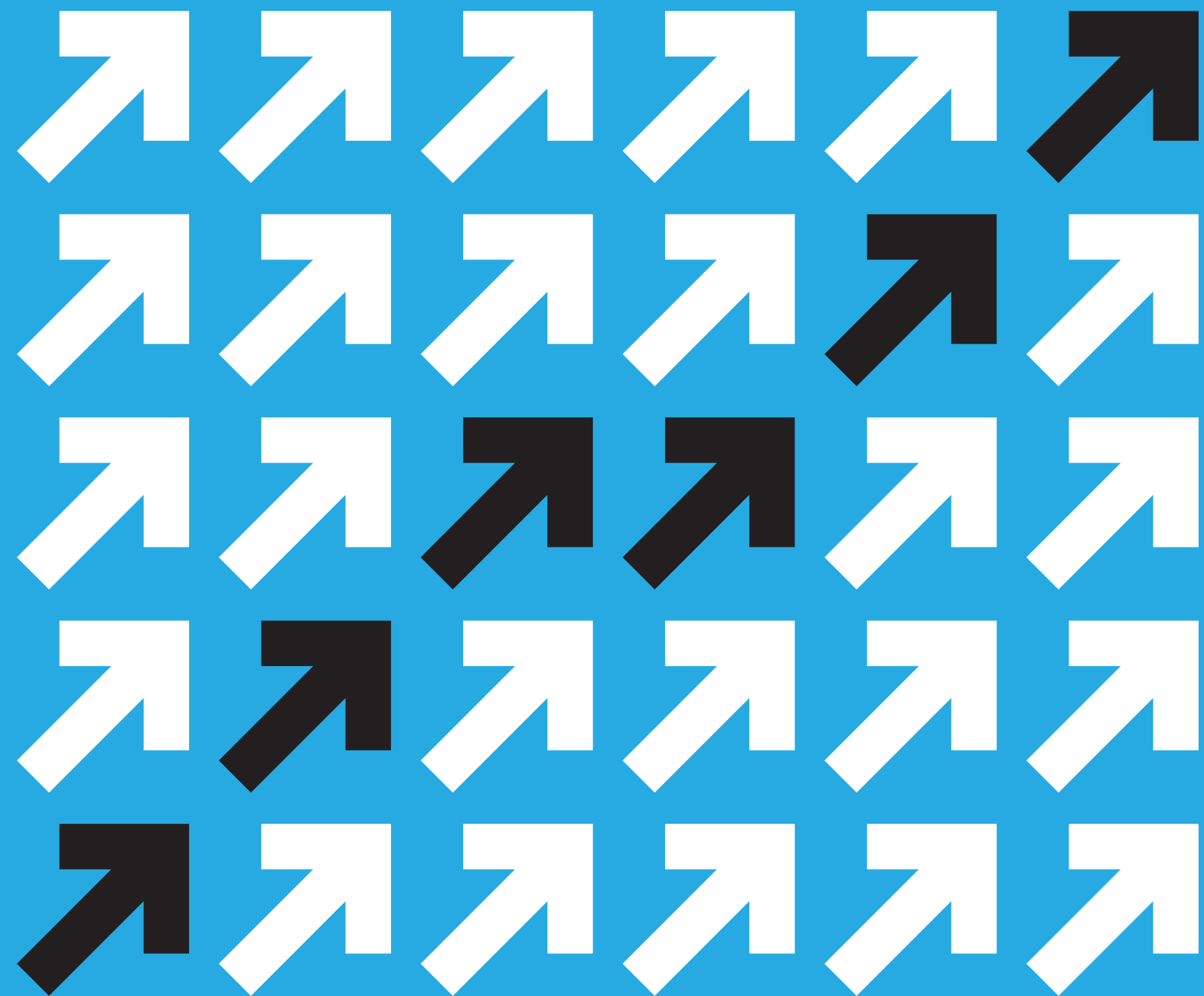


# PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER



## The Truth About High Land Prices



# PROGRESS

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**ABOUT**

Prosper Australia is a 127 year old advocacy group. It seeks to move the base of government revenues from taxing individuals and enterprise to capturing the economic rents of the natural endowment, notably through land tax and mining tax.


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*"But even if we could learn to live without food, clothing, and shelter, we would still be dependent upon land for a place upon which to stand. And if we remember that air is also nature-produced, and is therefore land, it becomes clear that we would be unable to breathe without land. But even if man could live without breathing, man would still need the sun to keep him from freezing to death; and the sun, as well as its light, warmth and energy, is also included in the Poleco-ist's meaning of land. Clearly, land is life itself!"*

**Phil Grant**, *The Wonderful Wealth Machine*

*"..... let the historians write of wars, political struggles, and distress in social life. Let them write freely of the things that happened, and the suffering endured. But let them never mention land and the ownership of land as being the ultimate causes of these happenings."*

**Dr FWG Foat**, *The Silence of the Historians*

# Editorial by Karl Fitzgerald

This edition features a report by Bryan Kavanagh on the implications of high land prices. It positions readers with a long-term perspective for how the Australian economy will perform over the next few years. But to look forward we must learn from the past and it is here that Bryan's report excels.

The Wallis chart will be an eye-opener for many. It shows that property taxes in America at times made up more than 40% of all revenues up until 1933, but have now been relegated to less than 10% - as in Australia.

Perhaps the most outstanding contribution in the piece is the socio-economic analysis provided in the Kavanagh-Putland Index (produced in conjunction with colleague Dr Gavin Putland). We all criticise politicians for doing this, or not doing that; we occupy Wall Street; we riot in Paris. Can Australia offer the conclusion that we are ultimately driven by how comfortable we are feeling about the level of mortgage debt we are carrying?

After 27 years of continuous growth and the Reserve Bank sitting on their hands for 28 consecutive meetings, many now understand that interest rates are dead in the water as a counter-cyclical measure. If interest rates increase, they will crash the market. If they are further reduced, we may well see further property speculation. Have policy makers learnt?

My colleague Emily Sims and I recently visited Parliament House, Canberra where we met with five MPs and their officers. This was based on the political expediency of the *Unspoken Alternatives to Expensive Housing* report featured in the previous edition of *Progress*. We received a response from the office of the Opposition Treasurer Chris Bowen within hours of sending a meeting request. Liberal MP John Alexander was a standout, with his knowledge of Land Value Capture and his wonk-like ability to reel numbers and policy strategies out one after the other. Some MPs really are thinking!

We tied these meetings in Canberra to the Australia Institute's *Revenue Summit*. There we heard Richard Denniss postulate how tax revenues don't matter much - 'you have to figure

out the spending first'. Georgists may well choke on such thinking, rightly critiquing that taxation is not only to raise revenue, but to improve economic behaviour. Respected economist Bob Gregory (ANU) pointed out that the fall in indirect taxes and company taxes post-2000 indicates that income taxes must increase in the future.

With the pressures of climate change and the commodification of land driving inequality, we expect politics to become more radical. Taxes on monopoly rents will have to increase - rather than income taxes, Bob!

Philip Soos was featured on *Renegade Economists* episode 570 where he highlighted his favourite forecasting tools. Alongside annual real estate sales growth (the KPI index), Soos mentioned the importance of the debt accelerator, auction clearance rates, and sales to new listing ratios. The science of economic analysis is genuinely improving in the world of heterodox economics. And the mainstream?

Philip has kindly offered *Prosper* supporters free access to the 810 page *Bubble Economics* ebook that he co-authored with Paul Egan. Talk about summer reading - visit the prosper website!

News regarding *Renegade Economists* radio is that after 573 shows over 11 years the show will scale back. It's time to focus more on research and video production. December 19th will be the last weekly show. The show will go monthly from February 2019. A recent comment from a show-highlighted the cry of humanity.

*All my life I have observed creative people unable to create due to not owning land.. i yearn to grow food...to be able to be with the soil...but how ? I live in a bus to avoid the rental costs but must always move on....i see large tracts of land owned by one old person....a few animals graze where i could create a garden of Eden....creativity and the gifts of good people lie fallow because we cannot secure a place on Earth to grow ....what can we do ? I seek a way.*

This edition is crafted for just such a pathway.



# The Truth About High Land Prices

by Bryan Kavanagh

## What's up?

Led by the residential sector, Australia's real estate markets have bubbled for the last 22 years. It's not doom-saying in view of the data to suggest a crash is inevitable, and declines in prices and turnover in Sydney and Melbourne during 2018 are highly suggestive of economic recession in 2019-20. Australians have a sensitive hip-pocket nerve and will dismiss a federal government of any persuasion in crushing fashion at the election following a bubble-burst recession.

Financial collapse in Australia will be exacerbated when recession hits the US in 2026.

The evidence is in. Division along left v. right lines is a vast distraction, serving the interests of banking and other seekers of unearned income only. We've

come to reverse an old maxim, so that reward has become its own virtue: but predation and greed need to be called out, and banking deceit and corruption has been integral. Repetitive boom-busts in land prices call for moderate sections of left and right to join forces in belated tax reform.

On the proposition that the natural income for people is their wages and that the natural income for the community is its land rent, the bursting of the Australian real estate bubble affords an excellent opportunity to begin to abolish the massive dead-weight applied to the economy by land prices and the taxing of labour and capital. We can have either ongoing prosperity or escalating taxes and land prices: history shows we can't have both.

Reform is urgent. We need to know the truth about land prices

## Economics' black hole

Land isn't a produced commodity like a car or refrigerator. It was just 'there', having no cost of production. Therefore, analyses which ascribe high land prices to supply and demand—as

phenomenon of declining wages and debt-laden economies. Meanwhile, like light into a black hole, publicly-generated land rent is being sucked into private pockets, especially [those of an elite 0.1%](#),<sup>1</sup> as productivity is suppressed by taxation and skyrocketing land prices. Although the process is extremely regressive, it has come to be accepted.

*"The theory of valuation is a pragmatical extension of economic theories relating to value and price, but it is remarkable to find that there is an almost complete dissociation between economic theory and the theory of valuation, although the latter from the materialistic viewpoint stands in the forefront of the social sciences."*

*Principles and Practice of Valuation*

*J.F.N. Murray*

if demand can "call forth supply" where land supply is fixed—are wrong. These ghosts need to be laid to rest, because they are the wraiths upon which real estate bubbles—and to a lesser extent, bond and share market bubbles, and the declining value of money—are built.

Real estate valuers—appraisers in the USA, chartered surveyors in the UK—study economics in gaining their qualification, but the reverse isn't true: economists aren't taught the theory of real estate valuation. If they were, they'd know that population, zoning, size, shape, topography, location, supply and demand all affect a site's rent, but its price is determined by (a) how little the government taxes its rent, (b) to what extent banks are prepared to advance credit against the site's price, and (c) to what level interest rates are manipulated by central banks. It's not widely understood that the price of a site represents the private capitalisation of its net rent, i.e., net of public charges, as with the valuation of any developed piece of real estate. So, if site rents were captured instead of taxes, the 'price' of access to land would simply be the payment of its land rent. There would be virtually no land prices. On this basis land would be freely available.

Policymakers are largely unaware that the capture of land rent offers an alternative to escalating land prices, taxation, private and public debt. They therefore can't respond effectively to the current

The business model of banking has become one of control fraud and lax risk management, banks having no compunction in offering easy credit to inflate land booms, and their own super-profits, at great cost to mortgagors. Through habit, the combination of consumer ignorance and banking complicity has come to make these financial pathologies invisible.

## Taxation's deadweight

US economist Martin Feldstein has calculated income tax injects two dollars of excess burden (deadweight loss) into the economy for each dollar levied. (["Tax Avoidance and the Deadweight Loss of the Income Tax"](#),<sup>2</sup> National Bureau of Economic Research, Working Paper No.5055, March 1995.) That means for every dollar of income tax raised, the community is two dollars poorer. This excess burden, along with the deadweight of other taxes, acts to halve potential real wealth creation. Accordingly, governments are called upon to treat the detrimental social fallout from taxation and rising land prices. These vicious effects include the tax-inflated prices of goods and services, excessive household debt and burgeoning welfare costs.

1 <http://review.chicagobooth.edu/economics/2017/article/never-mind-1-percent-lets-talk-about-001-percent>

2 <https://www.nber.org/papers/w5055>



*"Pure rent is in the nature of a 'surplus' which can be taxed without affecting production incentives."*

*Paul A Samuelson*

Policymakers, including the OECD and IMF, do occasionally acknowledge the public capture of land rent differs significantly from taxation in that (a) it carries no deadweight loss (b) it is the most efficient revenue base and (c) land can't flee the country. Yet it's not on their reform agenda because politicians lack vision, choosing to pander to powerful rent-seeking interests including the banking and mining sectors, who fight to ensure its rejection. This proved to be the case with the mining and land tax recommendations of the 2010 ['Henry Tax Review'](#).<sup>3</sup>

These recommendations were proposed as trade-offs for the abolition of more than 100 counter-productive taxes, but came to nothing when the mining lobby spent some \$22 million in advertising to oppose the introduction of the resource super-profits tax (RSPT). Mining CEOs threatened to cancel mining projects if the tax was introduced

pay their natural resource rent in the same way the rental of any going concern is assessed: that is, a 50/50 split of net profit before interest, tax, depreciation and amortization. Trifling royalties don't fill this bill. Whilst miners' capital investment is welcome, they should to pay their fair share for the right to extract the country's natural resources, because they are the nation's common wealth.

Understanding the forces aligned against them, and overlooking the inordinate deadweight loss from income tax, economists and tax lawyers therefore do what they consider may be achievable without political interference; that is, invest their time setting up international agreements to obviate tax avoidance and evasion. This involves massive invasion of privacy via banks, stockbrokers, real estate agents and other sources, and requires Australia to collect taxes for more than one hundred countries, including Russia and China - rather than press the case to abolish income taxes altogether. Meanwhile, the 2:1 deadweight of income tax continues to cascade crazily throughout the economy.

Capture of land rent only, as opposed to the taxation of labour and capital, is at odds with the neoliberal rubric that (a) "A mix of taxes is the revenue option to which we should aspire

*"Rent is the secret tax the wealthy charge the poor"*

*Joseph Stiglitz*



- and 'mum and dad investors' would lose their money. The proposed mining tax was excellent tax reform, but it was poorly presented by the Rudd Labor government. Details of the RSPT could have been released as early as January 2010, and its merits discussed at length, but release of the proposal just before the May budget provided opportunity for the mining companies' arguments to add confusion to a truncated political time frame.

There's no reason mining companies shouldn't

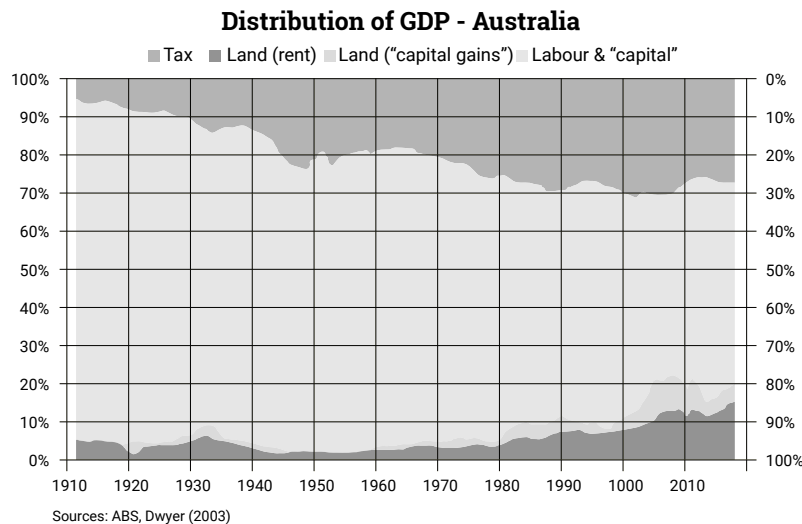
in the 21st century." (b) "We already have land-based taxes at local government." (c) "There's not enough land rent, anyway." But this rhetoric is countered by Joseph Stiglitz's ["Henry George Theorem"](#)<sup>4</sup>, and economic insights from John Locke ["Some Considerations of the Lowering of Interest"](#)<sup>5</sup> in 1691, to Mason Gaffney ["The Hidden Taxable Capacity of Land: Enough and to Spare"](#)<sup>6</sup>

<sup>3</sup> <http://taxreview.treasury.gov.au/Content/Content.aspx?doc=html/home.htm>

<sup>4</sup> [https://en.wikipedia.org/wiki/Henry\\_George\\_theorem](https://en.wikipedia.org/wiki/Henry_George_theorem)

<sup>5</sup> <http://la.utexas.edu/users/hcleaver/368/368LockeSomeConsiderationsAlltable.pdf>

<sup>6</sup> [http://www.masongaffney.org/publications/G2009-Hidden\\_Taxable\\_Capacity\\_of\\_Land\\_2009.pdf](http://www.masongaffney.org/publications/G2009-Hidden_Taxable_Capacity_of_Land_2009.pdf)



in 2009, to the effect that all taxation comes out of rent (ATCOR) and excess burden comes out of rent (EBCOR) anyway; so why not collect it from land values in the first instance - *without* the excess burden?

Contrary to modern economic textbooks underestimating land rent to occupy between 1% and 4% of the economy only, former Australian Treasury tax expert Dr Terry Dwyer bothered to assess it in detail in "[The Taxable Capacity of Australian Land and Resources](#)"<sup>7</sup> (Australian Tax Forum, Volume 18 Number 1, 2003, pp.21-67). Dwyer's paper provides extensive data demonstrating the use of "*land-based revenues are sufficient to allow total abolition of company and personal income tax.*" (p.40)

Dr Gavin Putland's chart from Prosper Australia's "*Trickle-Up Economics: Assessing the impact of privatized land rent on economic growth*" moreover demonstrates the squeeze being applied to wages and wealth-generating profits by the growth in land prices and taxes. Clearly, it would be advantageous to keep a lid on land prices and taxes, if not to abolish them.

Prosper Australia is the only body to have produced distributional studies showing the counterproductive role played by land prices and taxes. These analyses make a worthy case for the national accounts to assess extractive 'economic rents' separately from wealth-generating incomes

if their vastly different effects upon the economy are to be properly understood.

Note: *The studies have been conducted on a shoestring, and Prosper Australia appreciates [financial support](#)<sup>8</sup> for this groundbreaking work.*

## Historical context

In 15th century England, Lancelot the unskilled labourer had between 50% and 65% of his income left after providing food, clothing and accommodation for his family of five. He might have said something to the effect: "*Me and my wyfe Alice have more than enuff shillings to have Elinor, Rauf and Edmond educated at the abbey school and married offe welle. How goode is lyfe!*" Of course Cuthbert the skilled carpenter had even greater discretionary spending or saving - from 66% to 73% of his wages. Not bad, eh? That would have been more than sufficient for Cuthbert and Lancelot to have been able to buy a car, TV, computer, and then some—for cash—had they been invented.

Higher wage levels resulting from the Black Death were seen in the late 1300s, but that particular passage of the plague ended in 1350, and the effects had dissipated by 1415. Political events, including the *War of the Roses*, may have interrupted this 'Merrie England', but wages remained high throughout the century. Such levels were not to be

<sup>7</sup> <http://thedepression.org.au/wp-content/uploads/2016/11/The-Taxable-Capacity-of-Australian-Land-and-Resources-2003.pdf>

<sup>8</sup> <https://www.prosper.org.au/newsletters/?page=CiviCRM&q=civicrm/contribute/transact&reset=1&id=1>

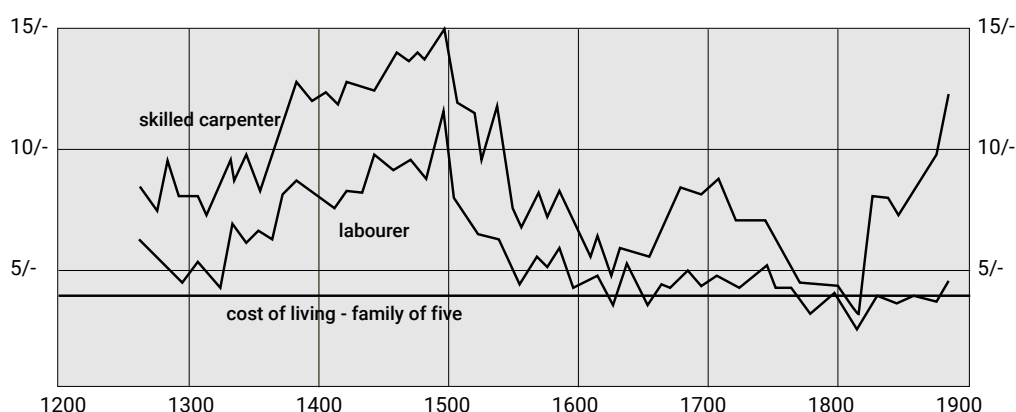


seen again, at least for the skilled carpenter, until the establishment of railways at the end of the 1820s, the increased role of municipal land value capture from the mid-nineteenth century, and the 1880s land boom.

So, how're you travelling, dear reader? You're saving between 50% and 73% of your income after food, clothing and shelter, no doubt? You're not! Why aren't you better off than 15th century Lancelot or Cuthbert then? Read on!

*"Attempts were constantly made to reduce these wages by Act of Parliament, the legislature frequently insisting that the Statute of Labourers should be kept. But these efforts were futile; the rate keeps steadily high, and finally becomes customary, and was recognised by parliament. It is possible, that as the distribution of land for terms of years became habitual, the phenomenon of which has often been noted of peasant proprietorship, a high rate of wages paid to the free labourer, may*

### English Wages to Cost of Living (Family of Five) 1260 to 1887



Based on Rev WPD Bliss' abbreviated version of Thorold Rogers' "Six Centuries of Work and Wages", Nov 1890

## Free land?

During the feudal system, from William the Conqueror to Henry VIII, the nobility provided land for their underlings upon payment of the ground rent. There were also the rent-free commons, available for anyone from the lower classes to work separately from their appointed lands. The ground rent collected for the running of the kingdom was shared between the Crown, the Lords of the land, and the Church; one of the jobs of the latter being to help manage cases of human misfortune. Capture of the land rent and the existence of the commons had the effect of making land available to all who needed it, regardless of their station in life. Real estate transfers depended on the rental value of land, the value of the improvements erected upon it and the number of serfs working the land. As there was no manufactured 'shortage' of land, land prices as we know them today were unknown. No land prices as such ..... amazing, is it not?

The Lords had resented the 15th century's regime of high wages:

*have been exhibited in the period on which I am commenting."* - Thorold Rogers, *Six Centuries of Work and Wages: The History of English Labour*, 1884.

So, for a rare period in the 15th century, the labourer had proven worthy of his hire. Today's workers, unions, business people and commentators might like to consider whether free land is indeed the mechanism to deliver inflation-free high wages, profits and prosperity?

**"Have I got a deal for you!"  
("To make you even more dependent!")**

Things changed. In the first half of the sixteenth century, King Henry VIII spent beyond Crown income, as though money was going out of style. His wars and extravagant lifestyle saddled England with such debt that he sought to recover his situation by (a) debasing the currency (b) 'rack-renting', i.e. raising rents excessively (c)

levying additional taxes (d) capturing 50% of the rent of common lands taken by his aristocracy in 'enclosures' as Crown income, and (e) dissolving monastery lands and selling them off to the aristocracy. Feudalism had ended with the transition from tenure of land as 'common property' to one of contrived, scarce 'private property'. This was the first and worst "privatization", forcing people to pay again for what was already theirs.

Hard times set in as sections of the lower classes were deprived of easy access to land, many coming to experience poverty and dispossession for the first time.

Henry's son, the precocious King Edward VI, had an idea to repair his father's legacy, however. We ought to pray for the poor in words he devised must be read out at church each Sunday:-

*"We heartily pray Thee to send Thy Holy Spirit into the hearts of them that possess the pastures and grounds of the earth, that they, remembering themselves to be Thy tenants, may not rack or stretch out the rents of their houses or lands, nor yet take unreasonable fines or moneys, after the manner of covetous worldlings: but so let them out that the inhabitants thereof may be able to pay the rents, and to live and nourish their families, and remember the poor.*

*Give them grace, also, to consider that they are but strangers and pilgrims in this world, having here no dwelling place, but seeking one to come; that they, remembering the short continuance of this life, may be content with that which is sufficient, and not join house to house, and land to land, to the impoverishment of others; but to behave themselves in letting their tenements, lands and pastures, that after this life they may be received into everlasting habitations."* - Book of Private Prayer, 1553 (the year Edward VI died, at 15 years of age.)

Prayer remains religion's response to privatized land tenure: people must accept their lowly position in life in comparison to the owners of land, and God forbid that *"The land shall not be sold, because you're just passing through"* should ever be taken literally!

Thankfully for their Lordships though, Henry VIII had resolved their unhappy plight by rediscovering the 'scarce land' formula of Ancient Rome - about which Pliny the Elder had warned: *"Latifundia perdidere Italiam"* which broadly translates: *"Listen, guys, we big landowners are doing Italy over, and this won't end well!"* He was aware the spoils from Rome's expansionary wars wouldn't repair the inequality at home.

Pliny's nephew, Pliny the Younger, actually witnessed his uncle's horrible death from a distance at the eruption of Vesuvius in 79 AD. In a letter to his friend Calvisius Rufus providing a detailed description of an adjoining property, he sought financial advice about buying the property, obviously dismissing his uncle's concerns about the Roman aristocracy laying field to field:

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*Now let me tell you the price at which I think I can purchase the property. It is three million sesterces, though it has previously sold for five million. But owing partly to the general hardness of the times, and partly to its being thus stripped of tenants, the income of the estate is reduced, and consequently its value.* [Pliny the Younger, Letters, XXXVI.](#)<sup>9</sup>

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Younger Pliny expressed his concerns about purchase of the parcel of real estate in a manner that might easily have been written by one of today's prospective investors, unaware, or in denial perhaps, about real estate speculation dispossessing the plebs and bringing an end to empires.

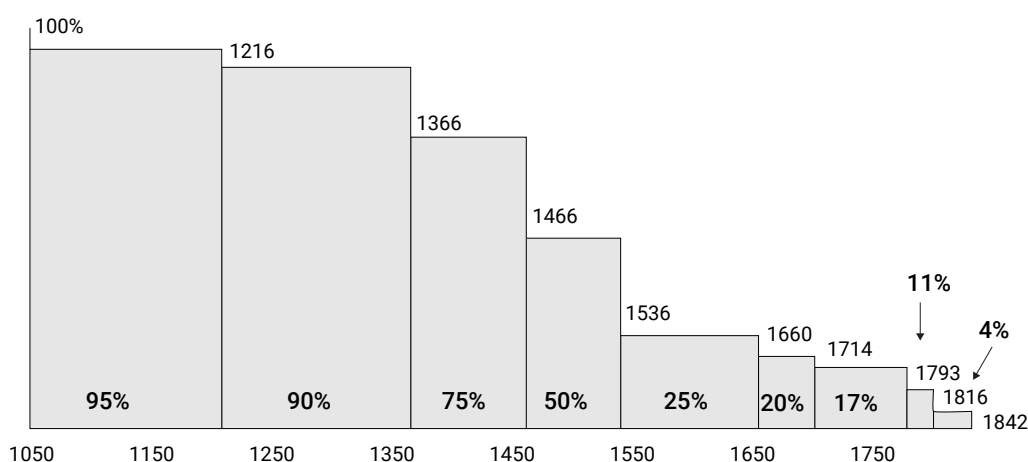
## **"We are not a highly-taxed people" is nonsense, says Cobden!**

In a parliamentary speech on the abolition of the Corn Laws in 1842, the English social reformer Richard Cobden deplored the retrogression from land held in common to a tenure which commodified land as 'private property':

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9 <https://www.bartleby.com/9/4/1036.html>

## Land rent as a % of public revenue



*It certainly was only when the power of the state had fallen into the hands of a landed oligarchy that the people were taxed in order to exempt the landowners. At the time of the conquest, and for the succeeding 150 years, the proportion of tax contributed by the land amounted to nineteen-twentieths of the whole revenue of the kingdom. From that period down to the reign of Richard the 3rd, the proportion contributed by the land was nine-tenths; thence, to the time of Mary, it was three-fourths; to*

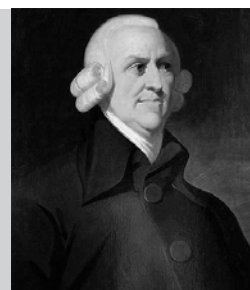
*was upon that valuation that the land-tax was charged.*

*- Richard Cobden: Corn Bill, Burdens on Land (HC Deb 14 March 1842 vol 61 cc519-81)*

Banks inflate and financialize land prices by accepting them as mortgage security. Hence, we have today's mountainous levels of mortgage debt. Therefore, those commentators inclined to

*"As soon as the land of any country has all become private property, the land-lords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce"*

Adam Smith



*the end of the Commonwealth it was one-half; to the time of Anne one-fourth; in the time of George 1st one-fifth; of George 2nd one-sixth; for the first thirty years of George 3rd one-seventh; from 1793 to 1816 one-ninth; and from that time to the present only one-twenty-fifth. The land-tax was a fraudulent evasion, for it was in reality a substitution for feudal tenure. The land was formerly held by right of feudal services. The honourable gentleman quoted a passage from Blackstone, describing the commutation of feudal services into a land-tax of 4 shillings in the pound on the real rental. Now could anyone suppose that land would always remain at the valuation of 1692? And yet it*

sneer at the feudal system might contemplate whether the 15th century public capture of land rent may have had something going for it, despotic kings notwithstanding?

## Classical economists saw the need to tax land rent away

Classical economists, including Adam Smith, David Ricardo and John Stuart Mill wrote of the need for public capture of the ground rent that measured locational advantage if monopoly was to be avoided, and if labour and capital were to

receive their fair reward. It was the clear-sighted analysis of 'The land question' in the American Henry George's "[Progress and Poverty](http://www.henrygeorge.org/pcontents.htm)"<sup>10</sup> in 1879, however, that came to pose the greatest threat to the established mindset.

The heart of "Progress and Poverty" was that wages and capital's net return were residuals, i.e. the remainders, after rent had been extracted from the proceeds of production. As land rent is generated by social demand and public investment, rather than the contribution of any individual, it's owed *equally* to all, said George. Therefore, land rent needs to be captured publicly, because product less rent leaves wages and 'interest'—the net profit of produced capital—untaxed and intact. The incomes of labour and capital are the true 'private property'.

Henry George further explained that the earned incomes of labour and capital rise and fall together, inversely to (privatized) land rent. Although land prices may also rise when public collection of land rent increases, this will be a function of productivity having also risen, i.e. of increased wages, profits and prosperity. The

arguing they are complementary. The remedy referred to in the subtitle of *Progress and Poverty*, "*An inquiry into the cause of industrial depressions and of increase of want with increase of wealth ... The Remedy*", was proposed only after George had carefully disposed of all the arguments that might be put against the public capture of land rent.

The release of George's "*Progress and Poverty*" in 1879 proved timely, because from 1880 to 1890 investors turned their attention to real estate deals and financial chicanery. Joblessness rose behind a façade of prosperity and busy work that Mark Twain had labelled "The Gilded Age".

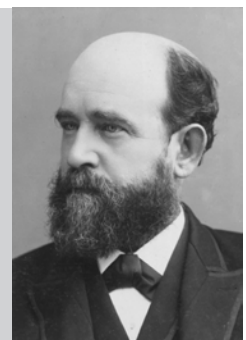
So when the bubble burst into the economic depression of the 1890s, Henry George's call for the public capture of the 'economic rent' of land struck a resounding chord of public recognition.

Notable Australian conservatives were impressed by Henry George's thesis, but incredibly by today's standards, a book about economics became a special hit with working people. The Australian Workers Union was founded in 1886

*"As produce = Rent + Wages + Interest, therefore  
Produce - Rent = Wages + Interest.*

*Thus wages and interest do not depend upon the produce of labor and capital, but upon what is left after rent is taken out;..."*

*Henry George*



case remains valid, however, that if *all* land rent were to be captured to the public purse, there remains nothing left to be privately capitalised into a land price. But our current financial model serves the interests of banking and rent-seekers at great cost to the wider community. Surely then, free land on payment of its rent—with no taxation at all—should be a happy prospect?

Unlike his contemporary Karl Marx's "*Capital*", and at least implicitly in Thomas Piketty's "*Capital in the Twenty-First Century*", George saw no irreconcilable conflict between labour and capital,

with the principles of "*Progress and Poverty*" front and centre. The English translation of Karl Marx's "*Das Kapital*" published the following year commanded a substantial but lesser following.

Although it's ironic that Marx is today the better known figure, it's understandable, because George's simple "fiscal adjustment" posed an existential threat to the privileged interests who were feeding off land rent. The burial of George's ideas was not accidental.

Henry George's three month tour of Australia from March to early June of 1890, just as the 1880s real estate bubble was ending, acted to confirm

<sup>10</sup> <http://www.henrygeorge.org/pcontents.htm>

to workers that their declining position had been a casualty of the boom. It made sense to them that production and employment had suffered when investment had shifted into property speculation. [A thorough account of George's enervating trip around New South Wales, Victoria, Queensland and South Australia, in which he spoke to 56 receptive audiences in 38 towns and cities, is given in John Pullen's "Nature's Gifts: The Australian Lectures of Henry George on the Ownership of Land & Other Natural Resources". (Desert Pea Press, Sydney, 2014)]

The onset of the 1890s depression fostered the formation of further labour unions and the establishment of labour parties within the Australian colonies. The national Australian Labor Party (ALP) was founded when the Australian colonies federated into a Commonwealth and six State governments in 1901. Amongst other goals, the ALP would ensure there was to be no repetition of the land speculation and financial corruption of the 1880s.

Consequently, by 1911, Labor governments-in-coalition and the 1910 Fisher Labor government had (a) granted full suffrage to women (b) selected a site for the federal capital where land was to be held on the basis of leasehold tenure (c) introduced a federal land tax, and (d) set up the Commonwealth Bank of Australia as a public competitor to the private banks. In what has become known as the Progressive Era (1890-1920), in which 'Henry Georgists' loomed large, Australia vied only with New Zealand in leading the world with such major social reform.

## The powers that be retaliate

"*Progress and Poverty*" became so popular in America that self-interest impelled power and privilege to respond. Academia was to be the staging ground to carry the fight, but rather than challenge the classical economists who'd also advocated the taxing away of land rent, Henry George was to be appointed the *bête noire* against whose ideas a new economics was to be founded. ("He's an autodidact, for God's sake!")

John Bates Clark became the willing leader of a counterattack in which he directed some 24 works

against George between 1886 and 1914. Professor Mason Gaffney's [Neo-classical Economics as a Stratagem against Henry George](http://www.masongaffney.org/publications/K1Neo-classical_Stratagem.CV.pdf)<sup>11</sup> in "The Corruption of Economics" (Shepherd-Walwyn Ltd, London, 1994) provides detail on the many efforts made within academia to subvert George's case. The income streams to land and capital became one. There was no moral difference between the two, and certainly no such thing as *unearned* land income. Universities were founded with compliant chairs in economics, and by WWI an acquiescent study had disposed of intellectual rigour to conflate two of the three classical economic incomes; those of land and capital. Here in all its glory was 'neoclassical economics', born into the world to underpin and endorse the private capture of publicly-generated land rent. The conservative academic Eugen Bohm-Bawerk and Alfred Marshall, the doyen of English economists, saw through and roundly criticised John Bates Clark's sleight of hand but were ignored by most academic economists.

Fortunately, a marked contrast existed between economic academia and the practical politics of the time. The US was awash with Henry George-influenced mayors who included [Tom L. Johnson](https://en.wikipedia.org/wiki/Tom_L._Johnson),<sup>12</sup> [Newton D. Baker](https://en.wikipedia.org/wiki/Newton_D._Baker),<sup>13</sup> [Hazen Pingree](https://en.wikipedia.org/wiki/Hazen_S._Pingree),<sup>14</sup> [Brand Whitlock](https://en.wikipedia.org/wiki/Brand_Whitlock),<sup>15</sup> and [Edward Robeson Taylor](https://en.wikipedia.org/wiki/Edward_Robeson_Taylor),<sup>16</sup> all of whose cities prospered as they engaged against rent-seeking and corruption.

Meanwhile in England, the House of Lords rejected the land tax component of the Asquith Liberal government's [1909 "People's Budget"](https://en.wikipedia.org/wiki/1909_People's_Budget),<sup>17</sup> even though it meant breaking the longstanding tradition that the House of Lords wouldn't reject budgetary measures. The Tories sought distraction from the reformatory zeal against rent-seekers, so the Liberals became "treasonous" for wanting to reduce the number of proposed Dread-

nought battleships from six to four, as argued by

11 [http://www.masongaffney.org/publications/K1Neo-classical\\_Stratagem.CV.pdf](http://www.masongaffney.org/publications/K1Neo-classical_Stratagem.CV.pdf)

12 [https://en.wikipedia.org/wiki/Tom\\_L.\\_Johnson](https://en.wikipedia.org/wiki/Tom_L._Johnson)

13 [https://en.wikipedia.org/wiki/Newton\\_D.\\_Baker](https://en.wikipedia.org/wiki/Newton_D._Baker)

14 [https://en.wikipedia.org/wiki/Hazen\\_S.\\_Pingree](https://en.wikipedia.org/wiki/Hazen_S._Pingree)

15 [https://en.wikipedia.org/wiki/Brand\\_Whitlock](https://en.wikipedia.org/wiki/Brand_Whitlock)

16 [https://en.wikipedia.org/wiki/Edward\\_Robeson\\_Taylor](https://en.wikipedia.org/wiki/Edward_Robeson_Taylor)

17 [https://en.wikipedia.org/wiki/People%27s\\_Budget](https://en.wikipedia.org/wiki/People%27s_Budget)

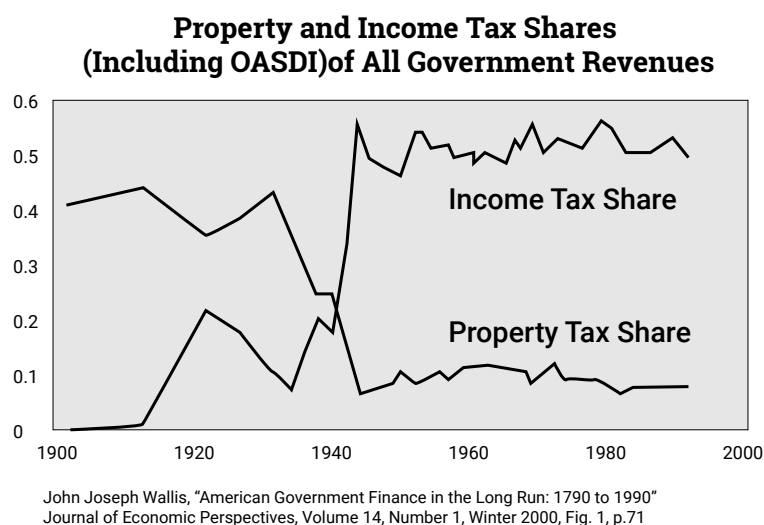


Chancellor of the Exchequer, David Lloyd George. The conservatives' cry "We want eight, and we won't wait!" took hold within a wider population gripped by fear that war with Germany was indeed in the air. Therefore the government was forced to accede to the production of six Dreadnoughts.

In the event, the aristocracy proved more willing to send young men (including its own sons) off to the "war to end all wars" than to help foot the bill. Whether inspired by Richard Cobden's attack on the low-level public capture of land rent, or simply as a matter of improved governance, land-based revenues had grown appreciably at local government in the latter half of 19th century England, and the upper class had had enough of it!

the name of the game in mid-1920s America, highlighting a dive in land value capture at that time. Proliferation of the attractive 'Californian bungalow' dwelling characterised an identical bubble in Australian land prices. However, these land bubbles have been almost written out of history in the wake of the stark and more-impressive 1929 stock market crash.

Government intervention became necessary during the Great Depression, but the US federal government appeared precluded by law from resorting to a land tax. (It wasn't, actually. It could have levied a tax on the State "privilege" of being a land holder.) As there was no restriction against taxing land income, the incomes taxes introduced



Property taxes also grew at state and local government levels in the USA, capturing back to the public purse some of the increases in property values brought about by massive capital works programs, rising at times between 1900 and 1933 to more than 40% of all revenues.

Those who claim taxing land rent to be 'communitistic' are faced with the first 25 years of the 20th century being regarded as one of capitalism's most prosperous periods, notwithstanding WWI. This was capitalism indeed, and it was progressing well until another bout of land speculation struck in the mid-1920s.

## Eruption of income tax

Commencing in Florida, real estate became

during the depression and WWII were allowed to settle in for the long term, coming to exceed 50% of all taxation, whilst property taxes tanked to 10%.

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*Despite the tag "progressive" attached to income tax, the dead hand of the taxation of wages and earned profits arrived with a vengeance to work its deadweight losses upon productivity and prosperity, and to let real estate monopolists and speculators off the hook.*

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Over the last six years, Australian income tax has ranged between 57.0% and 59.1% of all taxation, and property taxes from 8.6% to 10.8%. Had land incomes been taxed only, it would have been impossible to achieve current levels of worldwide



private debt - in which Australia now ranks at number one.

During the progressive era, Australia had relied even more heavily than the US on charges on land—at all three levels of government—as the nation constructed its roads, railways, dams, and reticulated power and water supplies. Australians' forebears just got on with the job, understanding that infrastructure creates necessary efficiencies, generates wages, profits and national wealth, all without today's pusillanimous "*Where's the money to come from?*"

In disrespect to its predecessors who worked to provide national infrastructure, Australia has become captive of the false neoliberal argument that power supplies, highways, ports, airports, &c. must all be privatized. Extreme price rises in these services demonstrate that rent-gouging has taken place, underlining the earlier wisdom of public control of essential services and of the rents they deliver the nation.

## Abolish income tax?

The Great Depression and WWII may have been no time to argue with the exceptional growth in income tax, but the indebted nature of world economies, considered against a background of privatized and monopolized land, mineral and spectrum rents—all of which amount to unearned 'super-profits', or privately expropriated land rent—offers enormous potential to rectify the dead-weight effects of income tax (and, for that matter, of the regressive taxation of goods and services).

*As the political class fiddles around the edges of concocted tax rorts and privileges, wage-earners and small businesses are required to shoulder the ever-increasing burden of international tax avoidance. The need for a tax shift from earned to unearned incomes has become obvious, and the response from the political class "It can't be changed now!" is sorely misguided.*

Switching emphasis from reliance on income tax to the taxing of economic rents also addresses the issue of a declining number of income-earn-

ers supporting growing numbers of asset-wealthy retirees. History demonstrates that rent-seekers will try to support the status quo by crying crocodile tears for "the poor widow" in the family home, but genuine cases may be managed effectively in the change by deferment of payment. This is superior effectively to providing subsidies for children who will inherit mum's home. If introduced gradually to ease the transition, this would act to zip-fasten the ever-widening gap between the mega-wealthy 0.1% and all others. It would also support payment of a universal basic income to everybody, instead of often inadequate pensions to some. The switch from [stamp duty to council rates in the Australian Capital Territory](#)<sup>18</sup> over a period of 20 years offers a useful template for how graduated change might work.

## Singapore

Prosperous Singapore is an interesting study in this regard. Thomas Stamford Raffles brought the idea of capturing land rent with him from the Dutch East Indies to found modern Singapore in 1819. Although Singapore has since introduced income taxation and a goods and services tax, more than 75 per cent of the island remains publicly-owned and leased. Land is administered by the Singapore Land Authority, which levies an annual value tax on both leasehold and freehold property. 'Top up' premiums to the 99-year leaseholds also contribute to public revenue. Singaporeans appreciate the income stream from a proactive land tenure that keeps income taxes low.

[Land tenure in Hong Kong has some similarity – as a result of Lord Aberdeen insisting to Governor Sir Henry Pottinger that merchants and other landholders should contribute, as beneficiaries of "The Crown's" free port.]

<sup>18</sup> <https://grattan.edu.au/news/following-the-act-land-tax-approach-boosts-growth-and-state-budgets/>

*"Where land is enclosed, the price of land and the creation of credit upon it will eventually far outstrip the ability of wage earners to pay for it. Hence we get the real state cycle - the cyclical termination of building activity followed then by a disruptive land price-led slump. About every 18 years so far, since the rental enclosures began after 1800."*

*Philip J Anderson*



## Boom-bust and the financialization of land price bubbles

In [The Secret Life of Real Estate and Banking](https://www.amazon.com/Secret-Life-Real-Estate-Banking/dp/0856832634)<sup>19</sup> (Shepherd-Walwyn Publishers Ltd, 2009) Philip Anderson carefully documents the series of land bubbles that have occurred in the USA since 1800 - and the recessions that have followed their burstings. That these occur in 18-year cycles, with the exception only of WWI and WWII, is indeed a well-kept secret! As the last bursting was in 2008, the next will be 2026!

In [The Power in the Land: unemployment, the profits crisis and the land speculator](https://www.amazon.com/Power-Land-Inquiry-Unemployment-Speculation/dp/0856831093)<sup>20</sup> (Shepherd-Walwyn Publishers Ltd, 1983) English author-economist Fred Harrison examined the 18 year land boom-bust cycle and was one of a handful of economists to 'call' the 1990 and 2008 recessions.

As the definition of a scientific explanation is its ability to forecast a particular event accurately, mainstream media's capitulation to the mantra that *"banks are too big to fail!"* is a pitiful call to inaction against fraud. It's also of note that of the 12 economists who forecast the 2008 global financial crisis, those who weren't specifically supporters of the ideas of Henry George broke with neoclassical economics' tradition to acknowledge the overarching influence of real estate debt on boom-bust cycles. ([Dirk Bezemer, "No one saw this coming: understanding the financial crisis through accounting models"](http://www.heterodoxnews.com/htnf/htn85/No%20one%20saw%20this%20coming%20understanding%20the%20financial%20crisis%20through%20accounting%20models.pdf).<sup>21</sup>)

A scientific explanation of boom-bust cycles shows land prices to be the culprit, so it's astounding that

devastating periods of financial collapse continue to be summarily dismissed by economists as *"a natural part of the business cycle"*.

After America came off the gold standard in 1971, effectively taking the wraps off bank lending, greater debt has been sacrificed at the altar of increasingly larger real estate bubbles. Correlation between household debt and the winding back of taxing land rent has become obvious. By providing easy credit to inflate land prices, banks purposely disregard the welfare of mortgagors in favour of their shareholders - and it of course becomes necessary for banking's upper echelons to deny the existence of bubbles if the cycle is to be allowed to play out once more. It's also revealing that banks, having taken part in setting the terms of reference for the 2018 [Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry](https://financialservices.royalcommission.gov.au/Documents/Signed-Letters-Patent-Financial-Services-Royal-Commission.pdf),<sup>22</sup> precluded any investigation of the macroeconomic effects of bank lending.

By implication, they were fearful the financial curse of land price bubbles standing as 'security' for impossible levels of mortgage debt might have been exposed. Banking has clearly become master of the economy, no longer its servant.

Fortunately, we're advised the economic recovery which always seemed to be *"just around the corner"* with each *"green shoot"* and *"the light at the end of the tunnel"* has arrived. However, low interest rate policies and the cheap funding of share-buybacks disguise the other-worldly reality of Wall Street and 'The City', as compared to the lives of ordinary folk. Private debt levels have overtaken those that existed when the global financial crisis exploded in 2008, and the new gilded age lurches onward, towards its inevitably damning conclusion.

<sup>19</sup> <https://www.amazon.com/Secret-Life-Real-Estate-Banking/dp/0856832634>

<sup>20</sup> <https://www.amazon.com/Power-Land-Inquiry-Unemployment-Speculation/dp/0856831093>

<sup>21</sup> <http://www.heterodoxnews.com/htnf/htn85/No%20one%20saw%20this%20coming%20understanding%20the%20financial%20crisis%20through%20accounting%20models.pdf>

<sup>22</sup> <https://financialservices.royalcommission.gov.au/Documents/Signed-Letters-Patent-Financial-Services-Royal-Commission.pdf>

*"Debt that can't be repaid, won't be repaid"*

*Michael Hudson*



## It's the PRIVATE debt, stupid!

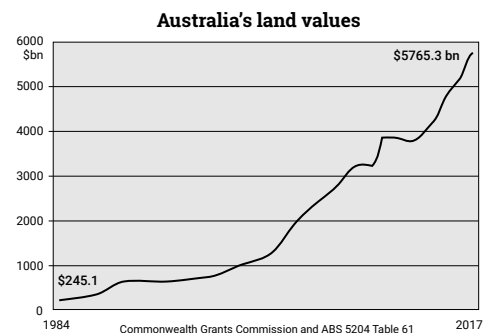
It's no longer an open question that rent-seeking activity represents stolen productivity rather than 'prudent savings for a secure future'. However, in common with other western economies, instead of erecting a ground rent barrier atop the economic cliff, Australia chooses to employ a fleet of ambulances to carry away the casualties at the bottom.

Each ambulance bears its own registration: ACCC, AFCA, AHRC, APRA, ASIC, ATO, FWC, PBO, PC, RBA, but fails in its mission because it can be no replacement for a proactive fiscal policy which taxes away economic rent. From the outset of the 1970s the world has transitioned deeper into rent-seeking in land and natural resources, the ills of which indigenous peoples always understood instinctively - but 'educated' people know better. Although chattel slavery has been abolished, the modern slave is not in chains, but in debt, serfdom neoclassical economics has practised to make invisible.

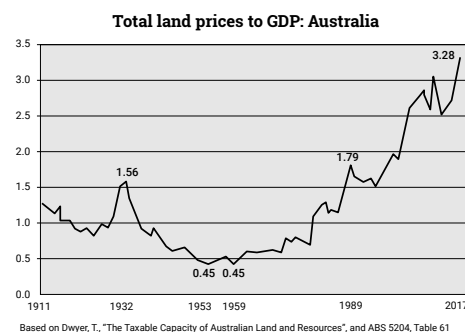
Political parties, unions, monetary reformists, religions, human rights advocates, universal basic income supporters, and environmentalists will remain unrewarded as long as central banks and governments underwrite private banking's confidence trick of pushing up market land prices to widen social fracture and increase poverty. Unfortunately, far from economics being at a leading edge in the twenty-first century it has regressed into fraught mathematical models that ignore the vast deadweight effects of taxes and land prices.

## A forensic look at soaring land prices

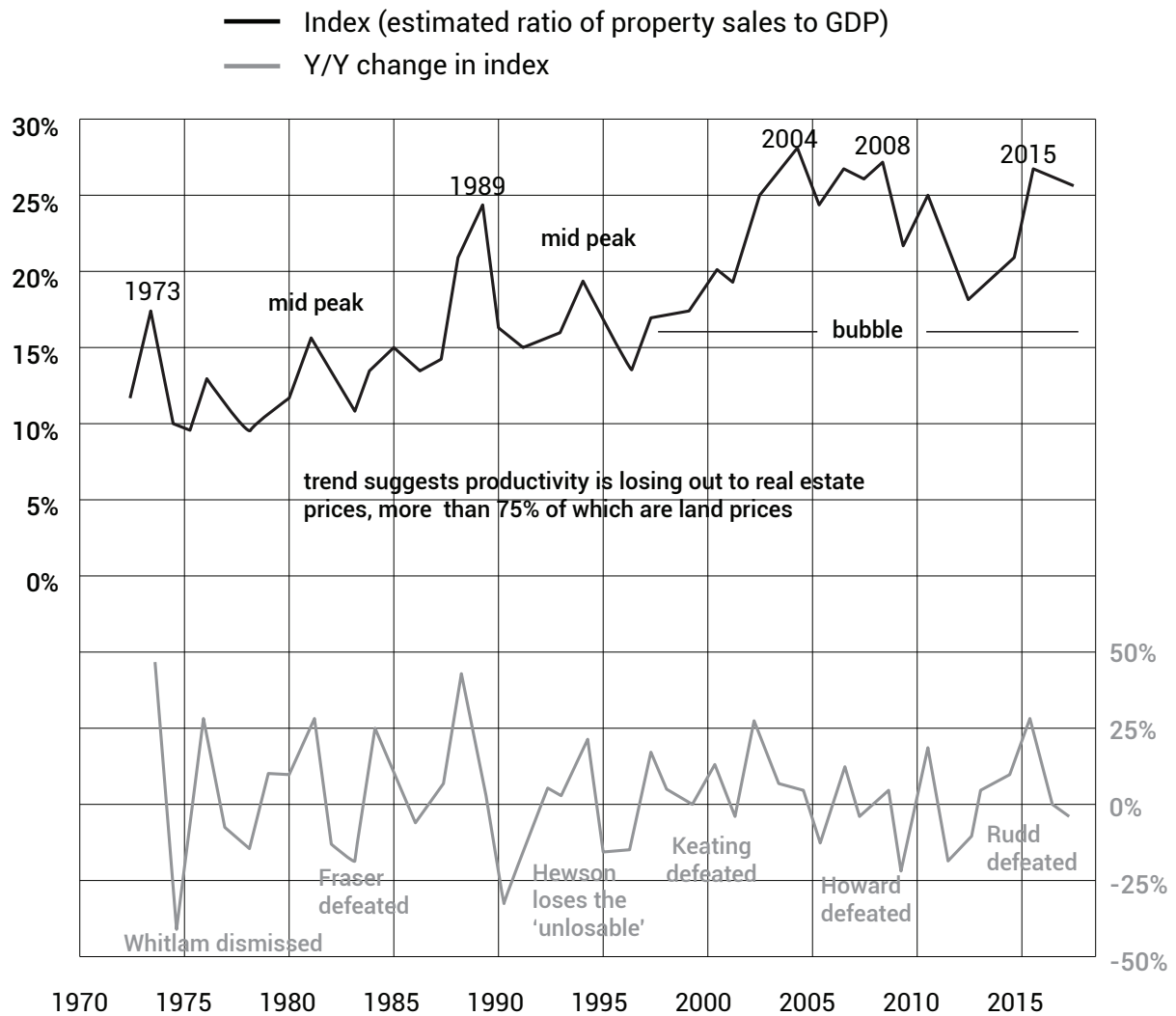
Since 1984, Australia's total land values have increased 23.5 times, averaging an increase of 10% per annum. Average seasonally-adjusted nominal GDP growth has tracked at just 6.6% per annum. This represents a great return for buyers and landholders (who produce nothing which wasn't there in the first place), but it's extractive and counter-productive in nature. An errant tax system actually encourages such activity as 'investment savings'. Banks are intimately involved, offering easy credit against escalated land prices, and inflating them further to generate 'super-profits'. The ABS omission of land prices from the CPI—in favour of including far less volatile rents—disguises their incredibly inflationary effect in what's said to be a low inflationary environment.



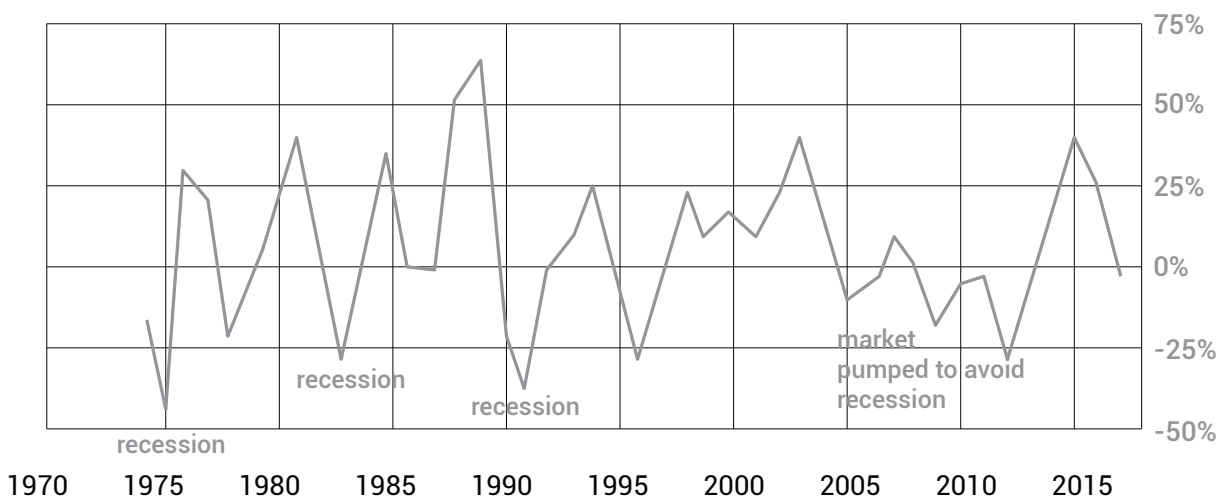
"Nothing to see here. There is no bubble!"



## Kavanagh-Putland Index, Australia, 1972-2017



## 2-year change, 1972-2018



Sources: OSR(NSW), VG(Vic,NT), DERM(Qld), SRO(Tas), ACTPLA, Residex(NSW,Tas,NT), RP Data (NSW,Vic,Qld,WA,Tas,NT,ACT), Land Titles SA, Landgate(WA), CoreLogic, ABS.

If we examine land prices further by dividing them by GDP, the GDP denominator will adjust for Australia's increasing population. It may be seen that whereas land prices to GDP achieved a ratio of 1.56 at the outset of the 1930s depression, the current ratio, at 3.28 times GDP, is portentous of major collapse.

An additional measure, total real estate sales turnover to GDP paints a more-telling picture of Australia's land booms and busts since 1970, and of Australian electoral outcomes.

The trend of Prosper Australia's Kavanagh-Putland Index (KPI) confirms total real estate sales turnover has outstripped GDP growth. In terms of Henry George's  $P - R = W + I$ , this assists to explain the under-performance of wages and earned profits as they lose out to the privatization of land rents.

Recessions in 1974/75, 1982/83 and 1991, when the 2-yearly change in the index dropped by 25%, suggests that a real estate bubble exists when the KPI ratio rises to exceed 15%. Therefore, a sales ratio in excess of 15% of GDP may be seen as defining a real estate bubble. On this definition, Australian real estate turnover has been in bubble territory since 1996. Significant declines in real estate sales in 2008 and 2012 failed to prick the bubble because of: (a) booming iron ore sales to China; (b) the more than \$50 billion dollars spent by the Rudd government to keep the real estate bubble inflated, and; (c) unprecedented low RBA cash rates that have created lower borrowing rates than in the depths of the Great Depression.

Australia hasn't experienced economic recession for 27 years, but the recent year-on-year change in the two-yearly KPI, though not definitive, suggests the turning point. Subsequent declines in sales turnover and prices in Sydney and Melbourne during 2018 support the conclusion that governments, banks and the RBA have run out of tricks to keep the bubble inflated. Investors deserting the market, and the rollover of some \$360 billion of [interest only mortgage loans](http://www.abc.net.au/news/2018-06-19/fears-as-interest-only-loans-roll-into-principal-plus-interest/9886430)<sup>23</sup>—to payment of principal and interest over the next three years—will exacerbate the decline. Although the market will favour prospective homeowners, the debt crisis will overwhelm the economy. The length and breadth of the greatest ever bubble in Australia's land prices is an indictment on the economic relevance of our politicians, presaging a financial collapse of epic proportion.

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23 <http://www.abc.net.au/news/2018-06-19/fears-as-interest-only-loans-roll-into-principal-plus-interest/9886430>

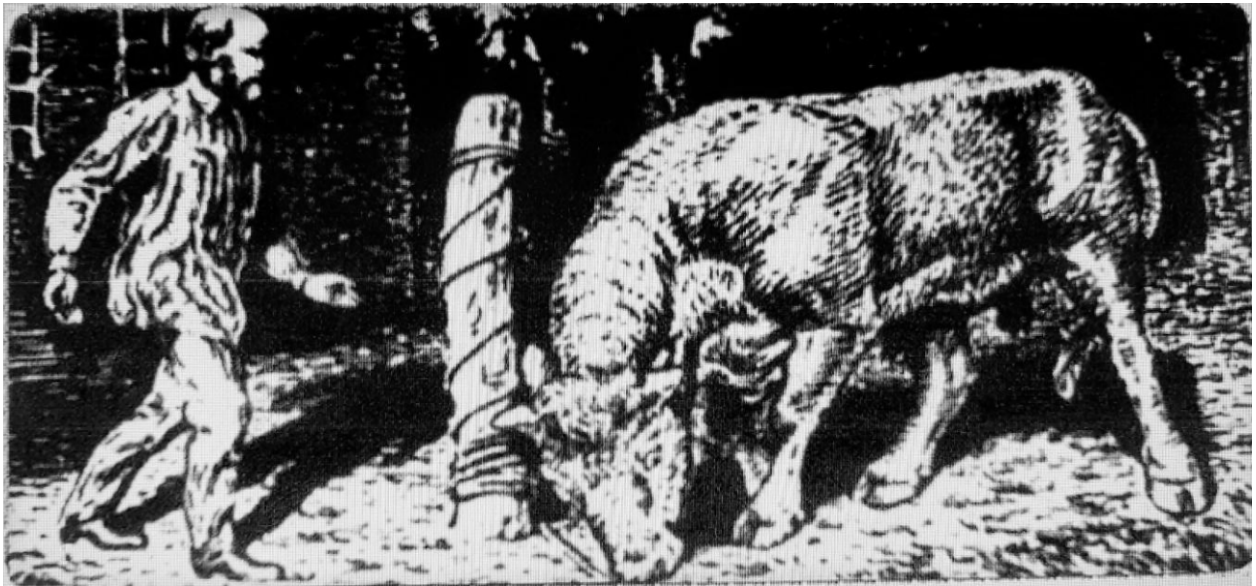
## So, what happens if we capture land rent instead of taxes?

1. Capitalized upfront land prices decline and taxes disappear.
2. Private monopolies are curtailed.
3. The price of a parcel of real estate becomes the value of improvements erected upon the land. (i.e. Housing is affordable!)
4. Goods and services are much cheaper, because they're no longer inflated by taxes on the labour and capital required to supply them.
5. Property (land) speculation—an extractive siphoning-away process—gives way to increased productivity and wealth-creation.
6. GDP quickly surges, because taxes carrying deadweight loss of more than twice the amount levied are gone (a land rent charge carrying no deadweight loss).
7. Wages and earned profits rise - without generating inflation.
8. Savings increase as debt reduces.
9. Banks no longer make 'super-profits': nor require bailouts!
10. A universal basic income may be able to replace pensions.
11. Financial crime and corruption declines.
12. Without over-exploitation, the environment is able to be better-managed.
13. Rent-capture, the glue that binds the community, also brings moderate sections of the political left and right together.
14. Farmers don't have to wait until they're about to die to become wealthy.
15. The world's a much better place - for everyone. (Yes, even for rent-seekers!)

*Bryan Kavanagh is a member of Prosper Australia. He is a retired real estate valuer, having worked in the Australian Taxation Office and the Commonwealth Bank of Australia before co-founding a Melbourne-based real estate valuation consultancy in 1997.*

*Mr Kavanagh gratefully acknowledges the assistance of Dr Gavin Putland, Karl Fitzgerald, James Webster, Dr Terry Dwyer and Richard Meredith in the preparation of this document.*





*Near the window by which I write, a great bull is tethered by a ring in his nose. Grazing round and round he has wound his rope about the stake until now he stands a close prisoner, tantalized by rich grass he cannot reach, unable even to toss his head to rid him of the flies that cluster on his shoulders. Now and again he struggles vainly, and then, after pitiful bellowings, relapses into silent misery.*

*This bull, a very type of massive strength, who, because he has not with enough to see how he might be free, suffers want in sight of plenty, and is helplessly preyed upon by weaker creatures, seems to me no unfit emblem of the working masses.*

*- Henry George, "Protection or Free Trade", 1886*

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*"Put to the vote; as many are of the opinion that a public tax upon the land ought to be raised to defray the public charge say 'Yea'.*

*Carried in the affirmative, none dissenting."*

*- Philadelphia's first tax law, 30 January 1693*

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# Geoists in History

## Francois Quesnay (1694 - 1774) *by Karl Williams*

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The founder of the first systematic school of political economy was actually the consulting physician to France's King Louis XV at Versailles. He had been orphaned as a low-born boy but later taught himself to read and thereby made meteoric advances in pre-revolutionary France, the epitome of class structure. Rags to riches doesn't come any more extreme than this.

Francois Quesnay was born on a farm outside Paris to a humble ploughman and merchant, without the advantages of scholastic education. At 12 he began to master the ability to read, at 13 he was orphaned and at 17 he was able to enter into training as a Parisian engraver.

Escaping the limitations of village life opened up a world of opportunities for an intelligent and ambitious lad such as Francois, and he never hesitated to jump at every prospect. He landed an apprenticeship to a surgeon after which he studied medicine in Paris where he qualified as

a master surgeon. His course in life looked like being unremarkably comfortable at this point, as he married a Parisian grocer's daughter when he was 24 and settled down to practice medicine in the small town of Mantes, 50 km. west of Paris.

But mediocrity was never going to be Quesnay's bag. In a country totally dominated by royalty and nobles, he began his climb up the ladder of influence by becoming qualified as a 'royal surgeon' in 1723 and entered into the service of the Duke of Villeroy in 1734. He began to write medical treatises and, as his skills became widely recognised, he took on more important positions. Aided by his natural charm, his rapid rise continued until he reached the pinnacle of his profession in 1744 when he became personal physician to the absolute ruler of France, King Louis XV, and was installed in the insanely-festooned Versailles palace. With the procession of some of the greatest minds in the western world coming into direct contact with Francois's bril-

liance and spirit of enquiry, it was only a matter of time before an intellectual upheaval took place. It did. It was the creation and development of logical economic thought.

Having the king's ear comes at the price of attracting many jealous enemies only too keen to stab one in the back, but Francois played his cards masterfully and abstained from the intrigues of court. Soon he was one of the club, being made a noble by the king (with his own coat of arms, no less) and was assigned his own apartments at the palace. Becoming recognised as the 'King's Thinker', he would regularly gather around him groups of eminent men to talk through solutions to the greatest problems facing humanity. It's hard to imagine that history has ever seen a more fertile setting for cultivating lofty ideas and revolutionary means of achieving human progress.

Let's pause here for a few words about the bizarre interplay between kings and nobles and the activities at court that Francois witnessed. Historically France's kings had a weak position vis-à-vis their barons. To increase his independence the king impoverished the high nobility by forcing them to be present at the Court, to outmatch each other in luxury and to neglect their properties. The Palace of Versailles was built in this tradition.

The high nobility constituted only half a percent of the population but 'owned' virtually all of the land, leaving the rest in various forms of serfdom. Francois soon saw this as the root of injustice and economic inefficiency, but could not openly declare that the landed class were parasites. As he grappled with his own new science of political economy, he had to dance around certain realities of the day. Nevertheless, his writings and diagrams demonstrated how the landed classes (nobility and church obtained agricultural and industrial services but did not contribute anything itself, and were the rightful target of taxation. Yet Francois could not go so far as to incite rebellion from a united nobility, and it is estimated that Francois was only recommending that about a third of the economic rent from land be collected from his proposed land tax (the *impôt unique*, or single tax).

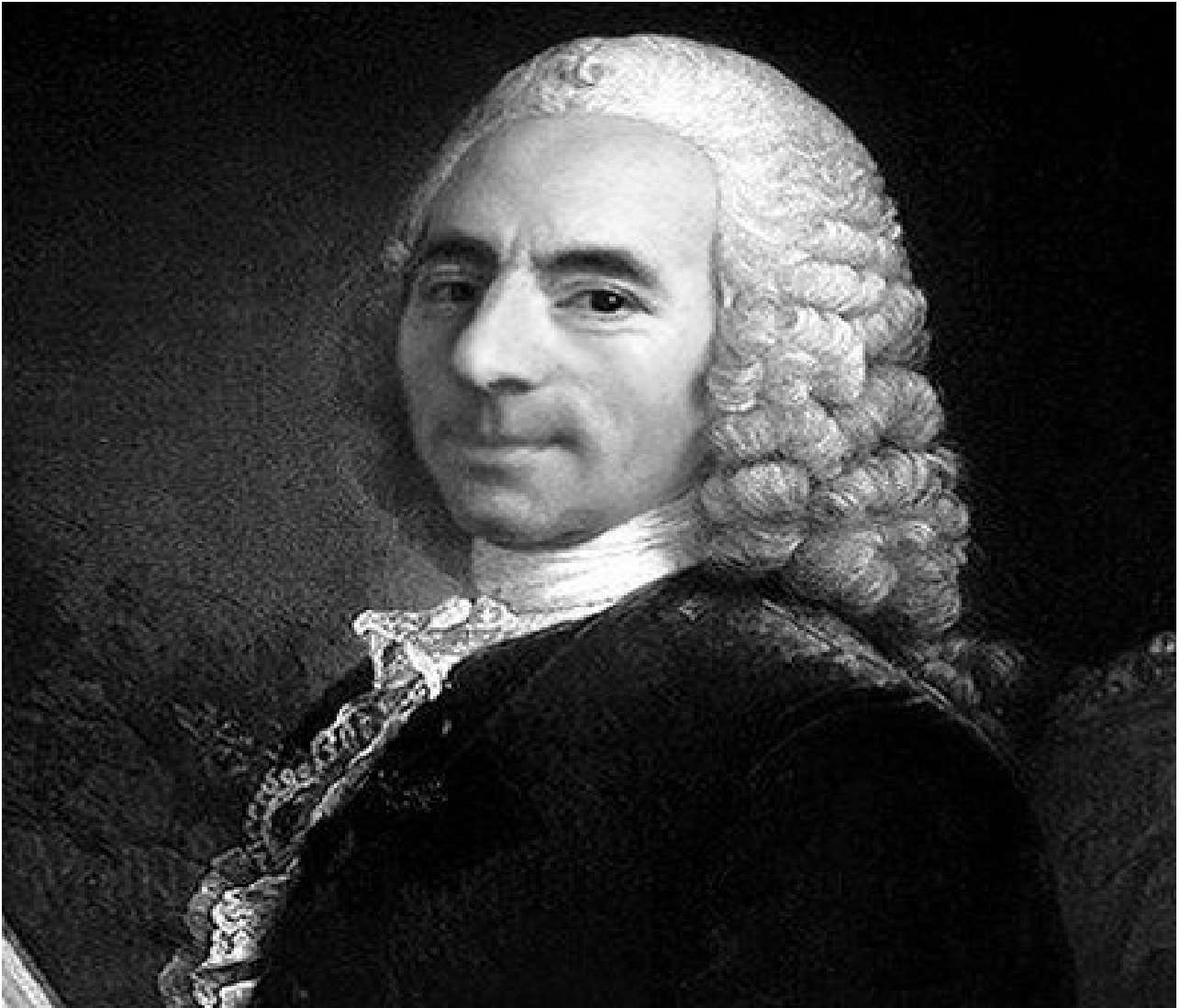
An amazing group of logical and systematic thinkers formed around Francois, and this assembly came to be known as the physiocrats (meaning 'governors of nature'). They rationalised medieval economic ideals, employing to that end the more modern philosophical and scientific methods. Hence in their writings there was a strange blend of conservative and revolutionary thought and, to the modern mind, some inconsistencies. They asserted in a general way that prices were determined by the cost of production and by supply and demand. They assumed that there would be a constant fair price that was obtained under a regime of free trade (it was Quesnay who coined the term '*laissez-faire*'). Some economic historians believe that the most significant contribution of the physiocrats was their emphasis on productive work as the source of national wealth. This is in contrast to earlier schools, in particular '*mercantilism*', which often focused on the ruler's wealth, accumulation of gold, or the balance of trade.

In brief, the Physiocrats famously argued for their 'single tax' on landed property this way. Any tax levied throughout the economy would be passed from sector to sector until it falls upon the net product. As land is the only source of wealth, then the burden of all taxes ultimately bears down on the landowner. So instead of levying a complicated collection of scattered taxes (which are difficult to administer and can cause temporary distortions), it is most efficient to just go to the root and tax land rents directly.

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*"Thus the form of assessment which is the most simple, the most regular, the most profitable to the state, and the least burdensome to the tax-payers, is that which is made proportionate to and laid directly on the source of continually regenerated wealth (land)."*

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Quesnay's system of political economy was summed up in his *Tableau économique* (1758), which diagrammed the relationship between the different economic classes and sectors of society and the flow of payments between them. In his *Tableau* Quesnay developed the notion of economic equilibrium, a concept frequently used as a point of departure for subsequent economic analysis. Of explicit importance was his identification of capital as *avances*—that is, as a stock of wealth that had to be accumulated in advance of production. His classification of these *avances* distinguished between fixed and circulating capital.

French agriculture at the time was trapped in a morass of medieval regulations which shackled enterprising farmers. The monopoly power of the merchant guilds in towns did not permit farmers

to sell their output to the highest bidder nor buy their inputs from the cheapest source. An even bigger obstacle were the internal tariffs on the movement of grains between regions, which seriously hampered agricultural commerce. Public works essential for the agricultural sector, such as roads and drainage, remained in an awful state. Restrictions on the migration of agricultural laborers meant that a nation-wide labor market could not take shape. Farmers in productive areas of the country faced labour shortages and inflated wage costs, thus forcing them to scale down their activities. In unproductive areas, in contrast, masses of unemployed workers wallowing in penury kept wages too low and thus local farmers were not encouraged to implement any more productive agricultural techniques.

Quesnay's principles rested upon his philosophy



of social ethics, on the restoration of human solidarity, on the negation of economic nationalism, on the doctrine of equal exchanges and natural liberty, and on the combination of moral discipline with economic freedom.

Those who had influenced Quesnay were many and varied. While his rooms at Versailles had become a meeting place of great minds, his economic ideas were coloured by his early studies of Aristotle and Thomas Aquinas. But perhaps the deepest influence on Quesnay came from China whose standardized system of taxation and universal education he openly advocated. The concept of natural order originated in China and the Chinese believed that there can be good government only when a perfect harmony exists between the 'Way of Man' (governmental institutions) and the 'Way of Nature'. In fact, the concept of the natural order of physiocracy originated from Chinese Taoism. Furthermore, it is thought that the name and doctrine of "laissez-faire" was inspired by the Chinese concept of *wu wei*.

So these were the major influences on Quesnay, but whom did Quesnay influence in turn? Adam Smith studied the work of the physiocrats extensively while residing in France, and as Smith became a geoist himself it's not hard to speculate that this was, at least in part, because of Quesnay. Smith wrote that Quesnay's set of proposals were "perhaps the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science". In particular, Smith praised Quesnay's anti-mercantilism, his repudiation of money as the essence of wealth, and his condemnation of interference with natural economic processes. Crucially, we can see from Smith's writings that he was firmly in agreement with Quesnay on the state collecting the economic rent of land.

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*To secure the greatest amount of pleasure with the least possible outlay should be the aim of all economic effort... when everyone does this the natural order, instead of being endangered, be all the better assured."*

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Henry George himself wrote in his magnum opus, *Progress and Poverty*,

*"The French Economists of the last century, headed by Quesnay and Turgot, proposed just what I have proposed, that all taxation should be abolished save a tax upon the value of land".*

Of course, George would greatly polish and develop Quesnay's ideas.

The French Revolution exploded onto the world only a few decades after Quesnay's ideas were gaining strength among the thinking classes. While the Revolutionary Constituent Assembly did actually establish a degree of land taxation in December 1789, it wasn't long before such reforms were overwhelmed and swept away by all the chaos of the revolution that was to follow.

Thomas Paine was undoubtedly influenced by the "economists" since while residing in France he visited and had a close association with the physiocrat, Condorcet. In his tract, *Agrarian Justice*, Paine advocated using the rent of land for public revenue.

Quesnay died on December 16, 1774, having lived long enough to see his great pupil, Turgot, in office as minister of finance as well as having a grandson become a member of France's first Legislative Assembly. But today the founder of the science of political economy is almost unknown. Meanwhile we witness economic policies ignoring the collection of rent from land and instead endorsing negative gearing, capital gains discounts and endless taxes on honest work. Those comical figures clowning around in powdered wigs were certainly a lot closer to economic sanity than nowadays.

Next issue: No. 69 in our series: George Grey - the British soldier, explorer, governor of South Australia, twice governor of New Zealand, governor of Cape Colony (South Africa) and the 11th premier of New Zealand.

# Common sense prosperity

by Mark Hassed

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Our economic system should generate opportunity, encourage employment and reward industriousness. It should deliver a good standard of living to everyone.

Yet, over 2.9 million (13.3%) of Australians live in poverty<sup>1</sup> and over 50% of Australians need Government provided income support.<sup>2</sup> Why is this so?

The problem is caused by our tax system.

In essence, there are two things that Government can tax:

1. Productive activity (for example working, saving, making things, buying things, selling things, providing services, employing people and so on).
2. Use of land and natural resources.

Our current taxation systems rests very heavily on number one. and much more lightly on number two. This encourages wealthy citizens (and foreigners too) to buy up our land and natural resources and then rent them back to us.

The effects of this are polarisation of wealth, reduced employment, lower wages and higher prices for goods and services.

Prosper Australia advocates getting rid of all taxes on productive activity and for government to rely entirely on taxes on land and natural resources for revenue (including natural monopolies).

If government were to do this, a big majority of Australians would be more prosperous.

If everybody (including companies) paid 6%

annually of the value of the land and natural resources they controlled, then all other taxes would be unnecessary.

Let's say the value of your property (land only not counting improvements) is \$200,000. Your total household tax bill would be \$12,000. You would pay that one bill and then be finished with taxation for the year.

You would not have to pay income tax, GST, sales tax, rates, company tax, FBT, duties, tariffs, excise, CGT, WET, payroll tax nor the myriad of others.

With these dead-weight taxes removed, prices of goods and services would fall significantly

Who could complain about an annual tax bill of \$12,000 if they and their spouse/partner got to keep 100% of their wages and the prices of goods and services were lower?

There are even more advantages of our proposal, such as:

- Avoidance is impossible

At last multinational companies and wealthy individuals pay their share.

- Compliance is simple

No arduous record keeping an expensive accounting. Just one simple payment like the rates.

- Environmental responsibility is rewarded

Because you only pay for the land and resources you use, there's an incentive to use less.

- Privacy is restored

You no longer need to send the tax man details of all your finances and business dealings.

It sounds simple and it is.

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1 <https://www.acoss.org.au/poverty/>

2 <https://theconversation.com/factcheck-is-half-to-two-thirds-of-the-australian-population-receiving-a-government-benefit-41027>



LIKE PAYING TAX?

**One day  
people will  
recognise .....**

...that paying the  
wrong sort of tax  
= paying more tax

WHY IS LOCATION, LOCATION

# revered as a real estate strategy

BUT IGNORED IN ECONOMICS?



**So far as the establishment economist is  
concerned**

locational advantage doesn't seem to exist