburbs would be expected to have the least potential vacancies.

Why are Properties Held Vacant?

Since 1996, Australia has experienced yet another boom in housing prices (specifically land prices), fuelled by the loose lending standards of financial institutions and generous tax subsidies for property. These two factors have ensured that property speculation is an immensely profitable activity, becoming a national pastime for Australians. Melbourne has become a focal point of frenzied debt-financed speculation, resulting in the greatest escalation of housing prices in its history.

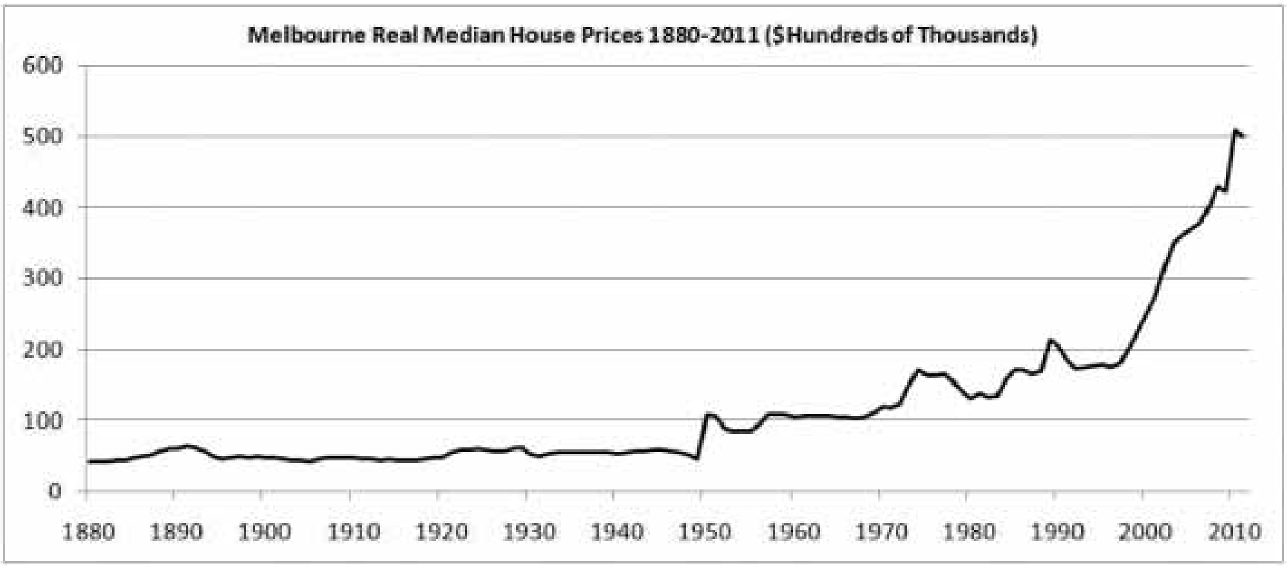


Figure 4.1

From 1996 to the apparent peak in 2010, housing prices increased by an astronomical 180% before falling slightly in 2011. Median property prices have jumped from $175,000 in 1996 to $500,000 in 2011, at an average rate of $22,000 per year; the compound annual growth rate over this period is 7.25% in real terms. Melbourne's property market, however, is not homogenous. Some local markets have appreciated faster than others, especially the wealthy inner suburbs. It is not unusual for properties located in these areas to grow $50,000 - $100,000 in annual value over the last decade, yielding enormous returns for investors. This is unsurprising, as expensive locations are the most desirable, and will thus appreciate at a faster rate than other areas.

Figure 4.2 shows the disparity between the trends in Melbourne's housing and rental prices. While housing prices have increased astronomically, rents did not begin to rise above the rate of inflation until 2006. ...The rapid run-up in housing prices has provided a lucrative torrent of windfall gains via capital appreciation for investors while rents have not kept pace. Faced with this set of circumstances, investors may conclude that renting properties make for dubious investments when factoring in the wide array of costs associated, including time and effort.

Further detail can be found on this well referenced 39 page document at:

http://www.earthsharing.org.au/?p=3151

The last 5 years of reports and press releases:
http://www.earthsharing.org.au/campaigns/

Karl Fitzgerald on Housing shortage questioned again:
http://www.earthsharing.org.au/?p=3259

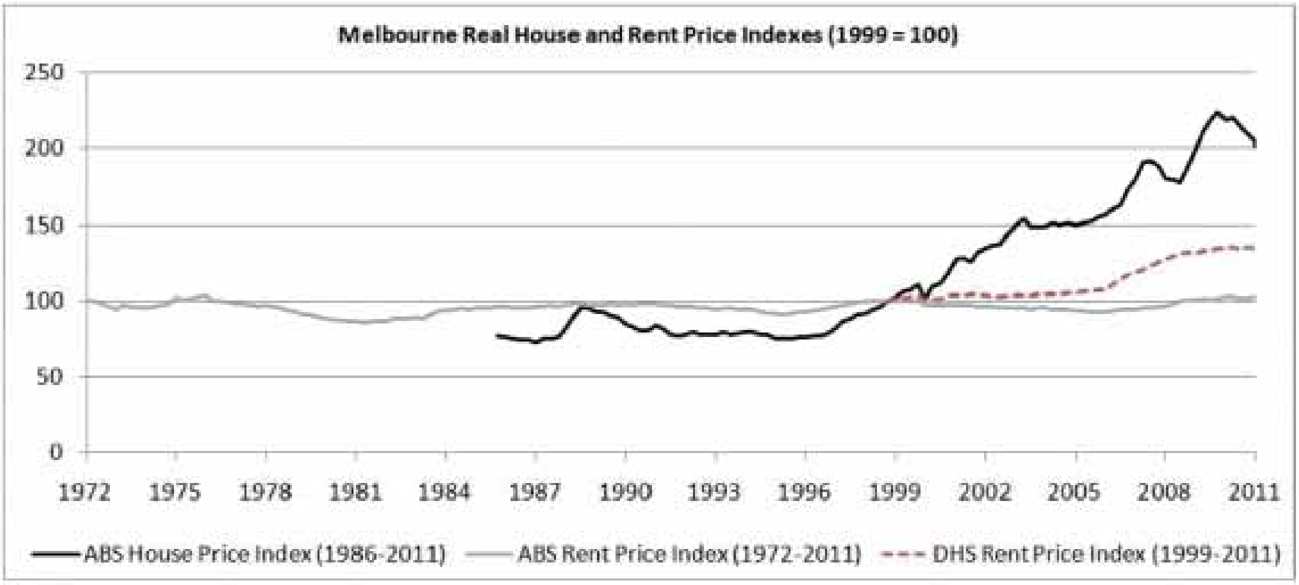
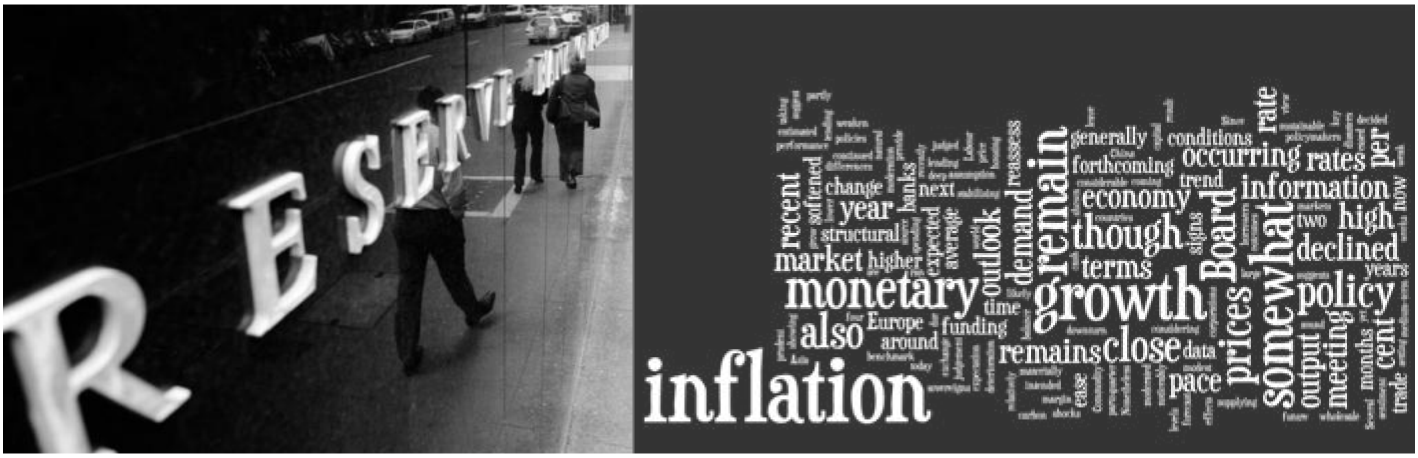


Figure 4.2

RBA Relaxed About Australias Land Bubble

By David Collyer



The apathy of economists about the costs and burdens imposed upon modest citizens is staggering, as though this is their natural lot and there is nothing to be done. Housing is a perfect example. We see young adults rejecting home-ownership because without future price appreciation, taking on debt-slavery is futile. Existing owners cannot trade up or out unless first home buyers step up. This happened in Japan, to their great cost.

A key paper by Dr Luci Ellis, head of the Reserve Bank of Australia's financial stability department (Property Market Cycles as Paths to Financial Distress; Ellis, Kulish and Wallace, 2012) shows our central bank is relaxed about Australia's land bubble, and thinks the finance industry is safe.

The paper asserts the "distribution of debt is far more important in creating financial distress than its aggregate value." However, both measures are now at extreme levels – many borrowers supporting very heavy debt loads, betting asset prices will inflate away their inability to fund principal and interest on the cash flow from the investment (for owner occupied housing, the imputed rent).

The National Centre for Social and Economic Modelling at the University of Canberra has estimated that nearly 10 per cent of mortgage holders were paying more than 50 per cent of their income toward loan repayment in 2011.

This is Hyman Minsky's classic definition of 'Ponzi Finance'.

Ellis observes that the expectation property will hold or increase its value may induce both borrowers and lenders to treat the collateral as the primary guarantee of repayment, rather than as a second line of defence should the borrower's cash flow prove insufficient to service the loan.

While this lets banks create financial assets (loans), it doesn't help people buy a house – it risks trapping them in debt beyond their earnings and work-life.

Evidence before a recent Senate inquiry by Denise Brailey of the Banking and Finance Consumers Support Association is damning. She asserts widespread fraud in 100,000 low-doc and no-doc loan applications, inflating borrower incomes without their knowledge so applications appear reasonable and repayments manageable.

Australian banks have developed a loan application process involving brokers, bank business development managers and loan officers that mis-states borrower finances yet is deniable by all. It seems the whole machine is designed so brokers take the fall, then simply close up shop and vanish.

Here is the damaging fracture consistently denied by banks, regulators, commentators and spruikers.

“What Dr Ellis does next is absolutely critical for the future direction of our country.”

Fraudulent practice has a nasty habit of metastasizing. We cannot be certain deceit has entered the mainstream mortgage market, but perverse incentives are evident right next door.

Ellis cites a Massachusetts study (Foote 2008) of the early 1990’s downturn where 10 per cent of borrowers went into negative equity in Q41991 and ‘healed’ naturally and quickly in the later land price boom. A mere handful defaulted. Only problem is, that downturn was a mere blip compared to the land price crunch of 2008-12 which has put 30.9 per cent of all US households with mortgages underwater a full five years later .

If the major land price correction forecast by Prosper Australia comes to pass, those with heavy mortgage debts and the banks that gave them the money will be insolvent.

What Dr Ellis does next is absolutely critical for the future direction of our country.

The RBA may preserve the banks to live to lend another day, but this good work is no help for the vast majority of Australians who simply want a home to call their own and not be some cat’s-paw in financier rent-seeking.

So the RBA may, in the pursuit of a ‘stability’ mirage, preside instead over a moribund and introspective country slowly and painfully paying down debt- for decades.

There are genuine options to budget-busting bank bailouts and agonising deleveraging, both developed in Australia by world-class thinkers.

Steve Keen suggests a modern ‘Debt Jubilee’ – the government gives every taxpayer a large sum of money to pay down debt. We step back from debt default, the banks are made whole again and those without debt are rewarded for their prudence. But this option must be considered early. Once bank bailouts begin, it will be difficult to change course.

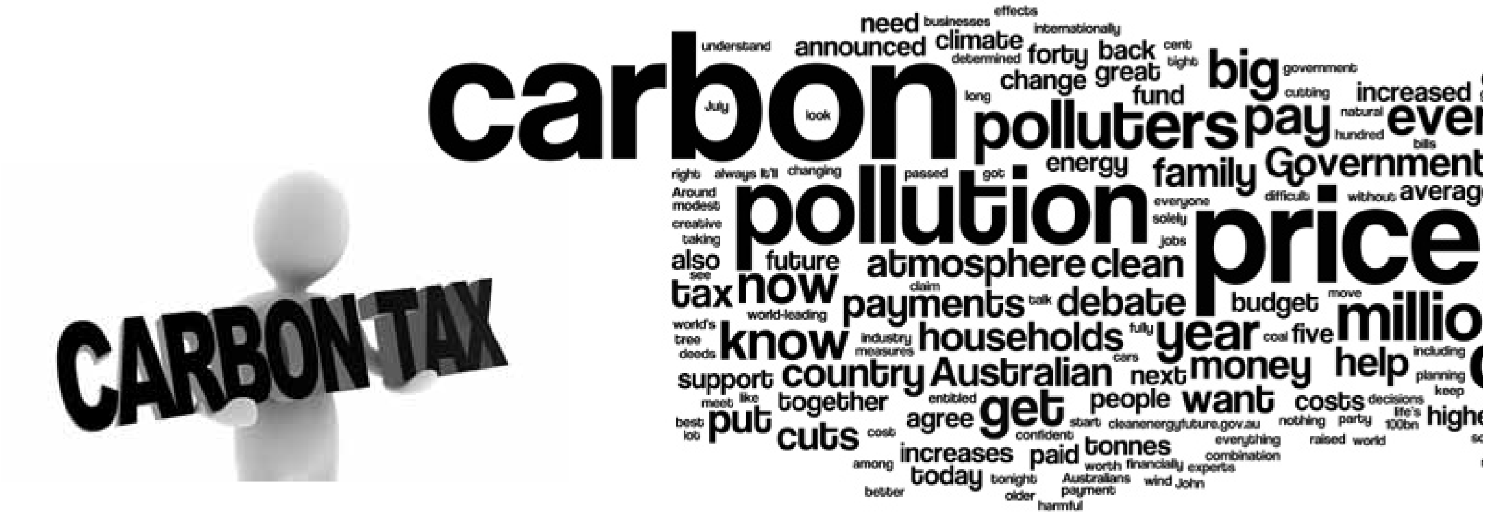
Australia has the borrowing and printing capacity for this stunning manoeuvre. Treasury had better be calculating its practical application – the austerity alternative is proving very ugly in Europe and the USA.

It would provoke an angry army of noise-makers defending privilege, determined to keep the Australian people in debt-slavery.

Meanwhile, the sweeping tax reforms proposed by Ken Henry can proceed, crisis or not. His blueprint would cut major deadweight costs, restore government finances and restore incentive destroyed by the rentier counter-revolution of the last forty years that delivered to wealth in spades.

WHAT IS THE CARBON TAX?

By Shirley-Anne Hardy



In response to Karl Williams's "In Favour of the Carbon Tax" (April-June issue) I would point out that Richard Giles, in setting out in "Against the Carbon Tax" his opposing view, is far from simply upholding the work of a historical figure (Henry George). Rather - his article carries the matter to its full depth.

What foils the argument of Karl's article is the unfortunate introduction into it, in its seventh paragraph, of the term 'use' - at once dubious in this context, and which presently reveals its hidden snare.

Soundly, in his sixth paragraph, Karl states - referring to the Geoist focus on the rental value of land - that what we are talking about here is land's "locational value" - (a value which, let us note in passing, being bestowed gratis by the community on what become - being above the margin - the more advantageous locations within a settlement, is in reality a repayment to the community, by the occupiers of such land, of a windfall gain from the community: hence the last thing that could possibly be called a tax!).

Having started into his argument with clear focus on the locational value of land - a qualitative measure - Karl, however, then changes ground to a quantitative one. For referring, in his seventh paragraph, to a way to "share the Earth", he states that "those who take a disproportionate amount from our Common Wealth owe the rest of us... a natural resource charge in direct proportion to their use".

Since our only "Common wealth" is our community rental fund - (since the Earth is not wealth, being a 'given' predating the creation of all wealth) - and since Karl cannot have been referring to the "taking" of some amount from our rental fund, since we do not take, but only receive from it - so Karl's statement about those "who take a disproportionate amount from our Common wealth" owing the rest of us "a natural resource charge in direct proportion to their use" - can only refer to a landholding that is excessively large. So we have now slid - almost without noticing it w from the qualitative (locational) value of land, to a quantitative (size measurement) one. But as we know, size and value do not mix - a few square yards in a city usually far outvaluing broad acres in the countryside.

Ignoring, however, this anomaly ~ under the spell of the dubious term 'use' - the article now hastens on down a completely other pathway: "But what if the Global Commons is not just used, but **abused**, (i.e., depleted, degraded, devalued, polluted)?" Here the hidden snare of the term 'use' finally reveals itself. For the term 'use of land' does not necessarily refer simply to an amount of land occupied - (already a contradiction, as that is, of land's locational value). No, indeed! For the word 'use' may appear also in a second and quite different arena - an arena in which exists a fully legitimate opposite to it, i.e., the word - (which now appears, above, in Karl's article): 'abuse'.

From this point on, to its end, the article is now Caught - snared - in the arena of this quite other meaning of 'use' ~ one in which the concept of abuse equally exists.

For this is the arena concerned with the productive activity - (use - or perhaps abuse? - of land) - engaged in by a landholder, on the land which he 'uses', (i.e., simply - occupies, as in the first meaning Karl gave to this word).

Karl's preoccupation with the appalling blighting of the Planet today, from man's misdemeanours, is not only fully understandable — it is fully commendable. But this does not give him licence to declare of the carbon tax - as an attempt to curb this blighting - that it employs the "same elegant principle" as Henry George'.

We see now how Karl's choice of vocabulary — in substituting for the strictly correct term 'occupation' of land, the vague term 'use', with its double meaning - has truly brought us to a 'confusion worse confounded'! (And just how right Henry George was to emphasise, from the start, in his work, the necessity of clear definition!) For it is the snaring word 'use', with its 'double entendre'- gliding from occupation of land (geoist concept - albeit with Karl it referred to size) - to the use that is made of land (and.hence equally possibly abuse), a glide apparently unnoticed by Karl - which then snares him finally into declaring the carbon tax a Georgist measure!

But Henry George was not concerned, in his work, with the 'use' of land in Karl's second sense of this term at all. He has nothing whatsoever to say about the way in which humans should, or should not, make use of land. And rightly so does not! His far deeper vision saw that it was needless. For just as birds, living in free conditions, do not filthy their own nest - no more do people! (See section on Dr Weston Price, in Part II of 'Birthright in Land..." ~ a copy surely in your library!)

So sunk are we in the mire of our all—underlying condition of serfdom - with the landed interest, heedless of our environment, holding us in its vice-like grip - that we have simply lost the vision of how unnatural all these polluting practices are!

Karl nosits the carbon tax as evidencing "True Cost Economics". But "true cost economics"- as Henry George- and others have taught us - is the appalling price paid by society for transgressing the Law of Rent!

And what is_the price paid by society for this transgression? The answer goes to the heart of Henry George's work, and to the very soul of the man. It is to live in a society where the great mass endure appalling poverty and where ever relentlessly increases the gap between rich and poor.

This is the price society pays for its ignoring of the Law of Rent; and as it was his distress at this spectacle - of increasing poverty amidst increasing wealth ~ which drove Henry George to his discovery of the Law of Rent, so we know that for his name to be associated with any charge upon society which adds to the burdens of the poor, must he anathema to him.

But adding to the burdens of the poor is exactly how this carbon tax works out. Richard Giles ~ (with his rare clear sightedness on so many aspects of Geoism) – actually traces out in his article how it is the ordinary people the burden of this carbon tax will ultimately most heavily rest upon-making them even poorer. (He reveals a good deal more about the carbon tax too.) He then rightly asks: "Is this what Georgism is about?" - a question Karl's article does not answer. '

Surely we know, in any case, after decades - generations - centuries of taxation, that have only ever seen a widening of the gay between rich and poor, that that is the way all taxes will forever work, within the framework of a monopoly-based society. Monopoly sees to it!

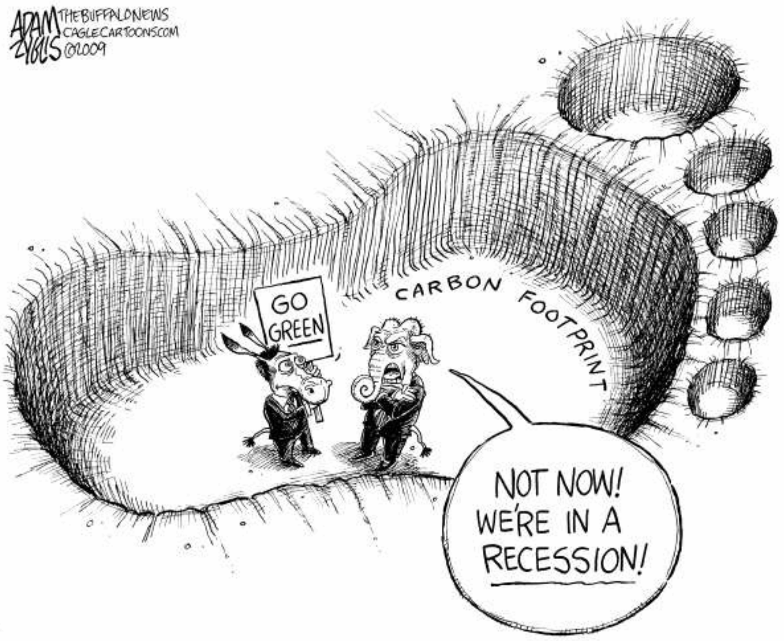
Let those who wish to promote a carbon tax, in their belief that it will benefit society, do so. But never let them, by a falsely contrived linkage, contaminate with it either the work or the name of Henry George.

...Meanwhile here the Scottish Government is similarly going bonkers over the Scots' addiction to alcohol - because it similarly, having no vision, cannot see that what is really signalled by this at bottom is - a violently frustrated ADDICTION to JUSTICE and FREEDOM!

Perhaps it is not too profane to adapt a certain familiar quotation, and say: "without (the Geoist) vision, the people perish" - and the environment similarly. And will undoubtedly continue so to do!

(Shirley--Anne Hardy)

The Rocks,
Pitlochry' Perthshire,
25th July 2012
SCOTLAND.



A Vision For Our Mission

At Prosper's Annual General Meeting on 3 May 2012, after his first year as president, Lloyd Churches delivered his first president's report which included his vision for the future. This article is an excerpt from that report.

Our Vision

The development of a vision statement is one of the activities I'm most proud of. This was developed in a mission statement subcommittee. This is the mission statement:

Prosper Australia's Mission

Prosper Australia's mission is to replace all existing taxes with an annual charge on government-granted privileges and natural resources, including land.

During the subcommittee it became obvious that a statement that could inspire people was lacking. The mission statement above is fairly straightforward but it couldn't inspire. So a vision statement was needed. The vision statement is written in the present tense and it has the power to take you to the future and let you look around. I'd like to read to you the vision statement now as I did during some of the executive meetings, with feeling.

> **Prosper Australia's Vision**
> In our vision, we've changed the economic system.
> We have established a proper stewardship of the land
> and restored freedom and power to the people.
> The citizens of our new world have equality
> of access to land and natural resources and no need for
> taxes on enterprise, work and savings.
> We have eliminated involuntary poverty
> and harnessed our enormous common wealth.
> Everyone recognizes the central role of land in
> economics and cherishes their spiritual connection
> to the land.
> You can prosper, Australia.
> This land is your land.
> Claim your birthright!
> Join today and help us build a new society.

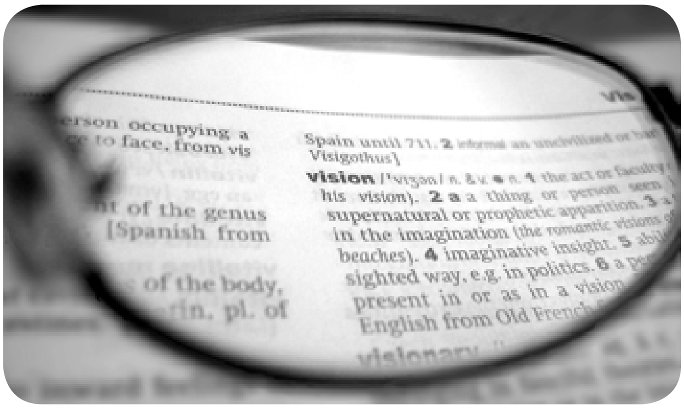
This statement sums up a lot to me. I'd like to take some time to expand on it. It's a view of our country, our land in the future.

We've changed the economic system. When most people say something like this they are referring to something vague, they know something is wrong with the system but have no concrete idea of what is required. We do. The Georgist movement has the ideas that can change the world significantly. The economic system we need to change is really about changing our system of property rights. Specifically it means that the earth and the natural endowment belong to the community although its control or possession stays in private hands. This is the change we need to bring about. It's a big vision but one that is essential if humanity is to survive because not having it causes so many life threatening consequences.

We've established a proper stewardship of the land. This means we've achieved something. How did we do that? What is stewardship of the land? It's some institutional change, perhaps local government or other organisation that oversees the land with maps and planning rules and they see to it that rents are collected and land is kept in use. The focus shifts from land ownership to land stewardship with people recognizing that the land is special and they have the duty to care for it and to give the rent of the land to the community.

Restored freedom and power to the people. This is what I see happening both as what is required to get there but also what will happen as a result. People have given up their freedom and their power to the government and become doormats. We need to reverse the situation so government becomes the servant of the people or so government is the people, it should be us running our country, our land. No more us versus them. We need to take control. I hope the ideas that Prosper espouses will give people the confidence to demand changes from their governments.

“You Can Prosper Australia!”



Equality of access to land and natural resources. There is so much talk of equality except when it comes to land and natural resources. The general public have little of idea of what we mean when we say that. They think we already have that in that anyone is free to buy land. Yeah, they have the right to buy land but not the capacity to buy land. There’ll be no buying and selling of land in our vision. You can get your plot for free on condition you pay the rent of the land.

No need for taxes. Wow, isn’t that great! No taxes. Now that message should sell. This is message of hope. We don’t need any taxes. Taxes will be a thing of the past. We’ll look back on history in disbelief. Why did people put up with taxes and the deadweight cost of them?

Eliminated involuntary poverty. What a huge achievement! Truly, make poverty history. We have the secret formula. ‘harnessed our enormous common wealth’. The more society progresses the higher the levels of collaboration which create common wealth which not only manifest themselves in higher rents for land but also in the myriad of free services provided by our governments and a richer cultural heritage.

In our vision ‘everyone recognizes the central role of land in economics’. It will be taken for granted one day. If someone tries to sell land in the future they’ll look at them with puzzlement and say, ‘What? You can’t do that. It belongs to the community. You can sell your house but the land will never be sold’. That’s the vision.

And people will ‘cherish their spiritual connection to the land’. Due to the pressures of survival today there are many people who have no connection to the land because they live in a small apartment and are too busy to find time to connect. I truly believe a closer connection with land, landscapes, gardens, nature and special places gives meaning and fulfilment of a spiritual nature. Once they have this connection it will sustain them and give them a reason to defend equality of access to the earth.

You can prosper, Australia. Here I’m emphasizing the positive nature of our message. This is the type of message people need to hear. They need positive messages and not just the usual negative messages that our world is dying, people are starving, sick, depressed. This statement is talking to Australia as a group of people, telling them to believe in themselves and work together to change it. It’s also the name of our organisation. We have a positive message to sell, let’s not forget that.

This land is your land. That’s our tag line. We want people to really understand what that means. It doesn’t just mean that you are an Australian. It means that you’re rich. This whole land is your land, we have equal access to it. Currently people feel small because they only own a tiny plot of land and they lock themselves inside it and build up fences around it. Remove the fences; the ocean is the edge of your land.

Claim your birthright. We don’t just want people to realize the land is theirs; we want them to be bold and stand up to others and make themselves heard. Demand to be heard. Tell the government that they are neglecting their duty to collect the rent of your land, our land.

So you see, we’ve got a fantastic vision, a positive message to share with others. This is our greatest asset, this vision, and the more we share it, the more valuable it becomes.

Taking Stock

The vision I’ve just spoken of is really our vision for a new society, it’s not our vision of our organisation. We need that too. But before I talk about that, let me give you my assessment of this organisation, its strengths and weaknesses. Our main strength is in the ideas that we are the custodians of, the economic teachings of Henry George. Our next biggest assets are the people, the members of this organisation, their passion and their dedication and their competence.

As an organisation we are very lucky to have funding. The Henry George Foundation of Australia and the Henry George Club together provide two to three hundred thousand dollars annually to this organisation. This funding is often taken for granted. I want to thank the trustees of the HGFA and the directors of the HG Club that continue to serve as the custodians of the trust funds, maintaining its capital so that it can keep our organisation alive. Without that funding, this organisation would face extinction. Take away this office and the staff and see how long we would survive.

Focus on serving members

Let's focus on serving our members, on opening the lines of communication and building trust by consistently delivering what we say that we will deliver. Let's build up a process of capturing what they say, what they need and responding to it. Let's make this organisation a true model of democracy. A democracy is a country that is run by the people for the people. Let's make Prosper an organisation run by the members for the benefit of the members. So what I'm saying here is a change of focus away from chasing media attention in order to get new members into serving the members we have. In this way we invigorate our membership and build it stronger and we let the members be the stars, be the ones who are spreading the message through their circles of influence.

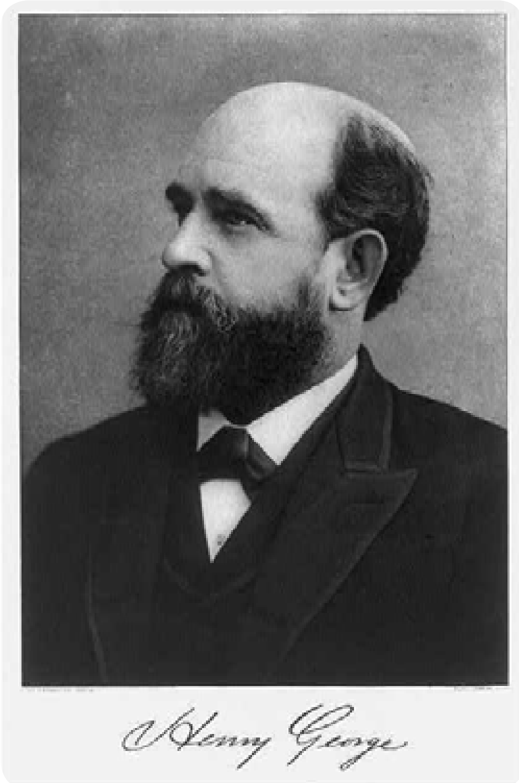
I've invited some members to speak tonight, to give their Prosper story because I think it is line with this new focus on serving members. First, we need to get to know them, what they are doing and what they think about Prosper. Wouldn't it be nice in future AGMs if we combined it with an awards night to celebrate the contributions members have made.

Build a training organisation

Recently I've come across the training.gov.au website and a book called Training in Australia which has led me to ponder a new direction for Prosper Australia. We call ourselves a charity because we are educational but our definition of education is very loose - it basically means we're educating when we put material on a website, create a film, talk on the radio. There is no formal education or training and if we want to see our larger vision for society succeed we are going to need Georgist education to go mainstream. That means Prosper should become an RTO, (a registered training organisation), recognised by government and the community for providing courses that fit into the framework that cover hundreds of courses and units used by thousands of workers particularly in the private sector and major industry. RTOs are new to me but I'm sure there are members who know about them and would understand the type of quality education they provide. We could provide training in Economics, Governance, Public Finance or we could ensure that other RTOs that cover these areas include our ideas. It is surely a big task to become an RTO. If you know what I'm talking about and think what I'm saying is the right direction then please get in touch with me and we'll see what we can do.

So that's my report, I've given the big vision, Prosper's vision for Australian society but now I'm offering some smaller visions, visions for Prosper the organisation in terms of focusing on members and becoming a training organisation.

Share the earth so all may prosper!
Lloyd Churches, President, Prosper Australia



"Liberate production from taxation
The earth from monopoly
And humanity from poverty"

"For justice to be done between men it is not necessary for the State to take the land; it is only necessary to take its rent."

"The tax upon land values, is therefore, the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive."

Isn't It Time?

Right now, millions of people around the world are fed up with an unjust economic system. Isn't it time you added your voice to the chorus?

Prosper Australia doesn't have all the answers to all the questions, but we have one very big solution to one very big problem. Problems are interconnected, so getting it right in one place has a powerful effect on others. Here in Australia, we are closer than ever to implementing a fairer tax system for everyone. Ken Henry's review points us in the right direction, but politicians don't act just because it makes sense. They act when they have to; when enough people make their voice heard. Isn't it time you became a member of Prosper Australia?

Geoists in History:

George Bernard Shaw (1856 – 1950)

"To understand the matter we must begin by grasping the fact that land is neither unlimited in quantity nor equally valuable everywhere"

When it comes to summarizing Shaw we have to invent a whole new classification. For starters, he is the only person to have been awarded both a Nobel Prize in Literature (1925) and an Oscar (1938). And it was Shaw who started that whole tradition of refusing awards, but did eventually accept the Nobel only at his wife's behest because she considered it a tribute to Ireland. He did knock back the money, though. His Oscar was for his work on the film based on his own play, Pygmalion.

G. Bernard Shaw (he hated the "George" and never used it) was born in 1856 in Dublin, in a lower-middle class family of Scottish-Protestant ancestry. His father was firstly a low-ranking civil servant and later a failed corn-merchant, and his mother was a professional singer. His father's alcoholism caused Shaw to become a lifelong abstainer (what happened to the cycle of abuse?) and his mother to run off with her singing instructor.

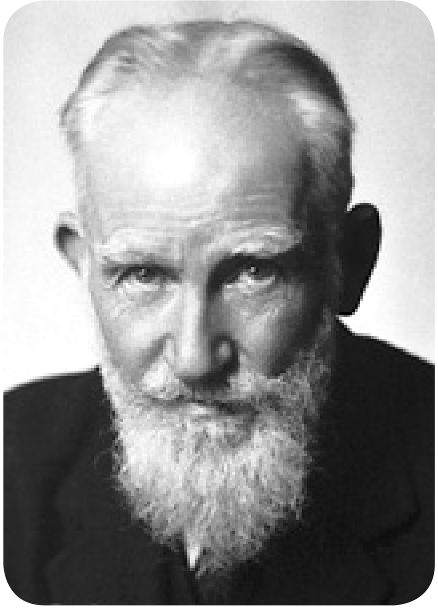
Shaw, only 16 when his mother cleared off, remained in Dublin with his father and continued attending a series of better, private schools but hated them all passionately, famously declaring "The only time my education was interrupted was when I was in school." When he shortly afterwards worked as a clerk for an estate office, he found that almost as boring. In 1876, Shaw joined his mother's London household with his two older sisters. Here's when he got his big break in the form of a whole pound sterling a week which gave him some freedom to find his calling.

Perhaps inspired by the artistic leanings of his mother's household (his sisters were also engaged in the arts), he put his allowance to full use. Shaw began to frequent public libraries and the British Museum reading room where he studied earnestly and began writing novels. He earned his allowance by ghostwriting his mother's music column, but it became some time before he became self-supporting.

With an ever-curious mind, he soon became involved in progressive politics. Standing on soapboxes, at Speaker's Corner in Hyde Park and at socialist rallies, he learned to overcome his stage fright and his stammer. And, to hold the attention of the crowd, he developed an energetic and aggressive speaking style that is evident in all of his writing.

His life seemed to be unconventional in every way. In the course of his political activities he met Charlotte Payne-Townshend, an Irish heiress and fellow Fabian whom he married in 1898. The marriage was never consummated, at Charlotte's insistence, though he had had a number of affairs with married women. Shaw was a lifelong outspoken supporter of women's rights.

Although his first profitable writing was music and literary criticism, in which capacity he wrote many highly articulate pieces of journalism, his main talent was for drama. Nearly all his writings addressed prevailing social problems but have a vein of incisive humour which makes their stark themes more palatable.



"Economic rent, arising as it does from variation of fertility or advantages of situation, must always be held as common or social wealth, and used, as the revenues raised by taxation are now used, for public purposes."

Shaw's wittiness should not obscure his important role in revolutionizing British drama. In the Victorian Era, the London stage had been regarded as a place for light entertainment. But Shaw was the Midnight Oil of his day – no frothy romances, light comedies or costume dramas from him. Rather, Shaw made his works a forum for considering moral, political and economic issues, possibly his most lasting and important contribution to dramatic art. There was no end to Shaw's probing questions; he examined education, marriage, religion, government, health care, and class privilege. In this, he considered himself indebted to Henrik Ibsen, who pioneered modern realistic drama, meaning drama designed to heighten awareness of some important social issue. Everything to which Shaw turned his hand seemed to be laced with radical rationalism, an utter disregard of conventions, a keen dialectic interest but all made much easier to digest by his verbal wit.

Shaw's plays weren't performed until the 1890s but by the end of that decade he was already an established playwright. He wrote 63 plays and his output as novelist, critic, pamphleteer, essayist and private correspondent was prodigious. He is known to have written more than 250,000 letters.

Rather than massage his public image to heighten his popularity, Shaw's bohemian ways seem to know no bounds. For instance, he joined in the public opposition to vaccination against smallpox, calling it "a particularly filthy piece of witchcraft", despite having nearly died from the disease when he contracted it in 1881. In the preface to Doctor's Dilemma he made it plain he regarded traditional medical treatment as dangerous quackery that should be replaced with sound public sanitation, good personal hygiene and diets devoid of meat. Shaw had become a vegetarian while he was twenty-five and a firm anti-vivisectionist and antagonistic to cruel sports. His position, succinctly stated, was "A man of my spiritual intensity does not eat corpses."

A great man often seems to produce a second surge in creative output once his fame confers the company of other notable figures. In Shaw's case, he became friends with prominent men such as H.G. Wells, IRA leader Michael Collins, G. K. Chesterton, T.E. Lawrence ("of Arabia") and the composer Edward Elgar.

But sometimes a monumental turning point happens out of the blue – let's allow Shaw to describe his in his own words: "I went one night quite casually into a hall in London, and I heard a man deliver a speech which changed the whole current of my life. That man was an American – Henry George… Well, Henry George put me on to the economic tack, and the tack of political science."

This crossroad occurred to Shaw in 1882 when George was touring Great Britain. Shaw had already been reading works of the geoists John Stuart Mill and Herbert Spencer as well as August Comte and Charles Darwin, but after sitting spellbound under the eloquent oratory of George, Shaw read his magnum opus, Progress and Poverty and was never the same man. Shaw, in a letter to George's daughter Anna, put it this way "Your father found me a literary dilettante and militant rationalist in religion, and a barren rascal at that. By turning my mind to economics he made a man of me...."

Another point in common was that George and Shaw both took on the power of the established churches and were much angered by the general public's complacent acceptance of poverty as the will of God, each of them calling such attribution "blasphemy."

Humanity is, it seems, a mass of contradictions … some may put it more strongly and call us all the walking wounded. Great men like Shaw seem to stumble and fall, too, and in an intellectual sense Shaw certainly did so. The causes of this are too tangled for this humble writer to unpick. Be that as it may, we can still follow some clear threads in the later half of Shaw's long life.

"It is so opposed to moral commonsense and so complicated mathematically, that I could find fifty experts in the tensor calculus more easily than five statesmen who think of the land question habitually in the terms of the law of rent ... Our politicians cannot draw their conclusions from it ... they simply do not know of its existence."

Shaw also strove for social justice, but later looked to socialism to achieve it, somehow forgetting how the Law of Rent will never confer justice unless we first deal with the land question. But Marx and socialism was all the rage in London, and Shaw began preaching socialism with the utmost zeal and enthusiasm at socialist rallies. A little later Shaw denounced the forcible reforms of Marxism and termed himself a Fabian Socialist. The Fabians believed that reform should be gradual and induced by peaceful means rather than by outright revolution. Fabians were named after the Roman General, Quintus Fabius Maximus, who advocated weakening the opposition by harassing operations rather than becoming involved in pitched battles.

It's interesting to see how Shaw disagreed with Marx on the means of changing society and the powers who control it. While Shaw did agree with many of Marx's theories, he was aware that Marx would have little impact on the working class. He wrote that although Das Kapital had been written for the working man, "Marx never got hold of [the working man] for a moment. It was the revolting sons of the bourgeois itself - Lassalle, Marx, Liebknecht, Morris, Hyndman, Bax, all like myself, crossed with squirearchy - that painted the flag red. The middle and upper classes are the revolutionary element in society; the proletariat is the conservative element."

As well as being a prodigious literary powerhouse, Shaw participated in the formation of the Labour Party. Along with three other Fabian Society members, Shaw founded the London School of Economics and Political Science in 1895 with funding provided by private philanthropy. Shaw also helped to found the left-wing magazine New Statesman in 1913. For a short time he was active in local politics, serving on the London County Council

Another turning point in Shaw's (indeed, in every European's) life was the First World War. For him, the war represented the bankruptcy of the capitalist system, the last desperate gasps of the nineteenth-century empires, and a tragic waste of young lives, all under the guise of patriotism. He expressed his opinions in a series of newspaper articles under the title Common Sense About the War. His uncompromising opposition at a time of mindless nationalism proved to be a disaster for Shaw's public stature: he was treated as an outcast in his adopted country, and there was even talk of his being tried for treason. His dramatic output ground to a halt, and he succeeded in writing only one major play during the war years, Heartbreak House, into which he projected his bitterness and despair about British politics and society.

A new Shaw had emerged—the wit remained, but his faith in humanity had dwindled. In the preface to Heartbreak House he said: "It is said that every people has the Government it deserves. It is more to the point that every Government has the electorate it deserves; for the orators of the front bench can edify or debauch an ignorant electorate at will. Thus our democracy moves in a vicious circle of reciprocal worthiness and unworthiness."

Soon after the war, Shaw found his dramatic voice again and rebuilt his reputation, first with a series of five plays about "creative evolution". His 1925 Nobel Prize for Literature led to the strong revival of his plays in London. Several theatre companies in the United States began producing his plays, old and new, on a regular basis.

Intellectually, Shaw's tide turned again. Shaw was not necessarily better informed about actual conditions in other countries than other people were at the time, and tended to believe the best of people who professed similar principles to those he held himself. This led to him taking some positions that now seem grotesque.

After visiting the USSR in 1931, when he met Stalin, Shaw became a supporter of the Stalinist USSR. Later that year he broadcast a lecture on American national radio telling his audience that any 'skilled workman...of suitable age and good character' would be welcomed and given work in the Soviet Union.

It gets worse. In an open letter to the Manchester Guardian in 1933, he dismissed stories—which were later determined to be largely substantiated — of a Soviet famine and Stalin's mass murders as slanderous, and contrast them with the hardships then current in the West during the Great Depression.

It's no simple task, but it's worth a shot – let's examine Shaw's increasingly wayward economic views and identify where he goes astray. Concerning the cause of poverty, Henry George found it in the denial of access to valuable land. His remedy was designed to free monopolized land for production; and the abolition of all other taxes was to be another spur to economic growth. Capital, being a factor of production, would not be taxed. Disputing George's proposal, Shaw declared that poverty is caused by the joint monopoly of land and capital. For his solution, therefore, he urged the collection, not only of rent, but of the return to capital (interest) as well. All income had to be confiscated by the State, and redistributed "according to need."

Shaw didn't see that equality of opportunity would essentially give rise to social and economic justice where a good measure of equality of income would exist.

A further argument involved Ricardo's Law of Rent. At the time both Georgists and socialists claimed descent from the same source, Ricardo's theory, which demonstrated that rent increases at the expense of both capital and labor. George found in Ricardo's law a ready-made formula and justification for his own remedy. All that was needed, he stated, was merely to funnel rent from private appropriation into a communal fund. No other levy was necessary or desired.

Shaw disagreed. To him, the collection of rent (even though it was "the economic keystone of socialism") was only the first step toward total appropriation by the state. The main object of socialism, he stressed, was the collection of all revenues and the imposition of an all-powerful socialist state in stark contrast to George's championing of liberty, individual worth, untrammeled production and limited government.

Another characterization is that George believed that the private appropriation of land and natural resources was theft, whereas Shaw believed that all property (i.e. land and capital) was theft. Shaw indiscriminately condemned capitalism for being deeply flawed and was unlikely to last – he should have specified land monopoly capitalism. Yet, as you can see in this article, selective quotes from Shaw indicate that he had seen the geoist cat. Indeed, late in life there were indications that he revisited and reaccepted his earlier insights – he wrote to one American that "My ambition is to repay my debt to Henry George by coming over some day and trying to do for your young men what Henry George did for me." Go figure.

Shaw lived the rest of his life as an international celebrity, travelling the world, continually involved in local and international politics. Perhaps it was the fire in his Irish belly that kept him going so strongly for so long – at the age of 94, it took a fall from a tree he was pruning to knock him off.

Next issue: the first president of the American Federation of Labor, Samuel Gompers

Reckless Endangerment

By Ed Dodson

The past few years have been difficult in the extreme for Fannie Mae and Freddie Mac. Because of the concerns of international investors over the safety and soundness of bonds and guarantees issued by the GSEs, the U.S. government moved in to take over management of their activities. The market value of the stock issued by the GSEs disappeared almost overnight. Mortgage-backed securities they issued began to trade at prices based on anticipated but not realized performance problems. The steep declines in the value of these assets left the GSEs with insufficient net worth at a time when raising capital became next to impossible. But, that is only the most recent chain of events reported on by Gretchen Morgenson and Joshua Rosner.

What seemed like an overnight meltdown actually had been coming on for over three decades. The GSEs were both actors and victims, and from what the authors report a good deal of the blame for Fannie Mae's eventual downfall rests with the actions of James A. Johnson during and even after his tenure as Fannie Mae's CEO. Morgenson and Rosner write:

"Johnson's position atop Fannie Mae gave him an extraordinary place astride Washington and Wall Street." [p.5]

As a former long-time employee of Fannie Mae, what I can say with a high degree of certainty is that the senior management teams at the two GSEs consistently failed to recognize or understand the true nature of property markets. They ignored the market signal of intensifying property speculation that always precipitates regional and segment crashes. The GSEs became casualties of and willing participants in an inherently dysfunctional and poorly regulated credit-driven property market. They were far from alone, however.

The aspirations and decisions made by Jim Johnson never really affected my work in a direct manner (or in a manner that I was aware of). I was hired by Fannie Mae in late 1984 to help supervise a small team of review underwriters working out of the Regional Office in Philadelphia. Prior to joining Fannie Mae, I had been in charge of mortgage lending for Provident National Bank in Philadelphia. Early in 1984 this bank merged with Pittsburgh-based PNC Bancorp. The head of my division soon informed me that our bank's mortgage originations and servicing activities would be taken over by PNC's mortgage banking subsidiary. As the nation's financial institutions were in the midst of consolidations triggered by Reagan-era deregulation, I looked around for a new employer.

Interestingly, what brought me to contact Fannie Mae regarding a possible position was an exchange of letters with David Maxwell, Fannie Mae's CEO. Maxwell had appeared as a guest on the television program 'Adam Smith's Money World' where he provided his perspectives on the state of the U.S. housing market. I wrote to George Goodman, host of the program, expressing the view that the only effective means of stabilizing both the property markets and the economy was to change the way government raises its revenue. My thinking had recently been greatly influenced by studying the works of the 19th-century political economist Henry George, who made the case for the taxation of the rent of land and not taxing other assets, income flows and commerce. George Goodman forwarded my letter on to David Maxwell, who wrote to me that he was in agreement with Henry George's position and that he had written on the subject while working toward his law degree at Harvard.

Thus, to me David Maxwell sounded like the kind of leader I would like to work for.

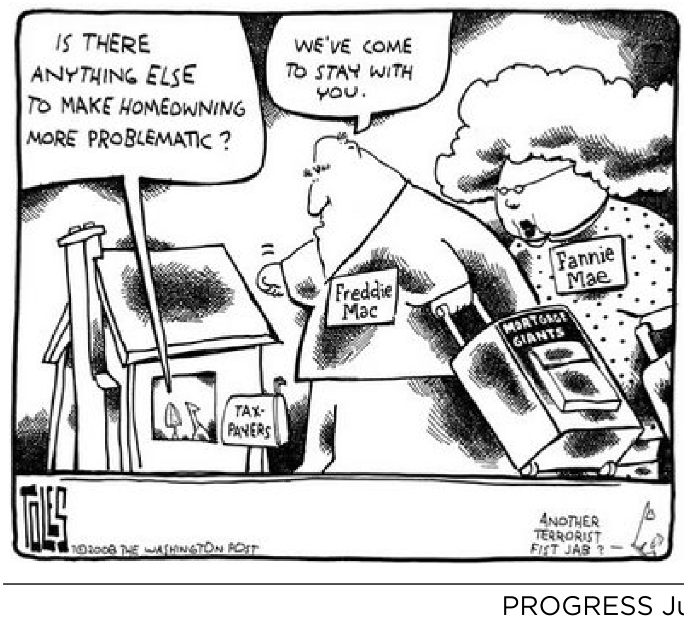
Based on my first-hand experience at Fannie Mae during the 1985-1995 decade, I challenge the authors on their assertion that:

"… all of the venerable rules governing the relationship between borrower and lender went out the window, starting with the elimination of the requirements that a borrower put down a substantial amount of cash in a property, verify his income, and demonstrate an ability to service his debts." [p.3]

No evidence to support this assertion is provided in the 300 plus pages that follow, at least not where my former employer is concerned. The day-to-day interaction of my group with our Marketing teams involved constant risk management assessment and analysis of lender performance on several key levels.

No organization worked harder than Fannie Mae toward the objectives of establishing uniform eligibility and creditworthiness standards or in the use of plain language promissory notes and mortgage instruments across the United States. Our programs were offered in all markets at all times, provided through an approved list of lenders able to originate and service mortgage loans according to our standards. The quality of the business we were purchasing (and later securitizing) was constantly monitored.

The effort to train our institutional clients and mortgage bankers on these issues and to hold them accountable was ongoing and intense. We required approved lenders to perform post-purchase quality control reviews on the loans they closed, and we regularly selected a portion of every lender's loans for our own review. Any loan that experienced what we termed an "early payment default" or defaulted within the first three years was closely examined to determine whether the borrower and property met eligibility requirements and creditworthiness standards. Any loan found to involve material misrepresentations or evidence of fraud was put back to the lender for repurchase. Lenders were sometimes suspended or permanently terminated as a consequence of consistent patterns of noncompliance. On more than one occasion my counterparts and I were called upon to testify against indicted persons in cases of criminal fraud related to mortgage originations.



Fannie Mae's charter required an additional layer of protection against the possibility of heavy losses from mortgage loan defaults. Any loan with an original loan-to-value ratio greater than 80 percent required private mortgage insurance. The private mortgage insurers established their own eligibility criteria and priced (i.e., established premium levels) for the risk. Under all but the most serious recessionary conditions, the presence of private mortgage insurance spread the risk in a way the mortgage finance sector was sufficiently capitalized to handle. The authors make only one reference to the role played by private mortgage insurers, and that regarding PMI Group's decision to stop writing insurance on a major subprime lender.[p.212]

This is not to say the executives of Fannie Mae, Freddie Mac, the private mortgage insurers or the lending institutions and mortgage bankers with which they did business acted wisely, even where they did not engage in criminal fraud or deceptive financial reporting practices. Clearly, almost none of the participants in the 1990s explosion in mortgage loan volume were organizationally prepared to prudently manage the dramatic increase in business that occurred. Systems support became a major challenge and required an enormous commitment of financial resources and people to meet financial reporting requirements and compliance with governmental oversight.

In the midst of what was happening to business volumes, history provided ample evidence that property markets are cyclical, and that rapidly rising property prices – particularly when fueled by readily-available and inexpensive credit – will eventually so stress an economy that a crash occurs. What I had learned from closely studying the economic literature was that the most recent crash was inevitable because property prices were escalating at the same time that household incomes were stagnating or falling and household savings rapidly eroding. What was not inevitable was the heights from which the crash occurred. The origin of the credit-fueled period of intense property speculation goes back to the early 1970s and the creation of the first money market funds, followed by the removal of one level of regulation after another. The authors fall short in their analysis, in my opinion, by ignoring the successful efforts by the financial industry lobbyists to remove strong government oversight at the very time Fannie Mae was launched as a quasi-public corporation. From this perspective, what happened to Fannie Mae and

Freddie Mac was inevitable. It was not a question of whether, but when the crisis would occur.

The 1970s proved to be financially-challenging years for the GSEs. The rising costs of raising funds in the global credit markets resulted in negative spreads for every portfolio lender and for the GSEs. The GSEs faced the age-old problem of having to borrow from sources willing to lend only for short periods while purchasing mortgage loans with a 30-year term (and an expected life of around 12 years). Circumstances worsened as depositors pulled their funds from the Thrifts and commercial banks to take advantage of higher yields offered by the new money market funds. This problem was only partially solved when the U.S. Congress finally lifted restrictions on mortgage loan interest rates and permitted the Thrifts and banks to issue their own certificates of deposit to compete with the money market funds. In the meantime, thousands of savings banks and savings and loan associations – the traditional sources of mortgage loans in their communities – closed their doors.

The playing field did not suddenly become level. Commercial banks always had the advantage of diversification of risk – making consumer loans, issuing credit cards, and offering credit to businesses at rates of interest that reflected the potential for default and volatility of their cost of funds. The Thrifts, on the other hand, remained saddled with their low-yielding portfolios of residential mortgage loans. With deregulation, many Thrifts sought to improve their financial position by moving into business sectors dominated by the commercial banks. For many of the Thrifts, their inexperience in these other sectors resulted in high levels of default, insolvency and dissolution or acquisition. The criminal actions of opportunistic and unscrupulous individuals who managed to gain control of some Thrifts worsened what was already a serious crisis. The GSEs were able to provide some relief to the commercial banks and Thrifts by purchasing their residential mortgage loan portfolios, although such purchases were made at a deep discount in order to compensate for the spread between the stated and current market yield requirements.

One of the factors that softened the financial impact and permitted these portfolio transactions to occur was the ability of the selling lender to record losses not at the time of sale but as each homeowner made the monthly mortgage payment. Amortizing losses over the life of the mortgage loan meant that a time might return when market interest rates would fall closer to the stated promissory note rate, or even return to par, so that no loss at all had to be recorded.

At the time I joined Fannie Mae in 1984, the company was losing around $1 million each day because of the negative spread between its cost of funds and the interest income generated by its loan portfolio. The company's stock was trading, as I recall, for $1 a share. Thousands of thrifts and some commercial banks were in a similar position.

The Federal Reserve System made matters worse in 1979 by taking the advice of economist Milton Friedman and abandoning efforts to keep interest rates stable in favor of trying to control the money supply. The U.S. economy was already experiencing stagflation driven by OPEC-induced rising fuel costs and heavy tax burdens on goods producers. Interest rates skyrocketed, causing the housing sector to come to a screeching halt. Existing homeowners stayed put and builders halted new construction. Selling one's home and repaying a 5 percent mortgage loan made no sense when the rate on a new mortgage loan might be as high as 15 percent. For the GSEs and the Thrifts the desperate need was to develop new sources of income.

Two innovations appeared just as the economy was beginning to recover from the depth of recession.

First, the regulators approved the origination of mortgage loans with periodic adjustments in the rate of interest. The adjustable rate mortgages (ARMs) matched the duration of interest rate yields with interest rate risk by linking periodic adjustments to a stated index (e.g., one-year U.S. Treasury obligations). As conditions in the general economy improved and interest rates declined, ARMs enabled qualified homebuyers to close on new homes, with the prospect of eventually being able to refinance into an affordable fixed-rate mortgage loan down the road. Fannie Mae and Freddie Mac introduced ARM products that provided a high level of consumer protection against enormous rate increases at the time of a rate adjustment. These so-called "rate capped-ARMs" soon became the industry standard.

Second, the regulators approved a proposal by the GSEs to pool mortgage loans together as specific collateral for a new kind of financial assets, a mortgage-backed security (MBS), essentially an amortizing bond to be sold by Wall Street to investors. Mortgage-backed securities appeared just as the Reagan administration pushed through measures further deregulating the financial services sector and significantly lowering the marginal tax rates on the nation's highest income recipients and on misnamed "capital gains" (misnamed because actual capital goods rarely, if ever, sell for more than their depreciated value). Thus, in addition to land, real estate, the stock and bond markets, billions of dollars in new-found disposable income found their way into the new MBS market. The GSEs put their stamp of approval on the underlying collateral (i.e., the mortgage loans) originated by lenders who met minimum capital requirements, were deemed capable of servicing the loans they originated and were regularly monitored by the GSEs. Fannie Mae and Freddie Mac now had a new source of income – guarantee fees – in return for representing and warranting to investors that the underlying mortgage loans met GSE eligibility and creditworthiness standards.

Interest rates on long-term mortgage loans gradually came down during the early 1990s as fears of inflation lifted. Thus, what I would describe as a window of affordability opened, but only briefly, before the inventory of unsold properties was moved by realtors. Residential real estate once again gradually became a seller's market in those parts of the United States with significant increases in population. Property markets in much of Florida, Nevada and California quickly overheated and got even hotter. As property prices increased, realtors once again advised potential homebuyers that the time to buy was now – before prices rose even higher. Higher income households aggressively entered second home markets with expectations of a huge capital gain after just a few years of holding income-producing properties.

Inventories of newly-constructed homes found buyers, and the pace of new construction increased (although few builders broke ground without a sales contract and mortgage loan commitment in hand). Millions of homeowners who had purchased their properties when interest rates were high refinanced, either lowering monthly mortgage payments by hundreds of dollars or shortening the term of their loan from 30 years down to as few as 15 years. As property values inched upward, many homeowners also refinanced credit card and installment debt, refurbished or expanded their homes, or simply took cash to pay for their children's college expenses or other personal expenditures. We can trace a good deal of the economic expansion to the side-effects of such a huge number of refinancings rather than any increases in household income. The authors correctly trace some of this refinance activity to the Tax Reform Act of 1986:

"While most individual deductions had been eliminated in the Tax Reform Act of 1986, the mortgage interest deduction remained a sacred cow." [p.72]

Yet, there was a dark threat building to erase the illusion of prosperity. Almost any economist questioned could explain that the mortgage interest deduction (and other subsidies) were capitalized by market forces into higher property (meaning "land") prices. Essentially the same market dynamics operated when the minimum cash down payment by homebuyers was reduced and what are called "qualifying ratios" (i.e, the housing expense-to-household income or total obligations-to-income ratios) were increased. Few noticed. Or, if they did notice and tried to express concerns, no one in a position of decision-making authority was interested or prepared to do anything to tame the nation's spiraling land markets.

By 1994, when I moved into a new position as a business manager and market analyst within the relatively new Housing & Community Development (HCD) group at Fannie Mae, the volume of business we were doing increased beyond anyone's most optimistic forecasts. We were all scrambling to strengthen our internal systems and controls, and all around the company task forces were established to lift what was a rather sleepy and bureaucratic company into a technology-driven financial giant. We were plagued by computers that could not transfer data one to another and other shortcomings that impacted our ability to make timely and accurate assessments of the profile of our business volumes. This does not suggest we did not make a determined effort to do so, however. As the authors report, the challenge was significant:

"... between 1993 and 1996, Fannie's portfolio of loans that it kept on its own books doubled form $156 billion to almost $300 billion. From March 1996 through December of that year, the company's loan portfolio grew by almost 10 percent." [p.77]

More important than the dollar volume of this business was the profile of the loans. While there was a significant increase in the loans made to first-time homebuyers and to minorities, the real measurement of possible risks associated with loan delinquencies was the weighted average loan-to-value ratios of the business. Consider that even when mortgage insurance was in place (again, required for all loans with an original loan-to-value ratio above 80 percent), some loss was forecasted for any loan with an effective (i.e., current) loan-to-value ratio above 70 percent. How much loss depended on typical variables, such as the length of time between borrower default and resale of the property following acquisition at foreclosure sale, property condition and the general strength of the property market where the property was located. With the nation coming out of recession in the early 1990s, these shared risks were viewed as manageable and adequately reserved for. We were accumulating a remarkable amount of data on the characteristics of borrowers in specific markets as a predictor of performance. Despite the general perception as repeated by the authors, credit scores were only one component of a much broader analysis. A trend that I found most troubling was the absence of cash reserves after closing that characterized a growing number of transactions. People were scraping together every dollar they could to meet down payment and settlement costs, with nothing left in the bank for any emergency that might arise.

While it is true that "the percentage of loans the company purchased with a loan-to-value ratio of greater than 90 percent rose from 6 percent in 1992 to 19 percent three years later,"[p.78] this must be put into perspective by looking at Fannie Mae's full book of business where the weighted average loan-to-value ratio was still under 75 percent. Moreover, almost all of the higher loan-to-value ratio business volume involved 30-year fixed rate mortgage loans, conventionally underwritten and "top loss" protected by private mortgage insurance.

The authors make the case that many decisions made by Jim Johnson and the management group were made with a view of maximizing their own compensation packages. In hindsight and based on what I have read in this book and other sources, this does seem to be an important component of the strategies handed down to us as employees for implementation. And, of course, the disclosures of accounting irregularities became an unfortunate reason why the company's executives spent so much time and energy before Congressional committees. Once this process began it became increasingly difficult to continue our mission focus in quite the same way. The authors tell us:

"Indeed, to make its earnings-per-share targets and trigger the all-important executive pay bonanzas, Fannie had to resort to accounting fraud." [p.118]

More alarming from a public perspective, perhaps, is the argument that maximizing compensation required that the company retain a far lower level of capital as reserves for loan losses than should have been the case given the risk exposure of the business. Morgenson and Rosner note that:

"Fannie Mae held capital of only 3.64 percent of its assets. By comparison, the ratio for banks insured by the FDIC stood at 8.22 percent at that time." [p.119]

One reason for the difference in reserve requirements not addressed by the authors is that the assets of Fannie Mae were almost entirely residential mortgage loans or mortgage-backed securities collateralized by loans conventionally originated and underwritten to secondary market (i.e., GSE) standards (and protected by private mortgage insurance as the charter requires). Under normal economic circumstances, residential mortgage loans out-perform many of the classes of assets held by commercial banks.

In a sense, the financial strength of Fannie Mae during the 1990s developed despite the actions of Jim Johnson and others described by the authors. This is but one of the numerous studies published in the last to years to take on the ideologically-based and greed-driven calls for deregulation of financial services. Only those who feed on such power would fail to recognize the threat of interlocking boards of directors, for example. Stephen Friedman of Goldman Sachs serving on the Fannie Mae board, and Jim Johnson serving on the Goldman Sachs board is but one indication of just how tight is the control of our economic structure in the hands of a self-selected few. Knowing what we know about Goldman Sachs, we should not be shocked by the report by the authors that Goldman "even helped Fannie manipulate its accounting." [p.120]

What is missing from this book is any recognition for the sincere efforts by the majority of people working at Fannie Mae (or Freddie Mac, for that matter) to make a positive impact on the lives of millions of people by helping them achieve lasting home ownership. We were constantly engaged with local advocacy groups to make prudent changes in our mortgage loan products. Moreover, the people who managed and staffed our Partnership Offices did their best to balance the charge to forge strong ties with influential politicians with real on-the-ground changes in neighborhoods and communities.

The internal analyses to which I was privy extensively evaluated the scope of risks associated with expanding or initiating market penetrations where Fannie Mae had not been present in any significant way. Where performance data was not available internally, such data was acquired from third parties with experience originating and servicing loans characterized by high loan-to-value ratios, cooperatives and condominiums or manufactured housing units as property types, where down payments came from conditional grants and so-called "soft second" mortgages held by government agencies, and other unusual factors. What is true is that Fannie Mae (and Freddie Mac) were not in a position to fully price for risk based on what the analytical models called for. Doing so would have adversely affected those segments of the population considered to be underserved – minorities, women and first-time homebuyers. A policy of average pricing imposed a slight premium cost on those borrowers with the highest degree of creditworthiness in order to make financing more affordable to those who reported lower incomes and minimal savings.

What is certainly true is that with the 1990s new faces constantly arrived at the company. Departments and divisions underwent a series of reorganizations. Position descriptions were rewritten to more closely confirm to those of our counterparts working on Wall Street and in the banking sector. New priorities were adopted and analyzed year-to-year, in an effort to redirect resources for maximum efficiency. As profitability returned and climbed, Jim Johnson, took the company in an aggressive new direction. Our Housing and Community Development group (the name of the group changed to more accurately describe its role) began to expand all across the United States, covering every regional market in the U.S. with an office within the geography charged with developing strong relationships with public and private stakeholders focused on meeting affordable housing and community revitalization needs. The authors describe this expansion as an offensive strategy designed to ensure that no member of the U.S. Congress would feel comfortable criticizing Fannie Mae without hearing from a broad spectrum of local Fannie Mae partners and beneficiaries. On the whole, elected officials felt good they were helping to bring new investment dollars into their districts:

"By supporting housing initiatives that lawmakers could take credit for in their home districts, Fannie provided publicity for the very congressmen and women whom it relied on for help and protection in Washington." [p.61]

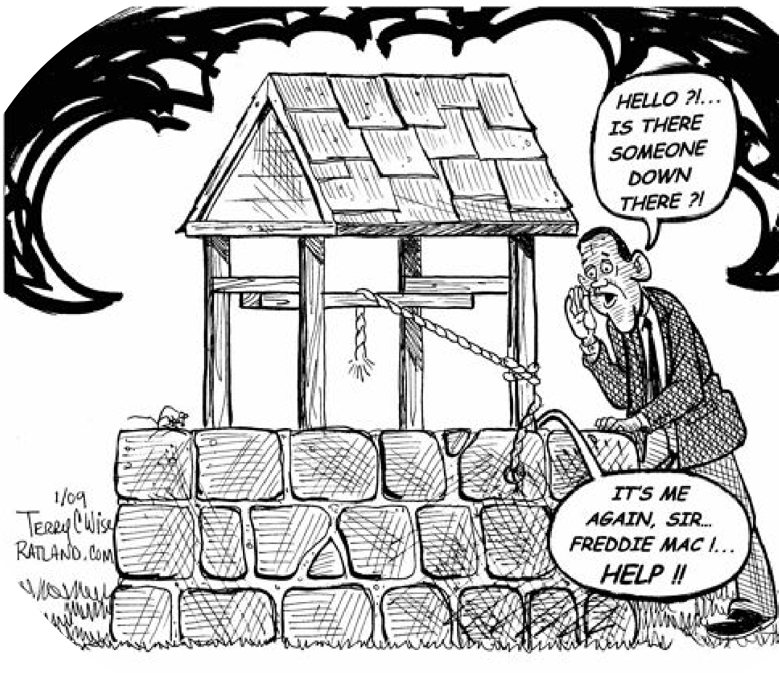
No doubt this is, in part, the case. Yet, the company recruited and hired several hundred people to run the "Partnership Offices" who were devoted to helping communities develop affordable housing units, stabilize neighborhoods and revitalize distressed economic circumstances. In my experience, even those who brought political rather than housing experience to their positions became important advocates for the people they believed they were hired to serve. Were they happy to earn a meaningful income and to share in the increasing value of the company's stock? Of course. We sincerely hoped to do well by doing good.

My counterparts across the country and I analyzed and re-analyzed our eligibility criteria and creditworthiness guidelines in an effort to make homeownership attainable for minorities and younger adults. We met repeatedly with community leaders and listened to their perspectives on how to make up the ground in homeownership rates for groups discriminated against for decades. Members of Congress pressed us to do even more, and so new innovations were brought to the market each year. Managing risk and (to the extent possible) pricing for risk was integral to the expansion of the company's book of business and its role as guarantor in the mortgage-backed security market. Unfortunately, as I note above, much of this effort focused on the trees and missed what was happening to the forest.

What hardly anyone I worked with or came into contact with during my professional work appreciated was that market forces were constantly adding stress to a very vulnerable economic system and that property markets were at the center of the instability. With every innovation we made to expand the pool of qualified homebuyers, land prices rose. With every fall in interest rates, land prices rose. These increases in land prices were reported as an increase in the median price of housing, and as a decline in the housing affordability index. Yet, at the end of almost every year, the GSEs announced an increase in the maximum loan amount we would purchase or securitize, compliantly adding fuel to the speculative nature of land markets. Gradually, we moved deeper and deeper into what had been the jumbo market largely reserved for bank portfolio lending. What received little attention or concern was the fact that what people were purchasing and financing each year was less a house and more a parcel of land. And, as property prices rose to levels threatening the volume – and profitability – projections demanded by Wall Street stock analysts, the GSEs had to come up with even more aggressive product designs that reduced or eliminated the amount of cash savings borrowers needed to purchase a home.

The authors assert that Fannie Mae and Freddie Mac were pushed by Andrew Cuomo into the subprime mortgage market after Cuomo became director of HUD in 1997, and that the GSEs

"... were being told to lower the underwriting standards for the loans they bought or packaged into securities. As such, Fannie and Freddie would no longer restrict themselves to good-quality loans. Pushed to buy subprime loans, the degradation of underwriting standards was now under way." [p.114]



What actually occurred in my experience is that what we did was to examine our eligibility criteria and our underwriting guidelines to determine where changes or flexibilities made sense based on how people actually worked, lived and handled their ongoing expenses. None of these changes was made casually or without ongoing re-evaluation based on borrower performance. Importantly, none of these changes opened the door for lenders to deliver what have become known as "subprime loans." Fannie Mae and Freddie Mac rated some of this business "Alt-A" when borrower creditworthiness characteristics did not quite measure up to A grade paper; but, the differences were minor by comparison to the criteria permitted on subprime loans being originated outside of the GSE environment.

Admittedly, by 2005 an increasing portion of Fannie Mae's business was coming from market segments where default risk was considerably greater than even a few years earlier. We were actively cultivating mortgage brokers to generate mortgage loans that met our requirements, and we were trying to increase the quantity of business coming from credit unions, minority-owned banks and the community banks who were traditionally portfolio or FHA lenders. We were working to counter the effect of mergers and acquisitions within the financial services sector, the impact of which was that only a small number of institutions accounted for the overwhelming majority of Fannie Mae's business. When one customer accounts for, say, 10 or 15 percent of your total business volume, the leverage shifts considerably in favor of what that customer asks for. In the MBS market, this translated into the size of the guarantee fee charged on a particular book of business. An objective analysis of the risk characteristics of loans being securitized might call for a guarantee fee of 50 basis points; however, to keep the customer's business might require accepting a much lower guarantee fee. The decision is a difficult one: expose the company to greater risk of loss, or lose market share to Freddie Mac, the Federal Home Loan Banks, or to a private placement MBS rated by a bond rating firm and marketed directly by Wall Street.

In the midst of all this frenzy, a huge segment of the mortgage market affecting the GSEs was totally beyond their control. FHA had fought to increase its own loan limits in an effort to attract a part of the conventional market and thereby offset its higher risk business with loans that traditionally perform much better. New marketing techniques attracted millions of homeowners to companies offering mortgage loans to people who had problems with their credit. Many of these companies engaged in predatory lending practices and outright fraud. As we now know, the bond rating companies essentially ignored the underlying risks associated with this business so that Wall Street could bundle the loans and market the securities to yield-hungry investors. As the authors report, Alan Greenspan and others refused to be influenced by the facts:

"A belief had arisen during the late 1990s that bankers had so improved their risk-management and loss-prediction techniques that regulators could rely on them and their financial models to develop capital standards. Not everyone agreed – certainly the FDIC rejected the notion. But the Fed was among those regulators who were more than willing to put the bankers in the driver's seat." [p.129]

This house of cards began to collapse after 2005, and the meltdown of the system continues despite the infusion of over a trillion dollars by the Federal Reserve System and the Federal government. However, what happened to Fannie Mae and Freddie Mac need not have happened, even though the decision by the GSEs to expose themselves to greater risk by increasing their maximum loan limits amounted to a self-fulfilling market failure. Regardless of whether Fannie Mae and Freddie Mac survive as corporate entities, the most important and immediate regulatory reform required is to prohibit any financial institution that accepts government-insured deposits from making loans for the purchase of land or accepting land value as collateral for borrowing. Fannie Mae, Freddie Mac, and the Federal Home Loan Banks must also be prohibited from purchasing or securitizing mortgage loans that involve funding for land acquisition or the financing of debt secured by land value. Special consideration is warranted for those mortgagors victimized by predatory lending or fraudulent lending practices, but this must be done in a manner that does not ignite a new period of rising land prices. This one change will do more to protect the bankers from themselves and the taxpayers from imprudent bankers than any other regulation introduced. Homebuyers would be required to save toward a significant down payment and to cover normal closing costs. To the skeptic who sees this as unworkable, I offer the reminder that only a few decades ago the maximum loan-to-value ratio for most mortgage loan transactions was 80 percent. Buyers essentially purchased land parcels for cash and borrowed the funds to purchase their home.

When property prices crash, what crashes is land value. Absent a broader economic downturn and a rapid increase in unemployment, property prices will not generally fall back to where they were at the beginning of the most recent property market cycle. Even when developers are unable to recover their full development costs (i.e., not just construction but land acquisition costs), raw land costs do not fall to zero. Landowners are not going to just give land away to developers to permit profitable housing construction. Some developers with sufficient cash reserves are able to land bank so they can continue to stay in business even when property prices have fallen significantly. Developers who have acquired land for development at the top of the land market soon default on construction loans, their land and partially-completed development projects become Other Real Estate (ORE) of the construction lenders following foreclosure or acceptance of a deed in lieu of foreclosure. Many developers and many lenders overexposed to real estate lending end up in bankruptcy. As the authors point out, the bankers essentially lobbied successfully for the regulatory environment that allowed them to make the worst possible investment decisions:

"... reducing capital requirements would also leave the banks in a more perilous position if they loans and investments went bad. And thanks to the elimination of Glass-Steagall, banks were now allowed to extend and expand their operations almost without limit. such expansion increased the likelihood of losses in the years ahead." [p.130]

As had happened with the savings banks and savings and loan associations following the creation of money market funds, the commercial banks ventured into areas of business about which they knew little. They became recipients of billions of dollars deposited with them by overseas investors (including governments generating huge export surpluses). Among their uses of these funds was to go acquire smaller banks and – most disastrously – finance companies, mortgage brokerage firms and second mortgage lenders. They strengthened these companies with cash and turned them loose on the public. The impact accelerated in the late 1990s:

"Subprime lending was already growing fast – between 1997 and 2000, HUD said, the number of home purchase applications backed by subprime mortgages more than doubled, from 327,644 to 783,921. [p.136] ...

Armed with financial incentives to generate high-fee and high-interest subprime mortgage loans, mortgage brokers and mortgage bankers responded. Millions of homebuyers were steered away from conventional loans they actually qualified for and into subprime mortgage terms that would bring disaster upon them within a few short years. The impact on Fannie Mae and Freddie Mac was also disastrous, but not because Fannie and Freddie were acquiring or securitizing huge numbers of subprime mortgage loans:

"The percentage of mortgage securities made up of loans that exceeded the dollar limits on mortgages financed by Fannie and Freddie – known as nonconforming mortgages – would rise from 35 percent in 2000 to 60 percent in 2005." [p.137]

The private-placement MBS volumes skyrocketed because investors did what they always do; they sought above-market rates of return and relied on the soothing comments of Wall Street brokers as assurance the risks were negligible.

Another part of the story that needs to be emphasized is that a major reason mortgage loan volumes doubled and then doubled again was because of repeated refinancings to take advantage of falling rates of interest. Everyone involved became increasingly dependent on fee income. And, in the conventional market competition brought these fees down to very low levels per transaction. Portfolio investors such as Fannie Mae and Freddie Mac were experiencing declining interest income that could only be made up by guarantee fees charged to lenders whose loans were pooled together as collateral for mortgage-backed securities. As I recall, all other sources of revenue were inconsequential. As the banks and Wall Street and the mortgage brokers siphoned off more and more potential conventional business into their private placement MBS, the business model for the GSEs began to self-destruct. And, as the authors note, the Federal Reserve Board provided the banks with all the incentive they needed to throw hundreds of billions of dollars more into the private placement MBS market:

"Between December 2000 and July 2003, the Fed made a crucial decision that, although not fretted about at the time, contributed mightily to the mortgage lending craze. It slashed its Federal Funds rate, the most closely watched interest-rate benchmark, from 6.5 percent to an unheard-of 1 percent." [p.138]

As the authors explain, Jim Johnson (either listening to his team or directing them) came up with a way to raise capital by creating "a series of debt issues that mimicked Treasury securities ... with maturities of three years, five years, and ten years." [p.138] This gave Fannie Mae a competitive advantage over Freddie Mac, allowing Fannie Mae to recapture some of its lost market share even as the total conventional business was declining. To some extent, this bought Fannie Mae time to try to develop strategies in response to the threat from Wall Street and the banks.

Morgenson and Rosner spend some time describing industry opposition to any legislation that would protect consumers from the widespread predatory lending practices commonly imposed on minorities, the elderly and other low-income consumers. The authors' research and interviews apparently failed to discover the efforts made by Fannie

Mae to rid the industry of these destructive practices. Strong anti-predatory lending laws were very much in the common interest of the general public and the GSEs.

In Pennsylvania, as one example, our Philadelphia-based Housing & Community Development group worked very closely with the state banking commissioner, William Schenck, to identify participants in a predatory lending scheme involving a large-scale development in the Northeastern part of the state. Testifying in June of 2004 before the House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises (Committee on Financial Services), Fannie Mae's Senior Vice President, Zach Oppenheimer, offered this:

"At that time, Fannie Mae owned or guaranteed close to 8,300 mortgage loans in Monroe County and the surrounding area. We immediately formed an internal team to identify the nature and cause of the alleged problems, begin to take action to appropriately remedy the situation, and to assist affected homeowners with their mortgage loans. ...

"In order to help homeowners whose loans we own, we committed to working with borrowers, through our lender partners, to make every reasonable attempt to keep families in their homes. We directed our servicers not to foreclose on any property in the area until they had reviewed the original appraisal and loan documents for irregularities, and we granted a moratorium on foreclosures for up to 60 days. For homeowners who could—who wanted to refinance their Fannie Mae-owned loans but could not, because of valuation issues, we even designed and offered a special refinancing program for them. ...

"Since the end of 2000, we have managed to reduce our foreclosure rate in this area by more than half, and the trend continues lower. Since 2001, our loan workout ratio, which measures the percentage of defaulted loans that we were able to cure without foreclosure, has averaged more than 60 percent, far exceeding the State rate in Pennsylvania of 45 percent. But not withstanding these challenges, Fannie Mae has remained committed to providing mortgage loan liquidity here in Monroe County, and has increased our investments in this region from the 8,300 loans that I mentioned, to more than 10,000 loans today."

This type of involvement in response to the attack on communities by predatory lenders was widespread within our division at Fannie Mae. How much worse the situation would have become without this level of commitment is, perhaps, impossible to measure. Absent strong government oversight of the mortgage origination industry, Fannie Mae's internal controls and ongoing review of the financial and performance thresholds of its lender partners served as one of the most effective safeguards available. The fact that these safeguards failed, in the end, should tell us that credit-fueled property markets are highly susceptible to organized, criminal fraud and to the consequences of our inherently dysfunctional economic system.

As a society we have it in our power to tame our boom-to-bust economic cycle by doing what is required to make land markets competitive in the same way the markets for labor, capital goods and even credit respond to what economics describes as the price mechanism.

Nowhere in this book is there any mention of land speculation as a major contributing factor to the financial and economic meltdown. I am not surprised, of course, because only a handful of economists have taken the time to distinguish between the "housing" bubble and the actual "land market" bubble. Too many economists actually call for measures that will bring about a renewed increase in property prices. While this will bail-out property owners and the banks to some extent, the effects on the U.S. economy will not be uniformly positive.

I used to say that what most of my colleagues and I did was to come into work each and every day to put our collective fingers in the dike, to hold back as best we could the inevitable disaster looming over the horizon. What the authors of Reckless Endangerment have done is document some of the reasons our challenge was essentially an impossible one. To once more defer to Henry George, he astutely observed that we seek to satisfy our desires with the least exertion, which translates into monopolistic behavior in the economic realm and moral relativism in the political realm. The evidence presented in this book strongly suggests that these character traits are widely held by those who achieve high political office or emerge atop corporations.

During my years at Fannie Mae, I did what I could to raise the level of awareness among my colleagues of the dysfunctional nature of our land markets. Early on, I wrote a long memorandum on the subject to David Maxwell, reminding him of our earlier exchanges. He responded with some encouragement but, to my knowledge, never commented externally on the need for changes in our system of taxation. At one point, I even spent an hour or so in discussion with Larry Small, at the time President of Fannie Mae, expressing my concerns about the long-term risks associated with the rise in property prices. Although he seemed to grasp what I was saying, he never followed-up with me in any way.

One additional effort I made was to discuss with the head of our research group the need for capturing land values in our data base as a leading indicator of where the property markets were heading. Our lenders submitted to us the property value assigned by appraisers on every transaction. All that was needed was to require one additional data element on land value, available on each appraisal report. I suggested this information could be acquired universally by requesting that the Congress amend the Home Mortgage Disclosure Act to require lenders to report land value on every mortgage loan closed. Just when there seemed to be sincere interest in this idea, the Congressional hearings on Fannie Mae's accounting practices convened. A few years before my retirement, I did achieve a minor breakthrough of sorts.

The Vice President I reported to in the Housing and Community Development group agreed with me that the taxation of land values was an important component to increasing the supply of affordable housing. I was able to develop a presentation on the issues and began delivering this presentation at meetings organized by our offices in cities such as Pittsburgh and Buffalo. Unfortunately, this was also the time when Fannie Mae's Chairman, Franklin Raines and the CFO, Tim Howard, were forced to step down because of serious accounting and reporting irregularities. With the company under intense regulatory and Congressional scrutiny, there was energy left to work on the broader issues I was raising.

What decisions were made after my retirement regarding the nature of the business Fannie Mae would consider I cannot say with any certainty. Many of my former colleagues in the Housing & Community Development group soon left the company or were reassigned to new responsibilities. The business climate and the company priorities were, I gather, quickly changing in order to respond to the financial and regulatory challenges faced. When the authors write:

"Millions of risky loans made by Countrywide and sold to Fannie Mae would contribute mightily to the downfall of Johnson's former company." [p.184]

I have a difficult time accepting that the credit risk management culture within Fannie Mae allowed my colleagues to simply roll over and ignore the marginal quality of the loans being originated by mortgage brokers and channeled through Countrywide.

" IT TURNS OUT POOR PEOPLE WITH BAD CREDIT CAN'T AFFORD TO BUY A HOME. WHO KNEW ? "

The answer to the question:

"Will a debacle like the credit crisis of 2008 ever happen again?"

Yes!

During my last few years at Fannie Mae one of my own responsibilities was to support the marketing efforts of Countrywide's branch office in Philadelphia. Perhaps Countrywide's activities in the City of Philadelphia were uncharacteristic of business the company generated in California and other markets, but my monthly review of the loans Countrywide brought to us from the Philadelphia market did not reveal any of the troublesome characteristics associated with subprime mortgage loans. Countrywide's branch manager was committed to increasing the amount of business to first-time homebuyers and to minorities, but the variances detailed in our contract with Countrywide were comparable to what had been granted to other major lenders. From my perspective at the time, Countrywide was doing a credible job helping us meet our mission goals in a prudent manner.

Toward the middle of 2004, as I approached completion of my twentieth year at Fannie Mae, I decided the time had come to retire so that I could devote most of my energy to the issue I raise above – changing the means by which government raises its revenue. I certainly share the authors' concerns that the "cast of characters that helped create the mess continues to hold positions or are holding jobs of even greater power." [p.304] And, the answer to their question: "Will a debacle like the credit crisis of 2008 ever happen again?" [p.304] is, Yes! The real message of this book is that entrenched wealth and entrenched power in the United States are combined to prevent the kinds of political and economic reforms needed. Gretchen Morgenson and Joshua Rosner deserved recognition for adding an important perspective to the story of our societal decline. On behalf of the unheard thousands of my former colleagues, I can say we tried and tried hard to do well by doing good. **The game was rigged against us and still is.**

"the earth is given as a common stock for men to labor and to live on .... Wherever in any country there are idle lands and unemployed poor, it is clear that the laws of property have been so far extended as to violate natural right."

Jefferson, Thomas (1743 – 1846)

"Every dollar spent by the people of Australia in the erection of Canberra will create an unearned increment in the property for miles around. The question is, are the people of Australia prepared to spend thousands, yea millions, and then lose the benefit of their expenditure? I say the unearned increment created by the expenditure of the people's money belongs to the people..."

O'Malley, King (1858-1953)
South Australian Labor Politician

Prosper Australia News

Editors Note, Andy Moore.

Dear Readers of Progress,

First of all – thank you to every one who took the time to write to me about the last edition. I doubt we have had such a response to an issue since the days when our circulation was over 30,000! Back in the day when people were more sensible and better read – Progress was being perused by 40,000 Melbournians! It's a shame those days are behind us – but it does seem we are having a resurgence. I have increased this production run by 25% to make sure we don't run out of copies this time…

It's great to have Dr Gavin Putland back in the office after an extended break. His writings are sorely missing from this edition – but I assure you he will be back with a vengeance in the next issue. Fortunately, many writers have stepped up to fill the breach and it was a delight to get three first time authors submitting to this edition.

It was great to see you all at the 121st commemorative dinner – what a great night and a wonderful presentation. As David Collyer said to me on the evening – there is a real sense of liveliness around the organization and momentum has been building steadily.

As Karl Fitzgerald points out in the events calendar – don't forget Prosper will be moving early next year, so if you haven't been in to visit for a while, make sure you get around to it before too long. There are some great events coming up – so I look forward to seeing you again. Come and say hi and give me your articles for Progress in person!

Finally – to one astute reader – yes, Thomas Paine was English!

Thanks to Ed Dodson, Maireid Sullivan & Paul Meleng … Don't forget you can send me emails: progress@prosper.org.au or write c/- Prosper Australia at anytime with your ideas and feedback. I can't promise a reply but I will definitely consider publishing you…

Last of all - thanks to the HGFA for their continued support of this journal. It would not be possible without them!

Best to all,

Andy Moore

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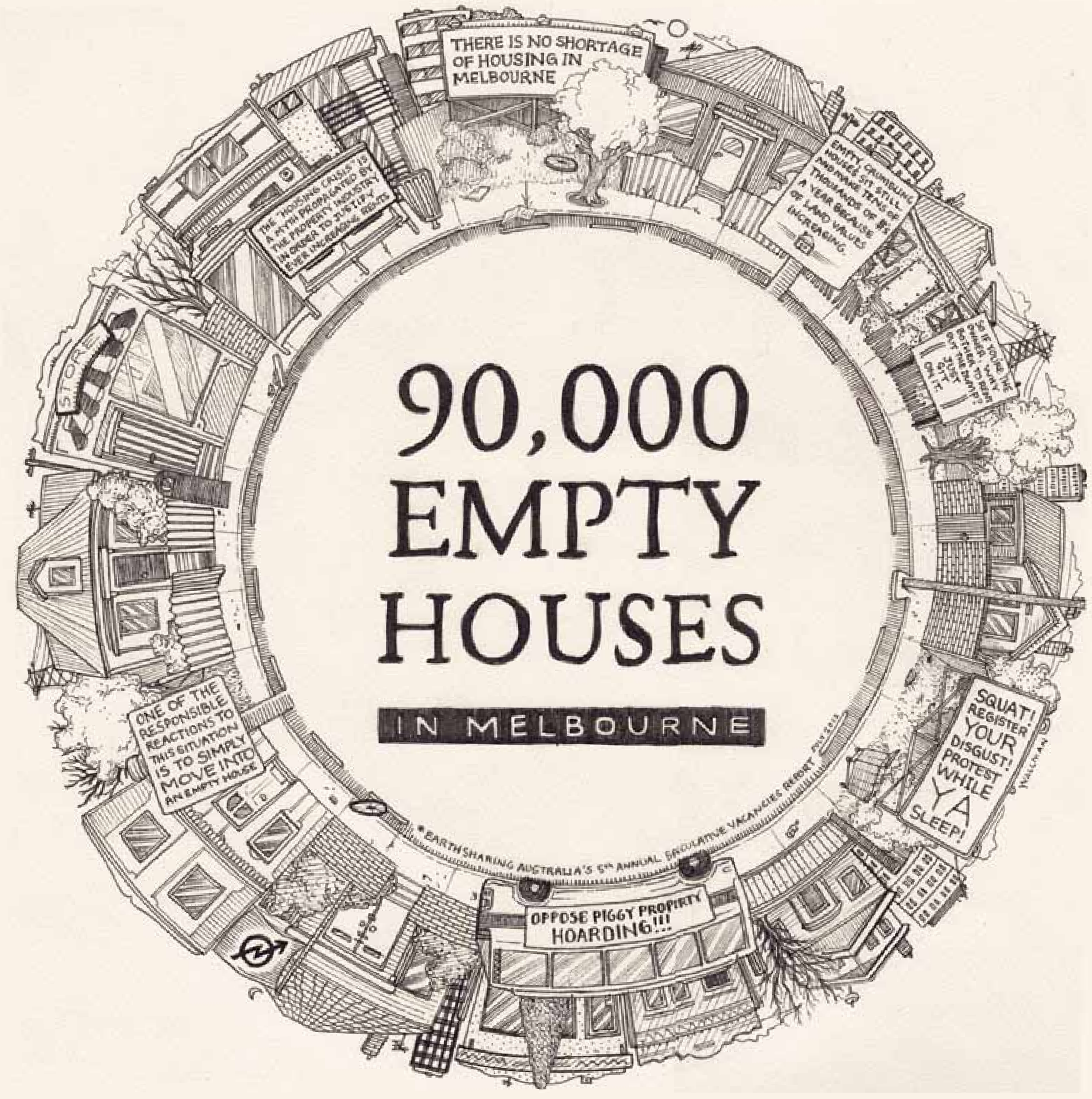

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