

# PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER



## Hoot Hoot!



**Rent is like an entry price  
to life on earth**

# PROGRESS

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Prosper Australia is a 130 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 taxes on land and natural monopolies

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# Contents

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<b>Editorial</b> <i>by Karl Fitzgerald</i> .....	4
<b>Pricing Carbon is a Magic Job Machine</b> <i>by Frank de Jong</i> .....	5
<b>The Commons In An Age Of Uncertainty: Decolonizing Nature, Economy, And Society - Book Review</b> <i>by Emily Sims</i> .....	8
<b>The Case Against a Windfall Gains Tax</b> <i>by Emily Sims</i> .....	11
<b>A Housing Supply Absorption Rate</b> <i>by Cameron Murray</i> .....	16
<b>2026: A Civilisation Deadline (Transcript of the 130th Annual Address)</b> <i>by Fred Harrison</i> .....	19
<b>Senate Economics References Committee - Oil &amp; Gas Reserves Inquiry - Transcript</b> .....	25
<b>Dr Robert McAlpine - Obituary</b> .....	27

Hope Springs Eternal - Whilst we have life, we can have hope.  
Economics - By whom for the benefit of who?  
Never believe all you hear from “economists” based in the USA.  
Read more then think again - Then try to learn to think better.  
You can make a difference - All it takes is to awaken the mind.

Generate discussion and ask why does poverty exist today.  
Establish a caring attitude amongst your friends and associates.  
Overcome ignorance by choosing wisely from good mentors.  
Respect and learn to understand ancient wisdom.  
Get invovled and study what we mean by progress.  
Energise your humanity - as all lives matter.

Make an attempt to read HENRY GEORGE and understand his messages.  
*John J Jamieson, Prosper member, April 2021*

# Editorial

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Lockdown - everything stops but the rent! At just the time our economy is slammed shut and the billions thrown at job-keeper and job-seeker continue to ebb their way through the economy, the Australian property market has boomed. COVID payments have flowed straight through to meeting the entry cost to life on earth - the rent. The public purse has effectively placed a floor under land prices. Compounding this, lower interest rates have turbo charged the situation.

But Australia is not alone. In fact we are 13th in terms of land price inflation during COVID's first year. Pandemic aid has brought into stark reality what 'The End of History' delivered. A world that protects property owners at any cost.

The nature of continuous lockdowns exposes how fragile our economic system has become. The post-manufacturing era has hollowed out the nation's economic resilience, implying government must incentivise housing at whatever the cost to pump prime the economy.

Following the Victorian budget's surprise announcement of a *Rezoning Windfall Gains Tax*, something we have lobbied for over many years, we have been busy with Treasury meetings. Emily Sims takes us inside the deflections the property lobby are trying to insert into the legislation, in her piece *The Case Against a Windfall Gains Tax*. We have also been in regular discussions with NSW Treasury regarding the replacement of Stamp Duties with Land Taxes. Additional civic duties included an appearance at the *Oil and Gas Reserves Inquiry*, for which the Hansard copy is included. Therefore - apologies this edition is a little late.

Cameron Murray's insights on why trickle down housing supply fails to deliver affordable outcomes are highlighted in his article on *A Housing Supply Absorption Rate Equation*. This is material we must understand - revealing how the prevailing 'point in time' supply analysis inherent in static modelling needs an urgent update to include dynamic modelling *over time*. The growth in both land values and 'density potential'

influence land and housing supply releases. This is timely as the Federal *Housing Affordability and Supply Inquiry* is upon us. The property industry are set to blame government for all as a distraction from their profit maximising behaviour.

We recently hosted our *130th Annual Henry George Commemorative Dinner*. Over 140 people attended via Zoom to hear Fred Harrison present *2026: A Civilisation Deadline*. The transcript reveals some key learnings on the comparative political disparity between Henry George's time and ours. The need for a new values based language has been debated for many moons, with the pursuit of the perfect terminology still entrain. Fred proposes a better use of location, perhaps a location levy? Prosper's pressure point is the need to straddle the political momentum and relative acceptance of Land Taxes (as per the above 'live' reforms), with the need to broaden its appeal such that we can capture all of the rent. NSW Treasury recently conducted a poll where it was found the majority of the 5000 plus people were in support of replacing stamp duty with land tax.

I know some of you will be furrowing at the need for Land *Value Tax* to be retained as a key term. Stalwarts such as the late-great Dr Robert McAlpine (RIP) would remind that 'value' was inserted as a reminder that astute property assessors will find a market valuation of a site more in line with the actual earning capacity of a site. The over-inflated market price of land is regularly associated with purchasers bidding on 'expected future capital gains'. An LVT will act as a counter-weight to any such behaviour, as savvy investors lower their bid by the annual cost multiplied by 20 years.

These are some of the challenges we have to weigh up. But there is so much more going on, as our media checklist (p18) reflects. In October we will be celebrating the 600th episode of the Renegade Economists. Whilst the housing market remains inflated, we know that many people in lockdown are feeling deflated. Take care of yourselves. Feel free to reach out for a chat, Karl.

# Pricing Carbon is a Magic Job Machine

by Frank de Jong, Earthsharing Canada



Randy Fath, unsplash.com

*"No army can stop an idea whose time has come" — Victor Hugo*

Hugo was referring to the French Revolution, but his quote also nails the unstoppable logic of carbon pricing. Recently, the Supreme Court of Canada wrote, "Climate change is a real and existential threat to the entire world, and evidence shows a price on pollution is a critical element to addressing it."

The world watched as the Ever Given blocked the

Suez Canal highlighting the overdependence on long and precarious supply lines. A charge on carbon will right-price transportation and thus help repatriate outsourced manufacturing.

Al Gore suggests we tax what we burn, not what we earn. Carbon levy revenue could perhaps best be used to offset the hated income tax, to make local labour competitive again. Income taxes were never meant to be permanent.

Pollution taxes are actually not a tax, they are a

fee for service. Carbon fees permit people and businesses to get rid of their CO<sub>2</sub> by dumping it into the air, like any other fee for disposal of waste.

Emitting CO<sub>2</sub> is a privilege not a right, so being required to pay for this privilege makes good sense. The community should be compensated for the loss of its clean air. The atmosphere belongs to all, so carbon fee revenue should perhaps be shared to all as part of a basic income, like the Alaska Permanent Fund shares oil royalties. Canada legislated a \$15 USD charge per ton of CO<sub>2</sub> in 2019. It increases \$8 per year, rising to \$140 per ton by 2030. The revenue is returned to citizens as a dividend – low emitters rebated more than they paid in, high emitters paying more than their rebate.

As the world emerges from COVID-19 lockdowns, there are fears of a jobless recovery. A carbon charge reflecting the externalized costs of long-distance cargo will kickstart local manufacturing. Local self-reliance in basic goods and services will, in turn, spur local spinoff industries, the multiplier effects creating jobs.

CO<sub>2</sub> levies will shrink the wealth gap without resorting to politically fraught wealth or estate taxation. Everyone – rich or poor – will be incentivized to reduce emissions without disincentivizing ambition or wealth creation.

A price on carbon sends planet-friendly feedback to manufacturers, fund managers and stock brokers. Like coal drove the industrial revolution, so clean fuels and clean electricity are driving the green industrial revolution. Solar panels, wind turbines and geothermal energy will power clean production, heat pumps, fuel cells, electric vehicles, boats and planes.

While emergency monetary stimulus had been needed to float businesses and citizens during the COVID pandemic, there is consensus that the taps must soon be turned off. It is also evident that rock bottom interest rates, which have superheated real estate and bond prices, must be raised.

However, since central bank monetary policies appear to be increasingly ineffective, pressure is mounting for governments to enact fiscal

policies. Aggressive carbon pricing, along with rental value capture of land and resources, are examples of elegant market mechanisms which can address the twin challenges of climate change and re-starting economies post pandemic.

The genius of rental value capture is that it's hands off the economy, rental value capture collects unearned income not earned income. It doesn't discourage any business activity—"good" or "bad", climate damaging or climate remediating.

Oil and coal fields are monopoly leased or owned and therefore can charge above their cost of production. The magic of emissions rental capture is that it creates a level playing field between the fossil fuel economy and the job-rich efficiency, renewables and conservation industries. Pricing carbon removes the super profits from the fossil energy spreadsheets, giving renewables and conservation the fair chance they deserve.

But carbon levies are fraught with variables, a whack-a-mole game of cascading effects. But interestingly, I think they will reduce both housing costs and CO<sub>2</sub> emissions.

If fossil energy was purely a house-like asset, i.e., the price reflecting the cost of production, a carbon fee would behave like a Pigouvian tax, reducing emissions directly proportional to the size of the fee.

But fossil energy is also a land-like asset, i.e., the price is determined by what the market will bear. Therefore CO<sub>2</sub> reductions will not respond like a tax on cigarettes. Fossil energy producers may simply choose to absorb the tax, forgoing some of the super profits they normally pocket, leaving the price, and thus the amount of energy used, unchanged.

To further complicate things, if energy costs rise but people decide fossil fuel use is inelastic, some of the rent capitalized into the price of land (which reflects available disposable income) will have to be diverted to fuel costs, thus reducing land values, and again, leaving emissions unchanged.

To recap, fossil energy has a cost of production





AND it attracts rent, it's both house-like and land-like. But since fossil fuel use is obviously only somewhat elastic, the effect of carbon fees will be distributed between reducing CO<sub>2</sub> emissions and lowering the purchase price of land.

By definition, economic rent sharing is not punitive to any industry or lifestyle. It doesn't encourage nor discourage any enterprise because it always leaves an operating profit in place. Picking winners and losers is the job of Pigouvian taxes, not Geonomics.

Economic rent capture is not political or environmental, it's just sound economics that forces the speculative economy to shift to the productive economy.

To reduce activities like smoking, drinking or fossil fuel use, politicians instinctively think Pigouvian taxes, not rent capture. Sin taxes make substances like cigarettes and booze more expensive because these substances are endlessly replicable and thus don't attract economic rent. Fossil fuels, on the other hand, are monopoly-held, finite gifts of nature which usually command prices above the cost of production.

But never mind that most politicians and consumers won't understand that eco-sin taxes won't reduce fossil fuel use until all the economic rent has been stripped off by LVT. It's not important to understand the difference between rental value sharing and sin taxes, nor does it matter if carbon fees also reduce land values, the effects of both are positive for the economy, nature and society.

Furthermore, whether carbon levies work or not, they are still highly beneficial since they offset economy-damaging, dead-weight taxes on jobs, business and sales.

And regardless of how effectively carbon levies reduce emissions or lower land values, they clearly remove some of the super profits from the fossil energy industry, giving renewables and conservation closer to the level playing field they deserve. (Remember that renewables and conservation don't attract rent and thus can't generate profits above the cost of production, which means they don't attract equivalent investments.)

So, drive your Chevy to the carbon levy, everybody wins.

[www.earthsharing.ca](http://www.earthsharing.ca)

# The Commons In An Age Of Uncertainty: Decolonizing Nature, Economy, And Society

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*Book review by Emily Sims of Franklin Obeng-Odoom's latest work (University of Toronto Press, 2021).*

Elinor Ostrom's Nobel prize winning work on Common Pool Resources has served as a light on the hill for a generation of economists seeking to disprove the neoclassical dictum on institutionalised private property rights in nature: there is no alternative.

Her *bête noire* -- that 'open' common resources are doomed to be overused and without investment unless privately enclosed or regulated by the state -- was most famously articulated by Garrett Hardin in his 1968 Science article "The Tragedy of the Commons."

The end game for commons is environmental destruction and intractable free rider problems like climate disrupting carbon emissions.

Through empirical investigation Ostrom showed that in the real world the commons were not so tragic. Her work catalogs communities where robust local institutions sustainably steward rival, non-excludable resources like fishing lakes and grazing pastures.

In his new book, leading Georgist scholar Franklin Obeng-Odoom argues that Ostrom is not the piper at the dawn of a new commons-era. In fact, her approach is consistent with a 'not if, but when' view of commons enclosure.

Ostrom's collectives are made up of rational individuals who organise collectively to protect individual rights exercised jointly. Joint rights, Obeng-Odoom argues, are not the same as equal rights: "The two types of rights might, but do not necessarily lead to the same outcome...the superior 'right to land' is not the same as the idea of land rights."



Obeng-Odoom argues that both Hardin and Ostrom “attribute socio-ecological crises to what pertains within the commons or within the common pool, not across common property regimes, or within the nation-state.” This analysis is devoid of any theory of social justice, and shares a “pre-analytic suspicion of the state.” Comparing the functioning of a Common Pool Resource regime to a gated community, the bigger question of the book arises: Will capitalism allow such enclaves to exist forever? What about society-wide threats like imperial conquest?

He posits two flawed analytical approaches to the commons: Conventional Wisdom (the category in which he lumps Ostrom’s institutions) treats commons as a kind of primitive emergence on the road to more effective means of avoiding ecological collapse: individual private property or state-regulation.

The alternative strand he labels the Western Left Consensus which contends that “everything that is collectivised and anti-capitalist is or ought to be regarded as a commons and a solution to neoliberalism.” Neoliberalism, alongside the ‘tragedy of the commons’, is the other devil in the piece, explaining the ongoing socio ecological crises of the Global South. “Nature in [the Western Left Consensus] is not special but rather of one of many relations that can be commoned.” (p9, emphasis in original)

In the Georgist analytical tradition, Obeng-Odoom draws our attention to the specialness of our relationship with land. Beyond George, he is drawing on the rich history and culture of the landed commons within the African tradition. Land is sacred. Possession is not the same as ownership. “Like George and Georgists, Africanist conceptions of The Commons hold that havoc could be unleashed for society, economy and environment in the event of privatising land denying labour of its due reward, and managing the commons from the top-down.” (p81)

Many readers will be familiar with Henry George’s warning: “But whatever else we do, so long as we fail to recognise the equal right

to the elements of nature, nothing will avail to remedy that unnatural inequality in the distribution of wealth which is fraught with so much evil and danger.”

Henry George’s notion of the commons is grounded in the idea that each of us has equal claim to ‘nature’s gifts.’ This is not a means by which individuals cooperate to ensure sustainable on-going access, or some analytically slippery notion of the collective, it is a far more radical claim. “At the heart of Henry George’s conception of the commons is the notion of justice...” (p62) “George argues that humans have both a “social nature” and an “individual nature” -- features that interlock to make the human being a “land animal,” that is, one reliant on common land.” (p62) As Obeng-Odoom writes, “George’s true remedy is “nothing short of making land common property” whereas for mainstream economists, the true remedy is privatising the commons.”

Here Obeng-Odoom has applied the Georgist lens to the persistent, globalised geographies of deprivation and disempowerment: what used to be labelled ‘third world problems’. How can we explain the enduring impoverishment and degradation we witness in Africa and elsewhere in the Global South? What happens when nature is privatised in the Global South? Could the commons be part of the solution? This work is somewhat of a synthesis of his previous scholarship, aimed at an academic audience, and remarkably ambitious: the book is subtitled “Decolonizing Nature, Economy and Society.”

The second part of the book dives into “The Proof”, wide-ranging case studies organised into themes: Cities, Technology, Oil, Water. Cities claims “[i]nformal urban common pools or communities remain widespread but not so much because of a rational decision to self-govern. Rather, they grow from oppression and work under suffocating conditions.” (p112) This argument is supported by a case study of bottled water consumption in Cote d’Ivoire and the commensurate growth in waste picking as a form of precarious, “green work”.

Technology provides a thorough critical appraisal of the Sustainable Development Goals (SDGs), with a solid discussion of the role of privatised land commons (private property) in generating unequal distribution of technological progress. This is George's Progress and Poverty thesis applied, with nuance, to SDGs.

Obeng-Odoom's analysis of the political-economy of Oil (including coal, nuclear, energy sovereignty) in Africa gave me pause. Following the framework established earlier, he argues that the debate about oil and coal mining in Africa is based on policy choices of Conventional Wisdom--marketisation, Sovereign wealth funds, net zero emissions trading etc.-- and a Western Left Consensus which wants fossil fuels left in the ground. His decolonising approach asks instead whether governments view fossil fuels as commonwealth, whether they are adequately sharing revenues, and the best ways to do so.

To my reading, the chapter does not satisfactorily engage with two key problems: first, the catastrophic existential risk of climate disruption, and its impact on the African continent. Or the rapidly evolving political context of fossil fuel extraction. In the race to net zero by 2050, is energy sovereignty based on coal power feasible on any continent? Secondly, I take issue with the unwieldy definition of renewables as ranging from "biofuels to green cars"...anything that is not based on fossil fuels. Surely we can define renewables simply as technologies that enable energy to be sourced from wind, solar, biomass, or geothermal (storage being another question).

That "...in the name of renewables in developing clean, green, and sustainable energy, Africa is slowly returning to the days of slavery where people were used as sustainable energy." (p149) is insightful; the idea that solutions like soil carbon capture and reforestation might rely on an obfuscation of the who and the where. The

image of black bodies toiling on carbon capture plantations in service to the demands of a decarbonizing, but not decolonising, world is evocative food for thought.

I agree with Obeng-Odoom's proposition that "extraction is not the problem per se but rather the underlying property relations...". He advocates for greater commoning of African mineral resources, and attendant opportunities for energy sovereignty and self-determination, via robust resource rent taxation. Given Australia's recent failures to adequately tax super profits from iron ore, and now more recently gas, it's hard to know what comes first: the government institutions that have the political capacity to tax resource rents, or the resource rents that strengthen government institutions. With shades of Polanyi, Obeng-Odoom reminds us that just as states can take on capitalist features, "in a commons society the state takes on commons features ...and can drive the march towards the commons." (p200) Indigenous Ghanaian customs such as *abunu* (dividing the harvest) and *abusa* (sharing the harvest by thirds) provide an institutional foundation for sharing mineral rents and urban land value uplifts.

In his concluding chapter, Obeng-Odoom posits a new ecological political economy comprising three buttressing concepts: rent theft describes the appropriation of community created value or commons resources such as urban land rents, or mineral wealth. Just land means returning the land to the commons, and the Global South as a dialectical methodology - one that Obeng-Odoom models as he weaves the distinctive Africanist concept of land, with George's theory of justice into a powerful critique of both the 'tragedy of the commons' and collectivist overreach.

<https://researchportal.helsinki.fi/en/persons/franklin-obeng-odoom>

# The Case Against a Windfall Gains Tax

by Emily Sims (Research and Policy Manager, Prosper Australia)

“

*Rezoning windfall gains can be ploughed back into public infrastructure. When rezoning revenue is used to fund transport, schools and parks near newly rezoned land it enables **liveable, higher density neighbourhoods**. By doing this, the government feeds a **virtuous cycle of investment** and land rent collection.*



Prosper has been a vocal advocate for value capture and rezoning windfalls taxation for decades.

This year, as for many years prior, we made our submission to the Victorian budget, urging a tax on the planning minister's golden pentick.

Our surprise at being heeded by Treasurer Pallas has been proportional to the industry's shock at being ignored.

The response from the industry peak bodies has been dismay, disappointment, and occasionally, howling rage.

I was recently invited to join a panel presentation to the Planning Institute of Australia on Victoria's proposed Rezoning Windfall Gains Tax.

My task was to present the case being made against the rezoning windfall gains tax, and to provide commentary and rebuttal.

I lifted 'points against' from public documents published by the Property Council of Australia,

and the Urban Development Institute. I did not do this to be provocative, but rather to engage directly with the concerns of the peak bodies.

## Rezoning windfalls are not unearned

...The term 'Windfall Gain' is misleading and disingenuous and does not appropriately recognise the investment in the development process which culminates in a rezoning...



...It is being portrayed as a "free kick" to landowners, without acknowledging that *most rezonings are proponent-led*, at significant cost and risk, and over extended time periods...



Here the industry contends that the tax misunderstands the nature of rezoning windfall gains.

They claim that most rezonings are proponent-led. Anecdotally 'proponent-led rezonings' are unusual, but perhaps not. There is no easily collated, publicly available data on proponent-led rezonings.

In their briefing note to members, The UDIA acknowledge that "unilateral" or "government-led" rezonings, or (significant) public works which increase values, are scenarios in which "genuine value capture can occur".

But not proponent-led rezonings. Those entail a 'value add.'

It is true is that proponent-led rezonings are super expensive, risky and uncertain undertakings.

Do they add much value to the planning process? This is something for the planning profession to digest. For many consultant planning firms this kind of work is their bread and butter.

To my mind, the disincentive to proponent-led rezonings is one of the benefits of the rezoning windfall gains tax.

*A key rationale for taxing rezoning windfalls is to remove a private incentive to undermine public confidence in the strategic planning process (as was the case in the City of Casey and the John Woodman corruption saga).*

Land will be rezoned by planning authorities when and where there is strategic justification.

The Greens, and other members of the Victorian cross-bench, have long been supportive of taxing rezoning gains in part due to experiences in local government where a council-led strategic process that culminated in a decision not to rezone a particular precinct was subsequently "called-in" by the Minister.

Planners often debate the merits of Ministerial powers to grant a rezone without notice. At least with a rezoning windfalls tax we'll remove an obvious, corrosive incentive to lobby.

That shifts the parameters of such a debate.

## **Vendor expectations must be met or there will be no development sites**

...Many of the historical landowners of [infill sites] do not have the requisite skills to navigate the contamination issues and rezoning, but *understandably* they want to secure the value uplift....



...[the proposed rezoning tax] completely ignores vendor psychology or competition (it is based in theory, with no concept of real world market dynamics)...



Vendors expect big windfalls. If they don't get the prices they want (because they have to pay a tax to the government), they will not sell.

The PCA provide the case of a farming family who decides not to enter into an options contract with a developer (who would pursue a planning scheme amendment) because of uncertainty around the rezoning windfall. They decide to keep farming for the time being.

To my mind, this does not undermine the case for a rezoning windfalls tax, which rests partly on the 'the beneficiary pays principle'. This is simply a statement that the beneficiary does not want to pay. Which the PCA claim is understandable.

We know that markets and their participants can often be irrational. It is likely that vendors will hold out if their expectations are unrealistic. This is a real problem caused by the monopolistic character of property markets.

Maybe we must accept that markets and vendors will need time to adjust their expectations, and the rate of development may ease in the short term.

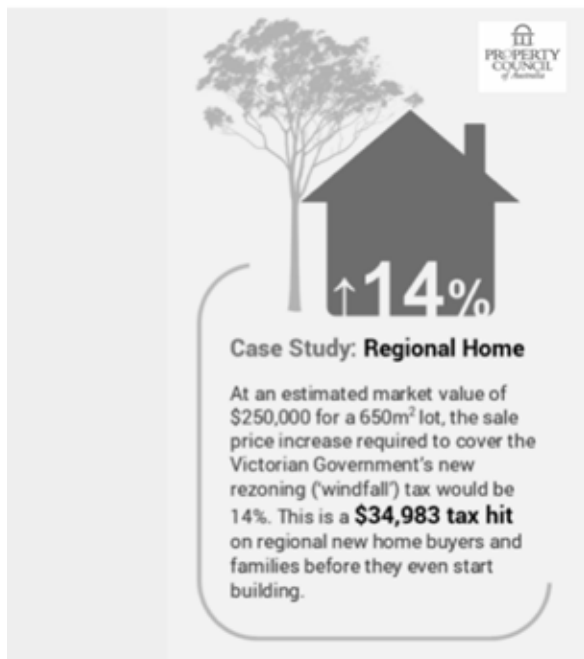
Alternatively, we could broaden the base of land taxes, remove exemptions for homeowners and primary producers, and provide a little nudge in the form of holding charges. They are doing this in the ACT and will be doing it soon in NSW as they phase out stamp duties.

We could dabble with new, deliberative models for greyfields regeneration such as those proposed by Peter Newton and colleagues at Swinburne University.

We could make better use of government development authorities and their powers of compulsory acquisition - not only for assembly but for value capture.

These options are all better than "giveaway valuable property rights" to overcome market failure.

### Rezoning windfalls tax will be passed through to homebuyers



This is a really scary scenario for a millennial like myself. Because if houses get more expensive, I'll have to keep renting from my mum.

All over Australia, houses are getting more expensive to build these days. Construction costs are up. But usually when we speak about housing affordability we are really talking about land. Which is also up monstrously everywhere.

The best explanation for current house price inflation is that we can all take out bigger mortgages. Not supply constraints or taxes. We have less people than we did 12 months ago.

The key thing to remember is that developers and vendors are already charging the highest price the market will bear.

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*Land vendors are not discounting housing because they get free property rights with a rezone. If they did, the lucky discount buyer could just flip and sell at the market rate.*

---

Nor are they empowered to simply pass through taxes and charges to the buyer. That's not the way a competitive market operates. They can instead, pass some costs backwards because the tax base is the residual value of land. This is what happens with Stamp Duty for example, and other land based taxes.

At any rate, a well-designed rezoning windfall gains tax should fall on the vendor of a development site, and should have very little impact on the final cost of housing for new development.

If it did, the market might just prefer to buy land in areas that are already zoned for development. Of which there are heaps. DEWLPs Urban Development Program reports a supply of 235k zoned broadacre lots. If zoned retail lots are being drip-fed to market the problem resides with land bankers.

However, the rezoning windfalls tax is a new tax. Not everyone with projects on the go are coming into the market to find a development site. People have irons in the fire. Which leads us to transition issues.



## Rezoning windfalls tax is unfair to speculative land bankers

Developers have bought land on the basis of some areas to be rezoned (designated in the corridor plans as future developable however still in Farming Zone or Rural Conservation Zone).

The purchase amounts already have a price that is reflective of it being UGZ (i.e. developable) - hence the supposed uplift to the vendor has also been recognised.

How will this be calculated and/or fair to developers who take the risk and little reward to begin with?



What if you've bought a site 'as if' it was already rezoned, and 'as if' up until last month there was no such thing as a rezoning windfall gains tax?

In this scenario, the beneficiary has already been paid. The rezoning uplift was pocketed in the speculative 'run up'. If your feasibility is based on the 'already rezoned' residual, it is likely that your project is no longer viable. You might lose your shirt.

There are some reasonable mitigating factors:

Prices are skyrocketing in many markets, so your outlook might be more optimistic than you thought. In some senses, with the market going crazy, it's probably a good time to make this transition.

We have a year to get the transition right, and Treasury is consulting with industry and civil society.

If a project becomes unviable, a rational developer will on-sell the site to another developer to cut their losses. Land speculation may move to other states, but the land itself stays in Victoria.

Over time, the market will adjust to the new rezoning windfall tax reality. Again, this is one of the benefits of the tax. It's based on a pure economic rent. It is less distortionary relative to other taxes.

To an extent, we can design our way out of real transition unfairness. Potentials include a long phase-in, grandfathering, exemptions in certain precincts perhaps. These are not recommendations so much as spitballing.

The point is designing a fairer transition is preferable to giving away rezoning rights and encouraging speculation in the path of development.

## Rezoning windfalls tax will sterilise infill development sites

...The WGT would...actively discourage development and investment in the Government's own identified priority precincts e.g. Arden

...the new tax will drastically reduce the industry's ability to activate and deliver new housing, retail, office and mixed-use development which would maximise the Government's infrastructure investment in [Suburban Rail Loop Stage 1] suburban locations.



Finally, there is some contention that an unintended consequence of the tax will be to make GAIC areas more attractive vis-a-vis urban infill.

This is not caused by the rezoning windfall tax but by the exemption of the GAIC areas. And by the existing challenges to infill development: slimmer margins, riskier, and more capital intensive projects, heterogeneity of infill sites and their relative scarcity etc.

Many planners are united with industry in their concern that the objectives of Plan Melbourne may be undermined unintentionally. Will Melbourne again become a sprawling donut?



I do not think the answer lies in continuing to give away rezoning rights.

For starters, we cannot have any confidence that by giving away rezoning rights we are improving infill feasibility. We may simply be giving away rezoning rights to landholders whose “business” is flipping strategic, scarce and heterogeneous development sites.

We recently released a report on Fishermans Bend. In it, there’s a paradigmatic case:

320 Plummer Street.

- Bought for an indexed value of \$2.2m three years before the rezone,
- Received a development permit issued in 2015 for a 500+ apartment mixed-use development,
- Flipped in the same year to a developer for \$11m.

I estimated the rezoning windfall at an adjusted value of \$7.7m. Under the proposed rezoning tax, \$3.85m of that would have gone to consolidated revenue to help pay for the transport links we need in Fishermans Bend.

I’ll accept that by getting their development approval, the flipping landholder de-risked the purchase. But how much value do we suppose that adds? And should we be pinning our hopes for sustainable urban renewal on the crapshoot of private sector land speculation?

Again, I think we must look to more empowered public sector development authorities to resolve some of the challenges of infill development. We may need to increase the volume of land zoned for development in inner and middle ring suburbs.

The case against taxing rezoning windfalls comes down to fear. Vested interests would like us to believe that the risk of land market disruption outweighs the benefits of the reform. It is true that any tax or regulatory intervention in a complex system, like markets, risks unintended consequences. There are always unknown unknowns with this kind of reform.

The known risks are manageable, but rely on getting the design and the transition detail right.

Initially, those against it argued that the tax had no merit. Now they are arguing that it should be reframed as a ‘contribution’ and instituted on all developments across the state. Initially they argued that the tax would hit homebuyers. Now they want the tax to distinguish between a genuine developer and land speculators. So we have discovered what is truly to fear in this reform: a tax that calls a windfall a windfall.

Read Emily’s report on The Rezoning Honey-pot: Evidence from Fisherman’s Bend  
<https://tinyurl.com/3hc8krwd>

# A Housing Supply Absorption Rate Equation

by Cameron Murray

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Tom Rumble, unsplash.com

You are a housing developer with a large plot of land on the fringes of a major city with no planning constraints. How quickly should you sell these lots to supply them to the housing market?

This is the question I answer in a new working paper entitled *A Housing Absorption Rate Equation*. Here I want to explain this new approach more clearly and show why it is important for the housing debate.

## Why is this important?

Economic analysis of housing supply is usually based on a one-shot static density model. In this model, landowners choose a housing density that maximises the value of their site. The density that achieves this is where the marginal development cost of extra density equals the marginal dwelling price. Every landowner does this instantly. There is no time in the model. It just happens.

But optimal density (dwellings per unit of land)

is not optimal supply (new dwellings per period of time).

Despite this conceptual confusion, radical town planning policy changes have been proposed around the world. By allowing higher-density housing, proponents of these policies expect that the rate of new housing supply will increase enormously, reducing housing prices.

I wouldn't be that confident. It is not clear that the economic factors that influence the optimal density are the same ones that affect the rate of new supply, or what is known as the absorption rate.

## What factors influence the optimal rate of supply?

To answer this, we break apart the time dimension of the development problem. In a dynamic setting, the economic value from a sequence of dwelling lot sales is maximised when delaying the marginal sale into the next period makes you equally as well off as selling that dwelling today.

The economic factors that influence the absorption rate are those that change the relative gains from selling now rather than delaying and selling later. Let us think about the motivating puzzle of a housing developer selling new lots.

From the perspective of the second period, if you sell a lot today, you get the interest rate on the lot value, plus you avoid any taxes on that lot value.

If you sell on that later period, you got the value

$$\text{Absorption Rate} = q_t^* = \frac{1}{2a} \left( \overset{\substack{\text{Demand growth rate} \\ \uparrow \\ \text{Sensitivity of price growth to own-supply}}}{d_t} + \frac{\overset{\substack{\text{Interest rate} \\ \uparrow \\ \text{Tax rate}}}{(i + \tau)}}{\omega} \right)$$

$\uparrow$  Scaling factor for variable density

gain of the lot. This value gain comes from the market at large (i.e. the trade of existing dwellings) but is also affected by your own sales in the first period. Sell more now, get lower price growth and hence a lower price in the next period. The net price gain is, therefore, market demand growth minus your own-price effect on that price growth.

The optimal point is where you are equally well off making the same number of sales in the current period and the next period.

The result of the dynamic supply problem is this equation.

Let's walk through this one parameter at a time.

### Price growth sensitivity to own-supply, $a$

The first parameter of interest is the own-price effect,  $a$ . A higher  $a$  means that each sale today has a larger effect on price growth. It's a measure of the "thinness" of the demand side of the market. Since  $a$  is the denominator, it means that the thinner the market, the lower the optimal rate of sales.

### Market demand growth rate, $d$

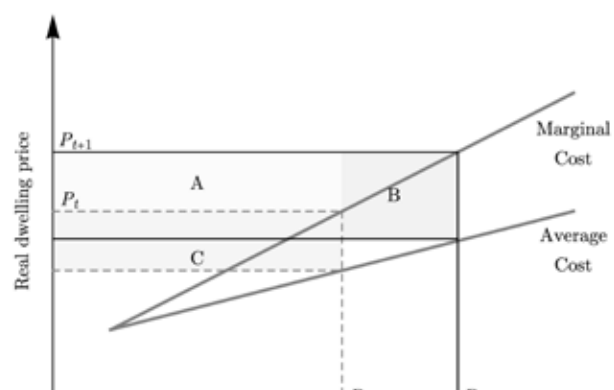
When demand growth is high, you sell more. This makes sense. You sell into a boom and withhold sales during a bust. This is important because one argument for relaxing density restrictions is that new supply would occur at such a rapid rate

that prices would fall. But falling prices reduce supply. There is hence a built-in ratchet effect in housing supply dynamics.

### Interest and land tax rates, $i$ and $\tau$

These two rates work in combination. The interest rate is the gain you get on the cash from selling a lot today, and the land tax rate is a cost you avoid from selling today. The gain from not owning land (i.e. selling it) is the interest rate and the land tax rate, which is positively related to the optimal absorption rate.

### The efficiency of higher density, $\omega$



The final piece of the puzzle is the  $\omega$  parameter. This parameter captures the idea that if you delay selling a lot you can change the density of development in response to rising prices. Remember that static density model? This is where it is useful. It shows that if prices rise, undeveloped sites rise in value more than the dwelling price because the higher price justifies denser housing development.

I show this in the below diagram. At price  $P_t$  the optimal density is  $D_t$ , and the site value is the orange shaded area (the dwelling price minus the average development cost times the number of dwellings).

If prices rise to  $P_{t+1}$ , then the optimal density is now  $D_{t+1}$ . The value gain for the site is not just the area marked A, which it would be if density was fixed. It is the area A plus the area B, minus the area C. Since  $B > C$  this means the site value rises more than the dwelling price change. The  $\omega$  term captures how much bigger  $A + B - C$  is than A. When  $\omega$  is 1, it means that density is

constrained to  $Dt$  and site value rises only by the dwelling price change. Flatter cost curves create a larger  $\omega$ .

The important thing to remember is that constraining density makes  $\omega$  smaller (holds it at 1). This increases the optimal absorption rate because it reduces the gain to delay that comes in the form of the ability to vary housing density.

### Where does this model leave us?

Having a simple absorption rate model allows housing researchers to think more clearly about the economic incentives at play for housing suppliers. It allows us to break away from the “density = supply” confusion. Instead, it focusses attention on the key issue of the relative returns to delaying housing development.

Any policy that increases the cost to landowners from delaying housing development will increase the rate of new housing supply. For example, higher land taxes and interest rates.

Another way to increase the cost (reduce the benefit) of delay is restricting density. This goes against the intuition of most housing researchers, but the economic effect is real.

Think about it this way. You announce a policy that will limit density in an area to half of what is currently allowed in five years time. What happens? You get a housing development boom as projects are brought forward in time. You massively increased the cost of delay.

It is obvious that planning controls change the shape of cities. They reduce housing density in some areas and restrict certain uses in others. That’s what planning does. But how this translates into an effect on the rate of new housing supply across a city is far more difficult to ascertain. This model goes some way to helping housing researchers clarify their thinking about the economic incentives at play in housing supply, instead of relying on intuition and inappropriate static models.

<https://www.fresheconomicthinking.com/2020/09/a-housing-supply-absorption-rate.html>

## Media Checklist

Housing Supply and Affordability Inquiry submissions <a href="https://shorturl.at/vLMPV">shorturl.at/vLMPV</a>	Tilted platforms: rental housing technology and the rise of urban big data oligopolies by G Boeing et al <a href="https://tinyurl.com/svjc5j3e">https://tinyurl.com/svjc5j3e</a>
Global Empty Homes Network (GEHN) workshop with Karl Fitzgerald & six other international experts <a href="https://tinyurl.com/y8ah7szy">https://tinyurl.com/y8ah7szy</a>	Progress & Poverty - done into and done with in plain English by EG Fitzgibbon (Melbourne, 1884) <a href="https://tinyurl.com/hezprve2">https://tinyurl.com/hezprve2</a>
Taxing Rich People's Empty Homes Isn't Helping the Housing Crisis (Bloomberg) <a href="https://tinyurl.com/8ytjcfse">https://tinyurl.com/8ytjcfse</a>	Counterfeit Capitalism by Matt Stoller <a href="https://tinyurl.com/2tv3ucfu">https://tinyurl.com/2tv3ucfu</a>
Land Share - Bitcoin and property flippers unite ;( <a href="https://tinyurl.com/e2fvsk3u">https://tinyurl.com/e2fvsk3u</a>	Collapse -> Renewal by Future Crunch <a href="https://futurecrunch.com/collapse-renewal/">https://futurecrunch.com/collapse-renewal/</a>
Innovation, Intellectual Property and Development by Dean Baker, Arjun Jayadev, Joseph Stiglitz <a href="https://shorturl.at/pLXZ2">shorturl.at/pLXZ2</a>	Years & Years - SBS - <a href="https://tinyurl.com/jahmxs4u">https://tinyurl.com/jahmxs4u</a>

# Fred Harrison: Transcript 130th Annual Henry George Address

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130<sup>TH</sup>

ANNUAL HENRY GEORGE  
COMMEMORATIVE ADDRESS

Fred Harrison  
2026: A Civilisation Deadline



It was some years ago that you originally invited me to fly over to Australia to give the then address and I wasn't able to do so. One of the reasons was that something was missing. I had spent 50 years working on the Henry George project and, in the last 20 years, I came to realise that the world was now different to the one that Henry George originally addressed and we weren't, as Georgist activists, doing something quite right to help the world to change. In other words, I wasn't ready to explain to my friends in Australia how we needed to reframe the narrative in order to advance the cause that Henry George initiated with what was the first global reform movement, some 140 years ago. Well, I am now ready to initiate a debate about the way we need to reframe the story that needs to be told and it's my great honour that I should be doing so before an audience - I understand it's a global one, but particularly to the activists in Australia, who've campaigned so assiduously to maintain the gains that were originally achieved some hundred years ago in Australia, but which have been eroded by the vested interests over time. Still, the record of achievement in Australia is seminal and it's one that the rest of us can learn from and build on.

It was a hundred years ago that a man called Oswald Spengler wrote a book called 'The Decline of the West'. In it, he analysed the conditions that led to the collapse of earlier

civilisations. He concluded that the decline of those civilisations was spread over 200 years. He identified the conditions that led to the collapse in antiquity and the classical civilisations and, monitored correctly, you could see the downward trend over a period of 200 years. He wrote a hundred years ago. He said that the beginnings of the decline in the European civilisation could be dated to the arrival of Napoleon in France at the beginning of the 19th century, around 1810. He had fought a continental war on behalf of revolutionary France and he assumed the authority, Napoleon Bonaparte, and it was from that point on that, in Spengler's view, the 200-year phase of decline in European civilisation had begun. Well, he wrote it a hundred years ago and his 200-year period ended in the first two decades of this century. Now, in those earlier civilisations, people living through the collapse phase would not have understood that their civilisation was on course for collapse. In the case of Rome, the people who had been dispossessed of their land, who'd been driven into the towns, were preoccupied with what became known as 'bread and circuses', which distracted people from the realities of their civilisation.

It's not easy to come to terms with the idea that our society is actually facing existential collapse. If Oswald Spengler was correct in his analysis, if the conditions that prevailed in Egypt and Mesopotamia, and then in Rome



and Greece, also prevailed in our society, then it would be about now that we would have reached the tipping point, the end of a 200-year phase of decline. It's not surprising that people wouldn't understand what was happening, but we now have the accumulated evidence of the previous civilisations' collapse and can see the similarities. Dare I point out one of them? Egypt and Mesopotamia were overrun by a group of people who sailed down from the west along the Mediterranean. Those people are called 'the boat people'. Historians don't know much about 'the boat people' but they're called 'the boat people' and they occupied Egypt and Mesopotamian cities, and that was the end of those civilisations. In Rome, the migrants came from the north. The Romans called them 'barbarians'. They took over the land and they sacked Rome. We can't blame the migrants. Those societies had lost the will to survive. The conditions within them had been eroded over such a long period of time that they could not be sustained and it only took the advent of some existential crisis to cause the fall of those civilisations, so I'm not in the business of blaming migrants.

We've all seen the pictures coming out of Afghanistan in the last few days. Hundreds of thousands want to migrate out of that territory, into the West, but the process of migration has been coming for a good few years, hasn't it? Europe has been a sustained target for the Middle Eastern migrants and the African migrants, the United States has seen them coming out from the Latin countries and, even at today's comparatively low levels of migration, Europe and North America have not been able to cope with that flow of people. I repeat: I do not blame the migrants. Something has happened within the societies of Europe and North America that makes them vulnerable, unsustainable, and my thesis now, which is a terrible one, is that Western civilisation does face collapse. Now, to go public with such a thesis is a risky business, because it's easy to dismiss someone making such a claim as somehow a nutcase. It's an awful proposition and it has to be proven with enormous detail if it's to be taken seriously.

Now, I'm going to begin this narrative by starting with the timetable. The land price cycle does end in six or so years, in 2026, and that will be the

end of the business cycle in 2028. I've reviewed all the evidence, as it might have been affected by the pandemic, which might have distorted the 18-year cycle, and it hasn't done. As Catherine said earlier, the land market is booming. We are on course for the termination of house prices in 2026 and an economic recession in 2028. But this time really will be different from the past, like no other that we personally have experienced in the last 50, 60 years and nothing like Western civilisation has experienced in the last 500 years. My proposition is this: with the collapse of the economy in 2028, we will see the convergence of four existential crises, each one a savage event, but the four of them brought together at a time when the West is utterly vulnerable economically implies something existential. One of those crises is within the sphere of society at large.

I'll pick on one aspect in particular, because it's relevant to the incapacity of our society, as it's now framed, to deal with what is about to happen and that is political paralysis. We saw in 2008 that one sector, the financial sector, was about to seize up and all that the politicians could do was say, "Pour a lot of money into the global economy and that will buy us time". That was not an inspired, an imaginative attempt to deal with the causes that created the seizure of the global banking system, but it's all that they could come up with and there was a stay of execution.

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*This next economic breakdown will mean that the paralysis that we see in politics, in the democracies today, will result in the retreat of governance, instead of them trying to imaginatively deal with the tipping points to the various existential crises.*

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So that's a reference to the societal crisis.

The next one is the ecological one. I don't think I have to make the case that we are in the throes of climate change, with towns being burnt down by forest fires, being flooded out by rainfalls, and then there are the droughts in Africa, which are causing huge distress. All of these things from across the Arctic, the tundra, down to Australia, we see symptoms. Now, the nations of the world





# RENT

is the living tissue of  
humanity

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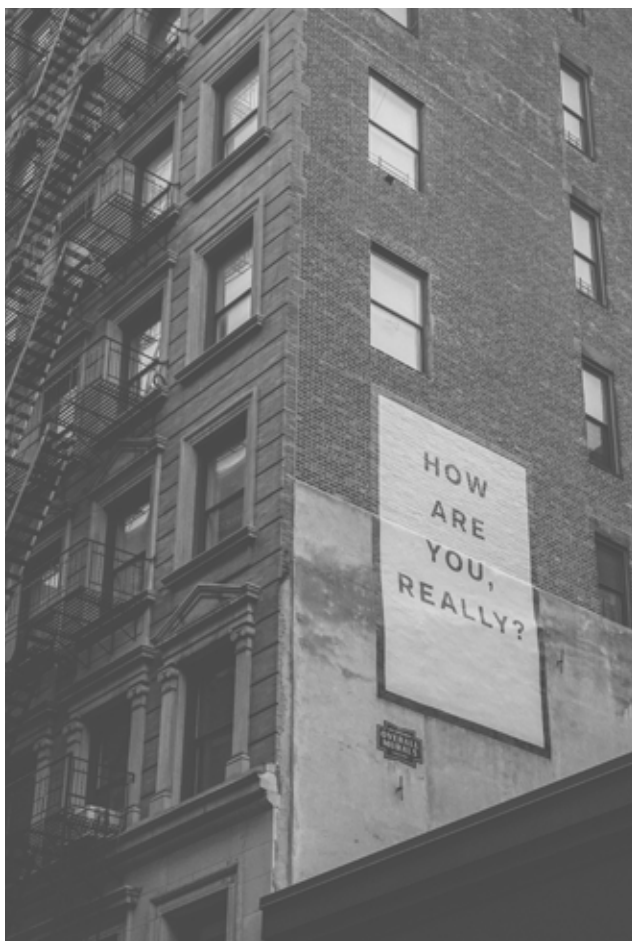
**Early humans gravitated out of nature when they learnt how to create that flow of energy, and to pool it for the common good. They invested that unique flow of resources in their bodies, minds and communities. That process became the evolutionary blueprint that culminated in Homo sapiens.**

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have signed well-meaning global conventions saying they will try and achieve net zero emission output by 2050, but all of the aspirations will take enormous effort, including the expenditure of resources. We've barely begun to spend those resources in order to reduce the output of greenhouse gases and the rest, the dysfunctional behaviour that is causing the ecological crisis. Come the economic depression at the end of this decade, there will be even fewer resources, even less capacity to expend the resources on the measures that need to be taken to achieve zero carbon emissions in housing stock, for instance. Enormous sums of money have to be spent on refitting people's homes, which are one

of the major causes of the loss of heat and the emission of carbon into the atmosphere. The transport systems need enormous research and development in order to achieve the 2050 goals. The resources will have to be cut back, not added to, in order to solve the problem from the environment.

The third existential crisis for Western civilisation is the demographic one. The fertility rates in Africa and South America favour young people. Large numbers of young people are, even today, without hope, without employment prospects, and they're getting on boats, climbing on trains, scrambling at anywhere they can to get into North



America and into Europe. Come the depression that follows the end of the current business cycle, that flow of migrants, of desperate young people, will multiply many times more than what we're seeing today. We're seeing these boats coming across the Mediterranean and then across the English Channel onto UK beaches. That will accelerate. How will Europe and North America be able to contain the pressures that will arise from that flow? Frankly, there is no prospect of a constructive response to that crisis. We're barely able to cope today with relatively low numbers, but if Africa starts to send them out by the hundreds of thousands, what will then be called 'the barbarians coming from the south' by the right-wing media, we won't be able to cope.

Then, fourthly, there is the military existential threat. President Biden says democracy is in competition now with the autocracies. Well, the cyber warfare from the autocracies directed at the Western democracies has already begun. They've already interfered in the last presidential

election in America and in European elections this past year. When those countries are under severe pressure, they will have one escape route, the autocrats, and that is to distract the discontented home by intensifying their outward pressures on other countries. The West will be deemed an enemy and needs to be fought, and so we will see the increase in digital warfare, in particular. We all know how it's easy for bad actors to destroy infrastructure in any country. We've already seen that in action by criminals who tie up whole systems, whether it's the British National Health Service or the energy system in America, and demanding huge ransoms to withdraw. The technology is available to destroy a society without firing a gun. So we have these four existential crises reaching a tipping point all at once at precisely the time when Western economies are at their most vulnerable. To me, that means the prospect of the end of Western civilisation. That's a grim picture, a terrible picture, harrowing, but somebody has to start expressing it, because we need to take action.

I lay out the timetable and the existential crises converging on this one point in time in book two of '#WeAreRent'. Book one was published some months ago where I lay out the beginnings of a new narrative. My argument is that if we are to deal with what is in the offing, we need a new narrative to renew what is the only solution to the crisis that is now striking not just the West, but the whole of humanity. One solution only and half-measures won't do it. The social galaxy, as I called it in book one of '#WeAreRent', that we humans managed to create is now unsustainable. It lacks the resilience that is needed to keep the systems going and, as I explain in book one, that resilience, that energy comes from one source only. That source is rent.

Human beings evolved out of nature because they were willing to create a net flow of resources over and above what they needed for biological survival and adaptation, as Darwin called it. Those few primates began to produce that additional flow of energy which they didn't consume, but they invested, in themselves biologically, in their minds mentally, and in their living environment, to create a new social galaxy in the universe. And that galaxy was entirely

dependent on the continuous flow of rent being invested in the assets that comprised that galaxy.

Those assets have now been privatised.

*I'm saying that in order to save our species, it's as blunt as that. Half-measures will not do. The whole of the rents that people generate have to be recycled back into renewing the legacy assets which we inherited from past generations and which we are obliged to convey to future generations.*

Right now, we're not able to honour that obligation, that existential obligation, which is to convey the past assets to future generations, because we've privatised most of it. Well, we need a new start, a new narrative.

One hundred and forty years ago, Henry George, when he published *'Progress and Poverty'* he was able to resonate with people because most of them were tenants.

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*They didn't own the land because they had been dispossessed. So they had nothing to lose and when they heard Henry George, he made eminent sense. Today, it's different.*

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Today, in the Western countries and, indeed, probably, in most nations in the world, most people are owners of land. Small plots underneath their homes, but they identify themselves as landowners. Now, to tell them that we need to re-socialise not the land itself, but the rents of land, is awkward. So we need a new narrative that appeals to people's moral sensibilities and a language that begins to make clear that it is incumbent on everybody to begin to reframe the rules on which we conduct our civilisation.

Now, that's not only going to be tough for the average homeowner, but it imposes a challenge on the Georgist movement itself. I think I need to emphasise this because, frankly, if we are going to make headway over the next very few years - and we're talking about six or seven years in which to recalibrate the way politics is run in

order to prepare for what's going to happen at the end of this decade - the Georgist movement throughout the world will have to play a leading role. But that means, I'm afraid, we need a new language in which to do so. The language that brings forward the moral imperatives on each and every person to re-evaluate the prospects, not just for our generation. Most of us, people like me, might not even be around by the end of this decade. I'm 77. I hope to be here in 2028, but I might not be. But there's a lot of people who will be and they need to be understanding that the capital gains from their land underneath their homes cannot be preserved if they also want to avoid the worst of what I'm saying is going to happen.

So let's look at the basic language that we, as Georgists, employ to communicate the message of Henry George. Remember, when Henry George advocated a land value tax, he wasn't actually talking about affecting the capital gains of most people because most people were tenants; they were paying rent and they were not receiving capital gains. Today, most of us are receiving capital gains from land. So, why is it that the concept of a land value tax doesn't resonate with people? It did a hundred years ago.

But remarkable advances were made in Denmark and Australia, for example - there were failures in the UK and in China to offset the gains, but there were measurable gains then because most people weren't landowners. Today, to tell someone, "We're going to tax land value" automatically means that they identify as one of the victims: I own land, I'm a homeowner, I've made capital gains, which I hope to either convey to my children or to fund my retirement time, and now you, Georgists are threatening to take those gains away from me. So, a new way of approaching the conversation is needed and that's something that we all have to participate in to create, the new way of communication, but I'll start with looking, just very briefly, at the concept of land value taxation.

We're not talking about land, are we? Land value taxation? But hang on, the rent that most of us capitalise in Melbourne or in London is not

attributable to the resources of nature. It's attributable to the resources, the services of society. Rent is a binary value. It's composed of the value of nature's resources and society's resources. When we only talk about land, we focus on the physics of the external world and we forget about, we don't remind people about, the fact that we have privatised society and excluded those who do not own a share of those rents.

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*So we need to modify that word 'land'. Like the word 'location', that tells it all. Location is composed of the value of the services that come from both nature and society.*

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Land value: when we say we're going to tax land value, we're telling people you own this land value, you've been in the markets and you've dealt with buying and selling land, and we're going to tax it. Well, that immediately puts people on the defensive. They own the land value and now I'm wanting to tax your land value. Immediately, the conversation stops, the shutters come down in the mind. We've already shot ourselves in the foot by telling people we're going to tax 'their' land values. We shouldn't be opening up a conversation where we've closed it down before it's even begun.

*We're talking about rent, an annual flow of resources which we all help to create. The location rents. Nobody owns those. We haven't even produced next year's rents. Nobody has a right to claim the ownership of something that the rest of us have not yet produced.*

So 'land value' is a problematic phrase itself and then there's the word 'taxation'. Taxation is, according to the OECD, an arbitrary exaction and it's a payment for services that are not complementary. There's no synchronicity, no equivalence between how much I pay and the services I receive. In other words, government takes what it deems to be appropriate. There's no symmetry between what I pay and what I get back, whereas with rent, I decide what the rental value is that I'm willing to pool into the public purse. I negotiate that when I decide where I want to live or where I want to set up my business. I agree to the terms and I set how much I can afford to pay for a location. If that sum, that rent is pooled into the public purse,

it is utterly symmetrical with the services I expect to receive. I've worked that out for myself. So this is not arbitrary. I decide what I'm pooling and it's in return, precisely, for the benefits I expect to get. So now we can rephrase the concept of the land value tax so that it's no longer a tax, it's you and me paying for what we receive. We need this new language to support a new narrative that enables us to go out and tell the world, and I'm literally meaning 'the world'.

I don't have the time to embark on an exposition about how we need to elaborate a new narrative for the developing world, for instance, Africa and South America. Instead of sending forces into Afghanistan 20 years ago, the West should have been in a position to go to Afghanistan and explain to them the new basis of a renewal of their society, such that we wouldn't have had to have sent in troops to fight terrorists; a new kind of diplomacy would have emerged. Now, that diplomacy doesn't even exist today. We've withdrawn from Afghanistan and left them to their own devices to continue with a system based on violence. That has to change and it has to change fast and we need to develop the new kinds of languages that can be deployed in Africa, in Asia, in South America, to forestall what's going to happen at the end of this decade. I'll be addressing that in book three of '#WeAreRent' but, for now, I've had to confine myself to looking at how do we recalibrate the democratic system in the West in order to start to regenerate a resilience, a capacity to defend our nations when we reach the end of this business cycle?

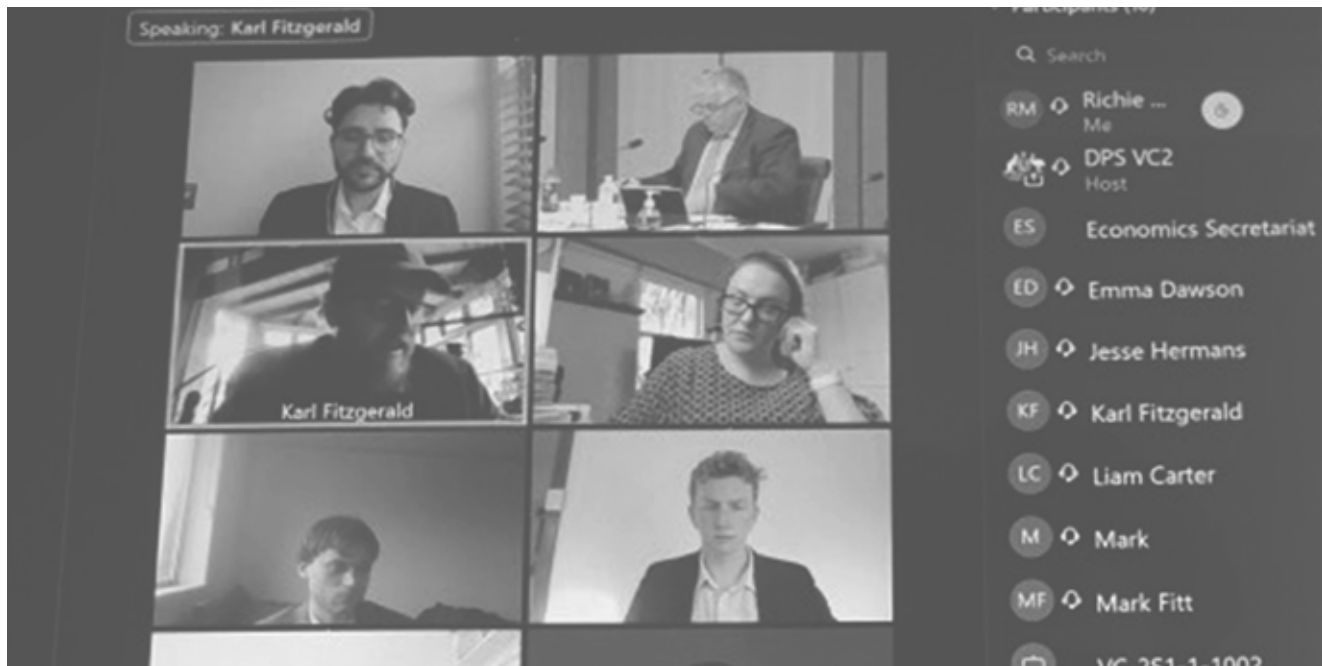
Book two will be available in print next month, that's October. It's later than what I had expected, but this was my last chance, so I've got to get it right. Those of you who haven't read book one and if you're interested in the basis of the new narrative, which is the evolutionary process that led to the creation of Homo sapiens, then I would urge you to get a copy of '#WeAreRent: Book One' and read up on the way I've reformulated the evolutionary process, which then begins to get translated into authentic democracy, new international global relationships, and the survival of our species.

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# Senate Economics References Committee - Oil & Gas Reserves Inquiry



CHAIR, Senator Rex Patrick: Again, could I ask you to keep it as brief as possible?

Mr Fitzgerald: Sure. Australia is akin to a petrostate without the petrodollars. We're basically giving away our resources as if they're an exclusive money tree for multinationals and their shareholders, and the problem we face is that our PRRT regime is banking on future superprofits that may never eventuate. The marginal investments encouraged by such a scheme may no longer be relevant in an impending future of stranded assets.

Like Dr Murray, we support a return to a system of royalties, which allows for less accounting trickery. A multitude of climate related issues have come up since this inquiry was announced. With the carbon tariffs, stranded assets and the retirement of oil rigs, we'd need to make sure that our resource rent system accounts for some of the new tricks that are coming through. One of those revolves around depreciation rates. We are big critics of depreciated optimised replacement costs—known as DORC. The move

by the Chinese owners of the

Dampier-to-Bunbury gas pipeline, where they brought forward the end-of-life time frame by nearly 30 years, is set to increase their depreciation write-offs, delivering a windfall gain for investors and perhaps a bill shock for customers. On one front, that will support the move towards renewables, but, in the short term it's certainly going to affect Australia's comparative advantage when it comes to energy. We'd like to see more discussion and use of the more common depreciated actual cost. That's what's used throughout most business. You can imagine that, in a dying industry, maintenance costs and OH&S will be cut, and these depreciation time frames will be dramatically shortened to pump profits. The taxpayer may well lose out again with these sorts of strategies. We also would love to see the regulator updating from a private profitability test to a natural monopoly test when analysing pricing returns. There's the use of environmental bonds. They're so small compared to the size of some of these projects. It would be very interesting to see what would happen if there were

a sliding scale in terms of an increase in those environmental bonds according to our carbon budget. One other thing we think has gone on for too long is the use of shelf companies, known as 'minnows', where ageing mines are sold off to such an arrangement to avoid tax and regulatory compliance. Those are some of the key issues that we're talking about. We love looking at what Timor-Leste has achieved since 2005. They have a five to 10 per cent royalty charge at the mine gate, backed up by a PRRT of 40 to 50 per cent and a company tax of 30 per cent—similar rates to what is being paid in Norway. It's 78-odd per cent there.

Alaska has a 35 per cent tax on production value alongside the corporate tax of between 21 to 30 per cent. The new federal royalty rate could be offset against the PRRT but should not be deductible against company taxes.

And we must remember that, with pressure mounting on a COVID-ravaged world, that a fairer share on the nation's natural resources is a much higher priority than what some see as the inevitable increasing of the regressive GST. That's the challenge: to help the Australian people recognise that we actually own these resources. Thanks very much, Senator Patrick, for triggering this inquiry.

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Senator PATRICK: I just want to move to the next witness—I'm going to get the hurry-up very shortly—so I'll just go back to Mr Fitzgerald. Have you ever tried to model the potential returns on Australian resources using perhaps an overseas taxation royalty regime?

Mr Fitzgerald: We haven't done that so far, but we have done an analysis of whether the entire Australian tax base could be replaced with taxes on natural monopolies, including land and natural resources. They tell us in the textbooks that such economic rents are only worth two to three per cent of GDP, but we found they were the equivalent to 23.6 per cent back in 2011. So there's an immensity of wealth at our fingertips; it's just a pity that our democracy is subservient to lobbyists.

Senator PATRICK: Change PRRT or a royalty—or a contract, as I might have suggested before?

Mr Hermans: I'd have to say that a contract does

sound like a really good idea. What we've looked at now has been more like a minimum royalty as a wall within the PRRT. So, rather than getting rid of the PRRT, you could just leave it in place, impose a minimum 10 per cent royalty and then, if anyone does still get any superprofits somehow—even after the deductions for the royalty and their existing tax credits—then they would pay that. But at least we would get a fuller amount of revenue.

The reason we would lean more to that is that I think the priority has shifted on the policy for extracting the most amount of revenue you can on every unit that comes out of the ground. We don't actually know whether in the future these resources will just end up being left in the ground as stranded assets or if these companies will even realise the profits to pay the PRRT. So it's better to get the return today, based on the value that's coming out of the ground.

Senator PATRICK: How much do we know about the inerts—the heliums and so forth? Are they actually subject to PRRT?

Mr Hermans: I'm not aware of them being subject to the PRRT. I don't think they would come under the scope of petroleum resources—hydrocarbons—but I wouldn't be able to confirm that.

Senator PATRICK: Should they be? It's an asset; it's a resource that belongs to the Australian people.

Mr Hermans: Yes, they definitely should be subject to some sort of resource rent regime. But given how broad the PRRT has been—there have been changes made, and the problem is really in the grandfathering now, but given just how poorly Australia has conducted resource taxation policy, I question whether our institutions are actually capable of managing a profits based tax, so perhaps a royalty regime is more appropriate for helium as well.

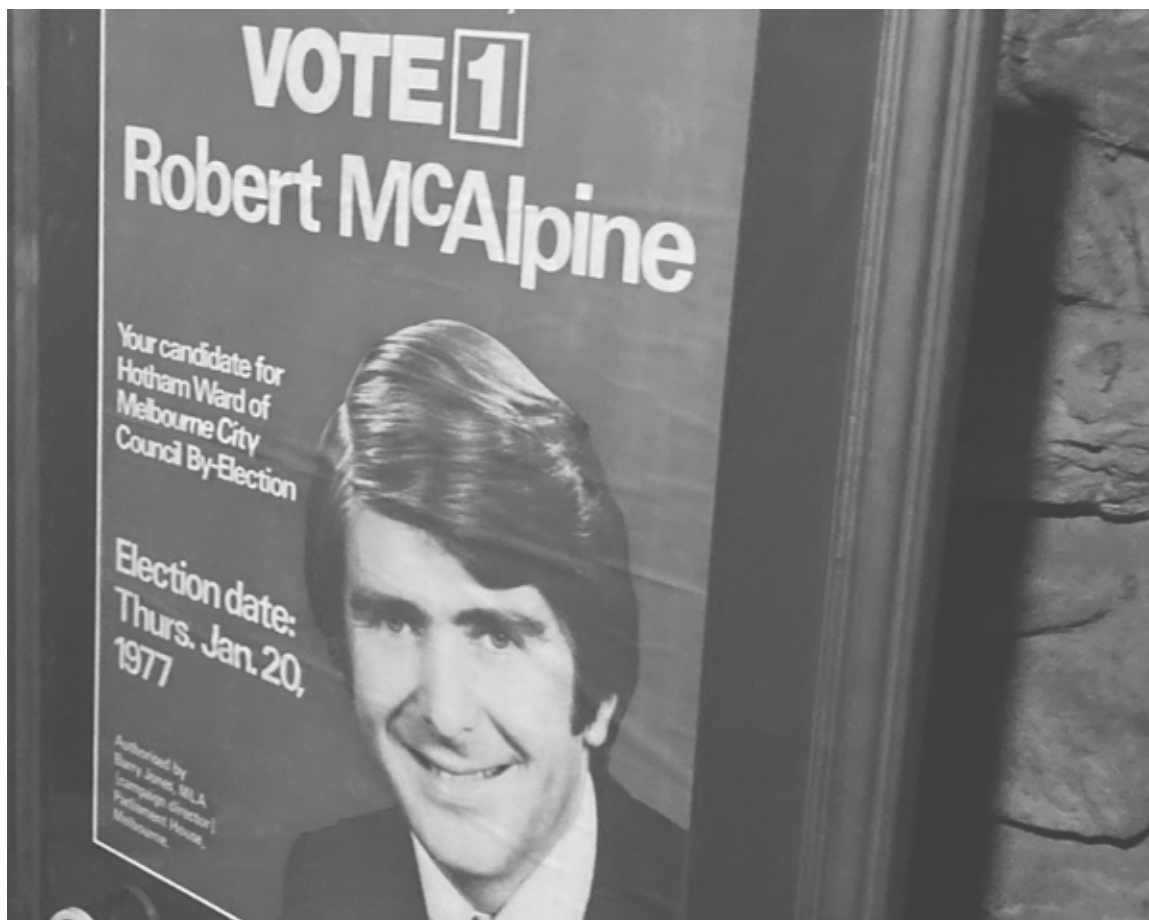
Senator PATRICK: Okay. I'm going to have to leave it there. I do have a lot of other questions, but the chair will beat me up if I use too much more time! So, thank you.

Slightly edited. Further reading on the inquiry: [shorturl.at/vACNY](http://shorturl.at/vACNY)



# DR ROBERT MCALPINE RIP

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In this edition we are sad to report the passing of one of the great champions of Georgism in this country, Dr Robert McAlpine. At the time of his death Robert was the longest serving Board Member (Trustee) of the Henry George Foundation (Australia). He proudly proclaimed that in his over forty years of service he had never missed a meeting. He served as vice president for many years and in this capacity his effectiveness as a bridge-builder and peace maker came to the fore, in the sorting out of disputes, especially when important decisions had to be made in the management of funds.

Around the time of the GFC, although Robert lived in Pomonal, a long way from Melbourne where meetings took place, he enthusiastically took on the role of President of Prosper Australia. Under his direction meetings were warm and encouraging and a good story was always welcomed. We became familiar with Robert's philosophical stance of doing

no harm and thinking the best of people. He also stressed that self-preservation is the most primal of instincts which he incorporated into his Georgist thinking. And half jokingly he would say at every meeting that 'the world is ruled by those who turn up to meetings.'

Robert will go down in Georgist history for his important research and influence leading the State government to purchase properties in Latrobe Street for the final leg of the Melbourne Underground Rail Loop - so that Victorians would benefit from the uplift in values. He also served ably on the Melbourne City Council.

Robert's memorial service was a large gathering, a testament to his warmth and good grace. A number of testimonials mentioned how Robert was ahead of his time with the return of Land Value Capture into public parance. We extend our condolences to Robert's family.



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