

September - October 2009

PROGRESS

SHARING THE EARTH SO ALL MAY PROSPER



DE-DOLLARIZATION

Disarming America's Financial-Military Empire

**THE ECONOMY
IN PALLIATIVE CARE**

**MICHAEL HUDSON
VISITING AUSTRALIA**

PROGRESS

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Lloyd Churches

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editor's note

Yes, things have changed. Progress has a new editor and has undergone a new design. I thank our long standing editor, Karl Williams, for his 9 years of service publishing Progress, which as I've been finding out is quite a commitment. I hope you like the new design. We hired a designer, Harvard Wang, who gave us the basic cleaner look and I'm now using a professional layout program.

In taking on this role of editor for Progress I've been thinking about who my target audience is and what is the purpose or focus of the magazine. Firstly there are the existing subscribers who are members of Prosper Australia. Next there are trial subscribers who receive 3 issues before being asked to pay for subscription or membership. Then there are members of the public that may be given extra copies when they come along to events we put on.

Other considerations are the age of readers, how familiar readers are to the economic paradigm we present and how economic literate readers are. Should we focus on teaching basics to newcomers with the risk of being repetitive for people who are familiar with the ideas? Or should we have more detailed focus on specific issues at the risk of alienating newcomers who can't understand? Up to now, I believe the magazine has tried to be all things to all people and that means its value to any one group is diminished.

The topic of Progress's purpose and target audience has been discussed by Prosper's executive committee and a document of editorial policy has been drafted. One view is that we should target the members of Prosper more and assume readers are familiar with our aim and ideals. Then the focus could be on policy and implementation as well as keeping members informed of Australian news relevant to our goals. The activities of Prosper's staff, executive committee and other member's efforts would be of interest to members, less so to general public. Should we use Progress to educate the general public (handing out free copies to people at events) or try to use other content to fill that need, for example information booklets, pamphlets, brochures, books and other ad-hoc handouts?

Why not write to us to let us know what you want from Progress. I want to encourage members to write for the magazine whether it be small letters to editor, news of interest or longer discussions on policy and implementation. Please send your contributions to progress@prosper.org.au. To see what you could contribute, read my thoughts about the next issue on the inside back page. I hope you enjoy this issue of Progress.



Lloyd Churches

CONTENTS

Michael Hudson in OZ	3	The Economy in Palliative Care	16
De-Dollarization	7	Letters	19
Australian News & Views	10	Geoists in History	20
The Core Issues	12	Prosper News	22
Land Grab	15	Next Issue Theme	23

Michael Hudson Tour

Leading financial economist and historian Professor Michael Hudson will be touring Australia October 12 – 27.

Professor Hudson was one of twelve economists recognised for predicting the GFC.

Hear Michael speak at any of these vital, free events.



When	Event Topic	Where
Wed Oct 14 6:30 pm	Lifting the Lid on the GFC (also with Steve Keen and Bryan Kavanagh)	Melbourne Town Hall, cnr Swanston and Collins Streets
Thu Oct 15 5:30 pm	Economic Policy & Asset Bubbles: The Implications for a Sustainable Society.	Melbourne University, cnr Grattan and Royal Parade, Medicine Building, Frederic Wood Theatre, (Level 3, East Wing)
Fri Oct 16 7 pm	The Earth vs The Neoliberal Paradigm: The Baltic Experience.	Prosper Australia, 1/27 Hardware Lane, Melbourne.
Mon Oct 19 ? pm	Self Funding Infrastructure in a Credit Squeezed Future. (TBC)	Queensland University of Technology, Brisbane.
Wed Oct 21 7 pm	Economics for a Future	Australian National University, Canberra.
Fri Oct 23 6 pm	Forever Blowing Bubbles: Asset bubbles, economic policy and sustainability.	Customs House, 31 Alfred Street, Circular Quay, Sydney.

Professor Hudson will also be lecturing at the Federal Parliament's Vital Issues seminar, presenting to government officials at the Victorian ALP Economics conference and also to the ACTU.

More events and details may be added. See our website www.prosper.org.au for updates.

MICHAEL HUDSON TO TOUR AUSTRALIA

An introduction to Michael Hudson including quotes from his articles and books

Prosper Australia has invited Michael Hudson to Australia to raise awareness about the driving issues behind the Global Financial Crisis (GFC) - we must delve deeper into how we can create a sustainable economy.

The tour is from October 12th - 27th and includes Melbourne, Sydney, Brisbane, Adelaide and Canberra.

Check p3 and www.prosper.org.au for details.

Editor: I've been reading and listening to Michael Hudson a lot in the last few months. The impression I get from him is that his knowledge is extensive. He's studied history thoroughly especially economic history from ancient to modern times. He has an in-depth understanding of the science of economics that makes most economists look as if they believe in fantasy. His big focus nowadays appears to be on debt and that encompasses currencies, balance of payments, real estate and taxes. He certainly understands the importance of removing taxes from labour and trade and putting them on land and resources, but he wouldn't identify himself as a georgist, preferring to call his ideas classical economics or creditary economics.

He belongs to a group called the Institute for Creditary Economics that also have a yahoo group called the gang8 discussion list (that you may be able to get onto if you ask nicely). Creditary Economics principles include that Money is assignable debt and money is created by borrowing. The main problem for the economy is that borrowing pushes up prices of existing assets instead of for investment in productive activities.

So who is Michael Hudson?

Michael Hudson is Distinguished Research Professor of Economics at the University of Missouri (Kansas City). He was one of twelve economists recognised for predicting the GFC.

He is a government advisor to many nations, and is fast gaining a reputation in policy circles as the go-to man in GFC hotspots. This has seen him visit Iceland and Latvia a number of times this year to assist with policy outcomes. From Mexico to China to the depths of Wall St, Hudson is an insider to the latest

global policy trends.

Prof Hudson was the Chief Economic Advisor to Denis Kucinich in the recent US Presidential Campaign. He is the president of the Institute for the Study of Long-term Economic Trends (ISLET). He is a founder of the Institute For Creditary Economics.

Previously Prof. Hudson was a former balance-of-payments economist for Chase Manhattan Bank and Arthur Andersen. In 1990 he established the world's first Third World sovereign debt fund at Scudder Stevens & Clark, which went on to be the second best performing international fund in 1991.

Prof. Hudson has written cover stories for Harpers and is on the editorial board of Lapham's Quarterly. He is a regular on NPR's Marketplace, Bloomberg Radio and numerous Pacifica interview programs, and is a contributor to CounterPunch. He has written for the Journal of International Affairs, International Economy, and New York Times, and currently publishes editorials in leading Latvian, Polish and Arabic business papers. His trade books are translated into Japanese, Chinese, Spanish and Russian, and his website has over a million hits per year.

In 1972 his book *Super Imperialism: The Economic Strategy of American Empire* was the first book to describe the global free ride for America after it went off gold in 1971, putting the world onto a paper Treasury-bill standard. Obliging foreign central banks to keep their monetary reserves in Treasury bonds forced them to finance U.S. Military spending abroad, which was responsible for the U.S. Balance of Payments deficit at this time.



PHOTO FROM FLICKR BY CHRIS JOHN BECKETT

The remainder of this article consists of quotes from articles and books by Michael Hudson.

Hudson on the GFC

No amount of money can sustain the exponential growth of debt, not to mention the freely created credit and mutual gambles on derivatives and other financial claims whose volume has exploded in recent years. The government is committed to “bailing out” banks and other creditors whose loans and swaps have gone bad. It remains in denial with regard to the debt deflation that must be imposed on the rest of the economy to “make good” on these financial trends.

Saturday’s (20/09/2008) \$700 billion junk mortgage bailout is the largest and worst giveaway since a corrupt Congress gave land grants to the railroad barons a century and a half ago. If it goes through, it will shape the coming century by giving finance unprecedented power over debtors – homebuyers, industry, state and local government, and the federal government as well.

Many families are able to remain financially afloat by running down their savings and cutting back their spending to try and avoid bankruptcy. This diversion of income to pay creditors explains why retail sales figures, auto sales and other commercial statistics are plunging vertically downward in almost a straight line, while unemployment rates soar toward the 10% level. The ability of most people to spend at past rates has hit a wall. The same income cannot be used for two purposes. It cannot be used to pay down debt and also for spending on goods and services. Something must give. So more stores and shopping malls are becoming vacant each month.

Hudson on Taxes

Debt service is the major charge that is institutional rather than “real” and technologically necessary. Our tax system favors debt rather than equity financing. By encouraging debt it has



prompted a tax shift onto the “real” economy’s labor and capital. The resulting interest charge and tax shift mean that we’re not as efficient and low-cost producers as we used to be. This makes it hard to work out way out of our foreign debt.

You want to phase out the “tollbooth” economy that adds unnecessary charges to the cost of living and doing business - charges that have no counterpart in actual necessary cost of production. You want to avoid monopoly rent of the sort that Mexicans have to pay Telmex. And you want to avoid having the tax collector lower property taxes, leaving more revenue available to be pledged to banks as interest on higher mortgage loans. To get a lower-cost world, you have to counter political pressure from real estate owners and their bankers to shift taxes off rent-yielding properties onto labor and capital. Income and sales

taxes add to the price of doing business, and hence reduce their supply and competitiveness. Most economists - even Milton Friedman - recommend that the more efficient tax burden is one that collects economic rent - property rent, fees charged for using the airwaves, monopoly rent, and other income that is basically an access charge. If you tax land rent, for instance, this doesn’t raise the price of housing or office space. The rent-of-location is set by the market place. Taxes - or interest charges to buy such property - are paid out of the market price for using this space or natural resource.

“Rent-seeking” charges are paid out of prices. So taxing economic rent doesn’t add to prices. It simply collects what nature or public infrastructure spending have provided freely - site value, the broadcasting spectrum, the rights to access the internet or other technology in cases where prices exceed the reasonable cost of production. Unfortunately, despite what Milton Friedman said, the economy today is increasingly about how to get a free lunch of this sort - and how to get the government to avoid taxing it, and shift the tax onto labor and industry instead. This loads down the economy with unnecessary costs and higher prices, especially when rent-yielding assets are bid up on credit. That’s the essence of this decade’s real estate boom.

Hudson on Iceland

Editor: Britain and the Netherlands government bailed out depositors of Icelandic banks and now want the Icelandic government to repay the debt. Normally in these situations the IMF will loan the money on conditions that the country raise taxes, reduce spending, privatise infrastructure and allow foreign investment. The new Icelandic government has refused to go down that path. They drew up an agreement that limits repayments to ability to pay. In Hudson's article: *Iceland's debt repayment limits will spread* he said this:

This agreement is, so far as I am aware, the first since the 1920s to subordinate foreign debt to the country's ability to pay. Iceland's payments will be limited to 6 per cent of growth above 2008's gross domestic product. If creditors thrust austerity on the Icelandic economy there will be no growth and they will not get paid.

A similar problem was debated 80 years ago over Germany's first world war reparations. But many policymakers remain confused over the distinction between squeezing out a domestic fiscal surplus and the ability to pay foreign debts. No matter how much a government may tax its economy, there is a problem turning the money into foreign currency. As John Maynard Keynes explained, unless debtor countries can export more, they must pay either by borrowing or by selling off domestic assets. Iceland today has rejected these self-destructive policies.

In taking this stand, Iceland promises to lead the pendulum swing away from the ideology that debt repayments are sacred.

Hudson on US Dollar

Editor: One of the most amazing things Hudson talks about is how the US Dollar is only backed by debt in the form of US Treasury bonds and how this had led to a global takeover. The next quotes are from his book, *Super Imperialism: The Economic Strategy of American Empire*.

The thesis of this book is that it is not to the corporate sector that one must look to find the roots of modern international economic relations as much as to U.S. Government pressure on central banks and on multilateral organizations such as the IMF, World Bank and World Trade Organization. Already in the aftermath of World War I, but especially since the end of World War II, intergovernmental lending and debt relationships among the world's central banks have overshadowed the drives of private-sector capital.

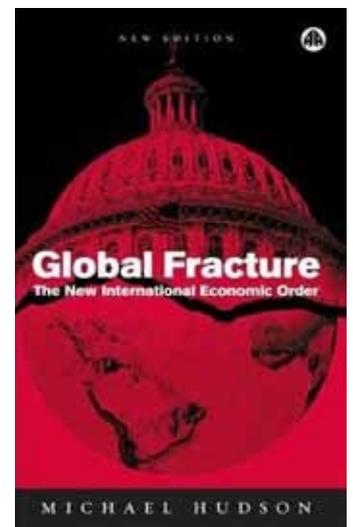
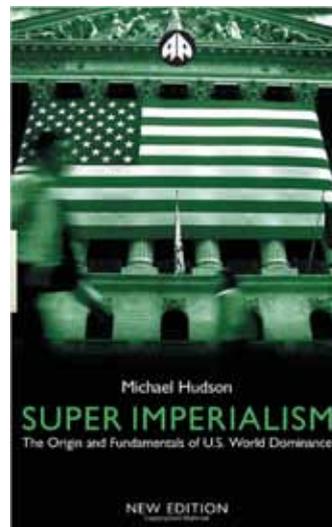
At the root of this new form of imperialism is the exploitation of governments by a single government, that of the United States, via the central banks and multilateral control institutions of intergovernmental capital rather than via the activities of private corporations seeking profits. What has turned the older forms of imperialism into a superimperialism is that whereas prior to the 1960s the U.S. Government dominated international organizations by virtue of its preeminent creditor status, since

that time it has done so by virtue of its debtor position.

This Treasury-bond standard of international finance has enabled the United States to obtain the largest free lunch ever achieved in history. America has turned the international financial system upside down. Whereas formerly it rested on gold, central bank reserves are now held in the form of U.S. Government IOUs that can be run up without limit. In effect, America has been buying up Europe, Asia and other regions with paper credit – U.S. Treasury IOUs that it has informed the world it has little intention of ever paying off.

Links: www.michael-hudson.com/articles/

Below, two of Hudson's books that are available from our bookshop.



DE-DOLLARIZATION

Dismantling America's Financial-Military Empire

By Professor Michael Hudson



June 13, 2009.

The city of Yakaterinburg, Russia's largest east of the Urals, may become known not only as the death place of the tsars but of American hegemony too - and not only where US U-2 pilot Gary Powers was shot down in 1960, but where the US-centered international financial order was brought to ground.

Challenging America will be the prime focus of extended meetings in Yekaterinburg, Russia (formerly Sverdlovsk) today and tomorrow (June 15-16) for Chinese President Hu Jintao, Russian President Dmitry Medvedev and other top officials of the six-nation Shanghai Cooperation Organization (SCO). The alliance is comprised of Russia, China, Kazakhstan, Tajikistan, Kyrgyzstan and Uzbekistan, with observer status for Iran, India, Pakistan and Mongolia. It will be joined on Tuesday by Brazil for trade discussions among the BRIC nations (Brazil, Russia, India and China).

The attendees have assured American diplomats that dismantling the US financial and military empire is not their aim. They simply want to discuss mutual aid - but in a way that has no role for the United States, NATO or the US dollar as a vehicle for trade. US diplomats may well ask what this really means, if not a move to make US hegemony obsolete. That is what a multipolar world means, after all. For starters, in 2005 the SCO asked Washington to set a timeline to withdraw from its military bases in Central Asia. Two years later the SCO countries formally aligned themselves with the former CIS republics belonging to the Collective Security Treaty Organization (CSTO), established in 2002 as a counterweight to NATO.

Yet the meeting has elicited only a

collective yawn from the US and even European press despite its agenda is to replace the global dollar standard with a new financial and military defense system. A Council on Foreign Relations spokesman has said he hardly can imagine that Russia and China can overcome their geopolitical rivalry,¹ suggesting that America can use the divide-and-conquer that Britain used so deftly for many centuries in fragmenting foreign opposition



PHOTO: FLICKR BY PAUL FALARDEAU

to its own empire. But George W. Bush ("I'm a uniter, not a divider") built on the Clinton administration's legacy in driving Russia, China and their neighbors to find a common ground when it comes to finding an alternative to the dollar and hence to the US ability to run balance-of-payments deficits ad infinitum.

What may prove to be the last rites of American hegemony began already in April at the G-20 conference, and became even more explicit at the St. Petersburg International Economic Forum on June 5, when Mr. Medvedev called for China, Russia and India to "build an increasingly multipolar world order." What this means in plain English is: We have reached our

limit in subsidizing the United States' military encirclement of Eurasia while also allowing the US to appropriate our exports, companies, stocks and real estate in exchange for paper money of questionable worth.

"The artificially maintained unipolar system," Mr. Medvedev spelled out, is based on "one big centre of consumption, financed by a growing deficit, and thus growing debts, one formerly strong reserve currency, and one dominant system of assessing assets and risks."² At the root of the global financial crisis, he concluded, is that the United States makes too little and spends too much. Especially upsetting is its military spending, such as the stepped-up US military aid to Georgia announced just last week, the NATO missile shield in Eastern Europe and the US buildup in the oil-rich Middle East and Central Asia.

The sticking point with all these countries is the US ability to print unlimited amounts of dollars. Overspending by US consumers on imports in excess of exports, US buy-outs of foreign companies and real estate, and the dollars that the Pentagon spends abroad all end up in foreign central banks. These agencies then face a hard choice: either to recycle these dollars back to the United States by purchasing US Treasury bills, or to let the "free market" force up their currency relative to the dollar - thereby pricing their exports out of world markets and hence creating domestic unemployment and business insolvency.

When China and other countries recycle their dollar inflows by buying US Treasury bills to "invest" in the United States, this buildup is not really voluntary. It does not reflect faith in the U.S. economy enriching foreign central banks for their savings, or any calculated investment preference, but simply a lack of alternatives. "Free markets" US-style hook countries

into a system that forces them to accept dollars without limit. Now they want out.

This means creating a new alternative. Rather than making merely “cosmetic changes as some countries and perhaps the international financial organisations themselves might want,” Mr. Medvedev ended his St. Petersburg speech, “what we need are financial institutions of a completely new type, where particular political issues and motives, and particular countries will not dominate.”

When foreign military spending forced the US balance of payments into deficit and drove the United States off gold in 1971, central banks were left without the traditional asset used to settle payments imbalances. The alternative by default was to invest their subsequent payments inflows in US Treasury bonds, as if these still were “as good as gold.” Central banks now hold \$4 trillion of these bonds in their international reserves - and these loans have financed most of the US Government’s domestic budget deficits for over three decades now! Given the fact that about half of US Government discretionary spending is for military operations - including more than 750 foreign military bases and increasingly expensive operations in the oil-producing and transporting countries - the international financial system is organized in a way that finances the Pentagon, along with US buyouts of foreign assets expected to yield much more than the Treasury bonds that foreign central banks hold.

The main political issue confronting the world’s central banks is therefore how to avoid adding yet more dollars to their reserves and thereby financing yet further US deficit spending - including military spending on their borders?

For starters, the six SCO countries and BRIC countries intend to trade in their own currencies so as to get the benefit of mutual credit that the United States until now has monopolized for itself. Toward this end, China has struck bilateral deals with Argentina and Brazil to denominate their trade in renminbi rather than the dollar, sterling or euros,³ and two weeks ago China reached an agreement with Malaysia to denominate trade between the

two countries in renminbi.[4] Former Prime Minister Tun Dr. Mahathir Mohamad explained to me in January that as a Muslim country, Malaysia wants to avoid doing anything that would facilitate US military action against Islamic countries, including Palestine. The nation has too many dollar assets as it is, his colleagues explained. Central bank governor Zhou Xiaochuan of the People’s Bank of China



wrote an official statement on its website that the goal is now to create a reserve currency “that is disconnected from individual nations.”⁵ This is the aim of the discussions in Yekaterinburg.

In addition to avoiding financing the US buyout of their own industry and the US military encirclement of the globe, China, Russia and other countries no doubt would like to get the same kind of free ride that America has been getting. As matters stand, they see the United States as a lawless nation, financially as well as militarily. How else to characterize a nation that holds out a set of laws for others - on war, debt repayment and treatment of prisoners - but ignores them itself? The United States is now the world’s largest debtor yet has avoided the pain of “structural adjustments” imposed on other debtor economies. US interest-rate and tax reductions in the face of exploding trade and budget deficits are seen as the height of hypocrisy in view of the austerity programs that Washington forces on other countries via the IMF and other Washington vehicles.

The United States tells debtor economies to sell off their public utilities and natural resources, raise their interest rates and increase taxes while gutting their social safety nets to squeeze out money

to pay creditors. And at home, Congress blocked China’s CNOOK from buying Unocal on grounds of national security, much as it blocked Dubai from buying US ports and other sovereign wealth funds from buying into key infrastructure. Foreigners are invited to emulate the Japanese purchase of white elephant trophies such as Rockefeller Center, on which investors quickly lost a billion dollars and ended up walking away.

In this respect the US has not really given China and other payments-surplus nations much alternative but to find a way to avoid further dollar buildups. To date, China’s attempts to diversify its dollar holdings beyond Treasury bonds have not proved very successful. For starters, Hank Paulson of Goldman Sachs steered its central bank into higher-yielding Fannie Mae and Freddie Mac securities, explaining that these were de facto public obligations. They collapsed in 2008, but at least the US Government took these two mortgage-lending agencies over, formally adding their \$5.2 trillion in obligations onto the national debt. In fact, it was largely foreign official investment that prompted the bailout. Imposing a loss for foreign official agencies would have broken the Treasury-bill standard then and there, not only by utterly destroying US credibility but because there simply are too few Government bonds to absorb the dollars being flooded into the world economy by the soaring US balance-of-payments deficits.

Seeking more of an equity position to protect the value of their dollar holdings as the Federal Reserve’s credit bubble drove interest rates down China’s sovereign wealth funds sought to diversify in late 2007. China bought stakes in the well-connected Blackstone equity fund and Morgan Stanley on Wall Street, Barclays in Britain South Africa’s Standard Bank (once affiliated with Chase Manhattan back in the apartheid 1960s) and in the soon-to-collapse Belgian financial conglomerate Fortis. But the US financial sector was collapsing under the weight of its debt pyramiding, and prices for shares plunged for banks and investment firms across the globe.

Foreigners see the IMF, World

Bank and World Trade Organization as Washington surrogates in a financial system backed by American military bases and aircraft carriers encircling the globe. But this military domination is a vestige of an American empire no longer able to rule by economic strength. US military power is muscle-bound, based more on atomic weaponry and long-distance air strikes than on ground operations, which have become too politically unpopular to mount on any large scale.

On the economic front there is no foreseeable way in which the United States can work off the \$4 trillion it owes foreign governments, their central banks and the sovereign wealth funds set up to dispose of the global dollar glut. America has become a deadbeat - and indeed, a militarily aggressive one as it seeks to hold onto the unique power it once earned by economic means. The problem is how to constrain its behavior. Yu Yongding, a former Chinese central bank advisor now with China's Academy of Sciences, suggested that US Treasury Secretary Tim Geithner be advised that the United States should "save" first and foremost by cutting back its military budget. "U.S. tax revenue is not likely to increase in the short term because of low economic growth, inflexible expenditures and the cost of 'fighting two wars.'"⁶

At present it is foreign savings, not those of Americans that are financing the US budget deficit by buying most Treasury bonds. The effect is taxation without representation for foreign voters as to how the US Government uses their forced savings. It therefore is necessary for financial diplomats to broaden the scope of their policy-making beyond the private-sector marketplace. Exchange rates are determined by many factors besides "consumers wielding credit cards," the usual euphemism that the US media cite for America's balance-of-payments deficit. Since the 13th century, war has been a dominating factor in the balance of payments of leading nations - and of their national debts. Government bond financing consists mainly of war debts, as normal peacetime budgets tend to be balanced. This links the war budget directly to the balance of payments and exchange rates.

Foreign nations see themselves stuck with unpayable IOUs - under conditions where, if they move to stop the US free lunch, the dollar will plunge and their dollar holdings will fall in value relative to their own domestic currencies and other currencies. If China's currency rises by 10% against the dollar, its central bank will show the equivalent of a \$200 million loss on its \$2 trillion of dollar holdings as

capital controls. Why should China see its profitable companies sold for yet more freely-created US dollars, which the central bank must use to buy low-yielding US Treasury bills or lose yet further money on Wall Street?

To avoid this quandary it is necessary to reverse the philosophy of open capital markets that the world has held ever since Bretton Woods in 1944. On the occasion



PHOTO FROM FLICKR BY SILVER SPRITE

denominated in yuan. This explains why, when bond ratings agencies talk of the US Treasury securities losing their AAA rating, they don't mean that the government cannot simply print the paper dollars to "make good" on these bonds. They mean that dollars will depreciate in international value. And that is just what is now occurring. When Mr. Geithner put on his serious face and told an audience at Peking University in early June that he believed in a "strong dollar" and China's US investments therefore were safe and sound, he was greeted with derisive laughter.⁷

Anticipation of a rise in China's exchange rate provides an incentive for speculators to seek to borrow in dollars to buy renminbi and benefit from the appreciation. For China, the problem is that this speculative inflow would become a self-fulfilling prophecy by forcing up its currency. So the problem of international reserves is inherently linked to that of

of Mr. Geithner's visit to China, "Zhou Xiaochuan, minister of the Peoples Bank of China, the country's central bank, said pointedly that this was the first time since the semiannual talks began in 2006 that China needed to learn from American mistakes as well as its successes" when it came to deregulating capital markets and dismantling controls.⁸

An era therefore is coming to an end. In the face of continued US overspending, de-dollarization threatens to force countries to return to the kind of dual exchange rates common between World Wars I and II: one exchange rate for commodity trade, another for capital movements and investments, at least from dollar-area economies.

Even without capital controls, the nations meeting at Yekaterinburg are taking steps to avoid being the unwilling recipients of yet more dollars. Seeing that US global hegemony cannot continue without (continued page 11)

AUSTRALIAN NEWS AND VIEWS

A regular column of short comments on news in the Australia media
by Geoff Forster.

Mind boggling

On a popular TV program it was claimed that 80% of Americans were feeling psychological stress because of the global financial crisis. Even if that figure is exaggerated, as one suspects it is, and allowing for other factors intertwined with psychological influences, the failure to recognize the inescapable law of economic rent obviously has serious consequences. It is just like studying physics and ignoring the law of gravity.

Tax conference likes land

An article by Tim Colebatch ("The Age", 23/6/09) reported on a tax conference arranged by the Melbourne Institute. Stamp duties had no friends at the conference, whereas land tax had many. One option suggested for replacing the conveyancing tax was to widen land tax to family homes, farms and small business, now excluded. Another was the widespread introduction of environmental taxes (though not specified in detail). It will indeed be interesting to see how the Henry report turns out in the end.

Tax Deductions folly

The Tax Office has announced that it will be on the alert for excessive work-related claims for deductions in certain occupations. Of course under a rational site revenue economy, all this nonsense about record keeping and arbitrary classifications would become utterly unnecessary. Yet another example of the compliance cost folly of the current system - which Peter Costello failed to take seriously.

Rent Squeeze

Rising inner-city housing rents are making it harder for students and office workers to find accommodation close to the CBD and forcing many into overcrowded conditions. Thus many tenants are being forced further out, entailing higher transport costs. Or those who remain close in are forced into cramped conditions and undesirable sharing. Yet more consequences of the failure to recognize the role of land prices in our economy.

Economic Reform Australia

As usual, the latest July/August edition of the ERA Newsletter is most interesting. There are various informative pieces on the various distortions associated with the production and distribution of oil. There is a disturbing article on proposals in the USA to irradiate all food, so that fresh food would become minimal; the adverse effects on human health are cogently set forth. There is a disturbing piece about a study on birth defects in Iraq, linked to the weapons used by the US in the war, especially in 2004. Another contribution argues that multinationals are making billions in profits out of the growing global food crisis. This worthwhile periodical may be perused at our office. More info (era.org.au)



Wright and wrong

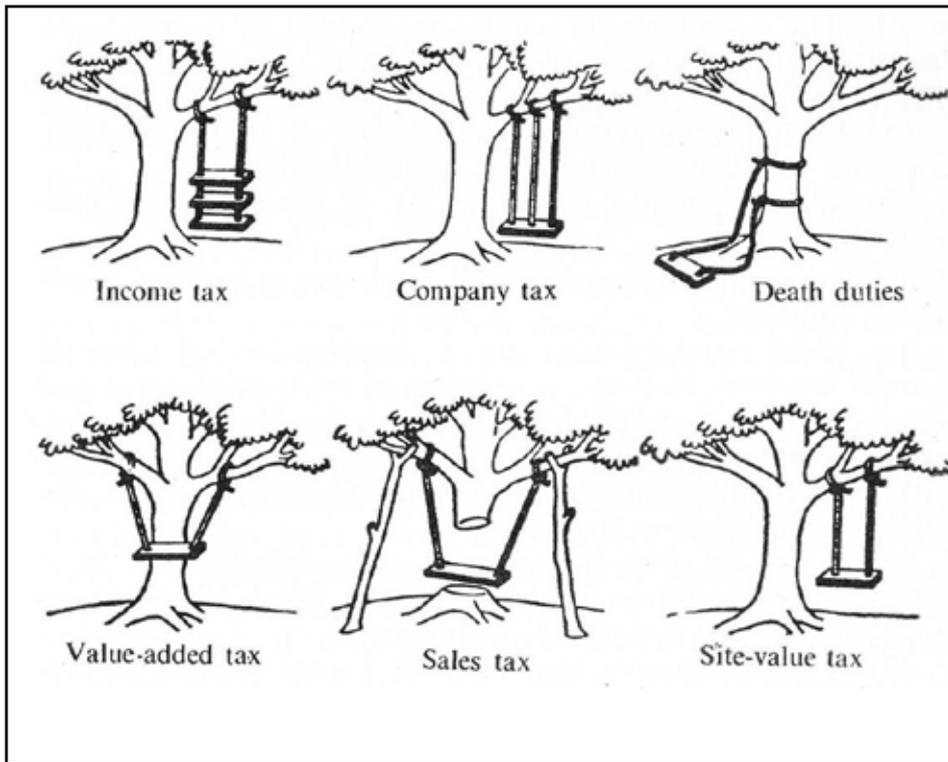
A pungent comment on the Federal Budget was provided By Tony Wright in "The Age" of May 13. The first paragraph was as follows: "The first thing to know about a federal budget is that its predictions are often not worth the paper that they are written on. Predicted surpluses and deficits are almost always wrong and must be adjusted within months."

Violence and economic injustice

There has been considerable concern about violence in city streets in the centre of Melbourne, notably in the weekends. A study has found that there is a correlation between offenders and so-called disadvantaged postcodes, notably certain northern and western suburbs. While personal responsibility and psychological factors should not be overlooked, the likely role of economic injustice derived from unfair taxation and the neglected high price of land should be acknowledged. Henry George's warning about the new barbarians comes to mind.

Inflation down

It was reported that Australia's inflation rate has dropped from 5% to 1.5% in less than a year. In the criteria cited, oddly the biggest increase was in women's underwear, while the biggest decrease was in men's underwear. The cited figure for real estate is really useless while the price of land and the price of dwellings are conflated. Perusing the figures brought to mind that phrase about lies, damned lies and statistics.



Homelessness report ignores land

An alarming report in *THE AGE* (16/7/09) on the growth of homelessness throughout Australia, notwithstanding the alleged “powering” economy, had some disturbing details. In 2006 the estimate for the whole nation was 105,000, with Victoria having 20,500. An extra 1000 every year is forecast. Various details about geographical areas and age groups were given. Appropriate expressions of concern from politicians appeared. But of course the major underlying factor in the situation, i.e. the unchecked rising price of land, received no mention. Similarly, disturbing reports of excessive rents by “slumlords”, together with graphic accounts of primitive and overcrowded conditions, overlooked this issue. And while there has been plenty of attention of unprovoked attacks on overseas students, the exploitation in their living conditions receives little official concern.

Treasury confused about wealth

An alarmist report appeared in “*The Age*” on 16 July. It stated that the average Australian was \$33,500 poorer since December 2007. Treasury data estimate that Australian households lost a total of \$602 million in the five quarters since the economic crisis began. The estimate combines property, share market and financial wealth, but is not broken down into components. The problem here of course is the failure of neoclassical economics to define wealth properly. Real wealth and claims to produce wealth by others are not distinguished. As long as the role of site rents is overlooked, confusion reigns – conceptually, and in real life. This is further illustrated by references in the report to house prices climbing slightly in both Sydney and Melbourne during June. As usual, dwelling prices and land prices are conflated.

De-dollarization continued from page 9
 spending power that they themselves supply, governments are attempting to hasten what Chalmers Johnson has called “the sorrows of empire” in his book by that name - the bankruptcy of the US financial-military world order. If China, Russia and their non-aligned allies have their way, the United States will no longer live off the savings of others (in the form of its own recycled dollars) nor have the money for unlimited military expenditures and adventures.

US officials wanted to attend the Yekaterinburg meeting as observers. They were told No. It is a word that Americans will hear much more in the future.

NOTES

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- 2 Kremlin.ru, June 5, 2009, in Johnson's Russia List, June 8, 2009, #8.
- 3 Jamil Anderlini and Javier Blas, “China reveals big rise in gold reserves,” *Financial Times*, April 24, 2009. See also “Chinese political advisors propose making yuan an int'l currency.” *Beijing*, March 7, 2009 (*Xinhua*). “The key to financial reform is to make the yuan an international currency, said [Peter Kwong Ching] Woo [chairman of the Hong Kong-based Wharf (Holdings) Limited] in a speech to the Second Session of the 11th National Committee of the Chinese People's Political Consultative Conference (CPPCC), the country's top political advisory body. That means using the Chinese currency to settle international trade payments ...”
- 4 Shai Oster, “Malaysia, China Consider Ending Trade in Dollars,” *Wall Street Journal*, June 4, '09.
- 5 Jonathan Wheatley, “Brazil and China in plan to axe dollar,” *Financial Times*, May 19, 2009.
- 6 “Another Dollar Crisis inevitable unless U.S. starts Saving - China central bank adviser. Global Crisis 'Inevitable' Unless U.S. Starts Saving, Yu Says,” *Bloomberg News*, June 1, 2009. <http://www.bloomberg.com/apps/news?pid=20601080&sid=aCV0pFcAFyZw&refer=asia>
- 7 Kathrin Hille, “Lesson in friendship draws blushes,” *FT*, June 2, 2009.
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THE CORE ISSUES

by Dan Sullivan

The world is full of problems and while many issues are very important there is competition between community groups for attention, funding and volunteers. While some people are content to fix single issues, others can see the deeper connections between a myriad of problems and seek to address the core issues which require structural or systemic change. In this article Dan has identified several core issues that impact virtually all other issues. It is our job to show how they impact other issues and how working on core issues will be more effective for everyone involved.

Privilege

Behind all issues lies the problem of privilege -- legal mechanisms that give some people artificial advantages over others, enabling them to enrich themselves at the expense of others. Political privileges give leverage in the political system, ultimately conferring a political monopoly over others. Economic privileges are similarly leveraged over time into economic monopoly.

Three privileges stand out. The core political privilege is the way we choose leaders. What was supposed to be citizens deliberating and choosing officials to serve them has degenerated into a competition by those who want more and more political power over a largely passive electorate. The economic privileges are a land tenure system that allows some people to monopolize the earth and its resources and a monetary system that lets private institutions lend money that was created out of nothing into circulation.

Other economic privileges include privately owned public utilities, monopoly franchises, over-extended intellectual property laws, subsidies, artificial restrictions on competition, and policies that benefit established businesses to the detriment of potential new competitors.

They tie together because people with economic privileges help those in office keep their political privileges and those in office reciprocate.

Why Core Issues?

Many issues are important, but solving core issues makes solving other issues easier. It might seem quicker and easier to go for a "quick fix" on one issue at a time, just as it might seem easier to swat a fly than to shovel, treat and cover manure. In the long run, however, taking on single-symptom issues is as futile as swatting flies in a stable.

There was a great focus on core issues in what is known as "The Age of Enlightenment." That focus has been lost, and the political climate of the past hundred years has offered us endless choices between conservatives denying that there is a problem and liberals pretending that every symptom can be treated without digging too deeply into underlying causes. Both sides perpetuate core privileges.

There are two ways to arrive at core issues. One is to determine what causes each problem and treat each cause as an underlying problem. Then one finds the cause of each underlying problem, and so on. As one digs deeper, one finds that many seemingly different problems are caused by the same underlying problems. When one can go no deeper because there is no underlying cause, the core problem has been found. However, most people assume they can go no deeper even though there are still underlying causes. They might be impatient, intimidated by the magnitude of the underlying causes, or just plain stumped. In many cases, people have motivations other than solving the problem itself, or they crave potential allies who have other motivations. These alternate motivations or agendas divert people into turning their back on core problems and treating symptoms instead.

The other way is to start with fundamental principles and critique our laws and political arrangements in light of those principles. Such an approach is easier and more reliable, but it requires faith that sound principles lead to sound solutions. People who are fixated on immediate relief from pressing problems tend to view principles as abstract and beyond their capacity.

Actually doing something meaningful about underlying causes is also daunting because each vested interest is ready to fight to protect its own privilege, and few vested interests with significant clout are ready to oppose privilege. Rather than mobilize the entire public against core privileges, political opportunists find it easier to advocate programs that address symptoms. Yet, sooner or later, the consistent failure of these programs to solve problems must lead us to address the core issues.

Core Issues vs. Big Issues

An issue might be overwhelmingly important and still not be a core issue. For example, there is rarely a bigger issue for a country at war than the war itself. The question of what are the root causes of war remains, however. Virtually all wars, even so-called religious wars, are fought over land and resources, money, and political control. This makes the land question and the money question more fundamental, even though the question of war and how to end it may be more pressing.

Reason vs. Pressure

As we have drifted into a system of privileges, we have become accustomed to fighting rather than reasoning. Those opposed to big-business abuses line up behind the Democratic Party and those opposed to big-government abuses line up behind the Republican Party. What we fail to appreciate is that big business and big government are partners in privilege, and that lining up behind one of them to do battle with the other only affects which is the senior partner and which is the junior partner. To lessen the dominance of big business, it is necessary to reason with Republicans to show how their legitimate concerns can be addressed without entrenching big business.



PHOTO FROM FLICKR BY JEFF KUBINA

Similarly, reducing the size of government requires reasoning with Democrats. Indeed, it even requires reasoning with leaders within big business and big government to assure them that it is not personal, and that they, too, can get their legitimate needs met by accepting the reduction and elimination of privilege. Most will not support such efforts, but reasoning with them will reduce the ferocity of their opposition by showing respect, and will occasionally win agreement from influential members.

Even doing battle over issues has served to entrench privilege, as those with privilege have enough resources to win any fight over their most essential core privileges. They are able to finesse

other issues to insure that, over all, privilege itself remains intact. The real struggle for justice, then, is not between institutions, but within them. Each member of any organization must choose whether to put his energy into opposing privileges that interfere with his organization's goals or into promoting countervailing privileges that advance its more legitimate goals. Even within the individual there is a constant conflict between pursuing advantage and pursuing justice.

Democracy

The core political issue is that the system we call "democracy" (or, if you prefer, a "democratic republic") is not actually democratic. Democracy means that government serves the interests of the people it governs -- that it is subservient to them. Most people think of democracy as synonymous with elections, but the great democracies of history did not even have elections. Genuine democracy at any level of government will give vitality to that government. Even the governing bodies of private organizations will function better by following genuinely democratic principles.

The false view that democracy boils down to a contest by candidates to win our favor has led to election reforms that "level the playing field" between the candidates, but do nothing for the public interest. Such reforms only make matters worse, because they further shift the emphasis to the approach of candidates actively pursuing the vote of a passive electorate. In a genuine democracy, the people are the active factor, and the candidates for office are merely job applicants hoping to be chosen.

Land and Resource Monopoly

Land is not produced; it is appropriated. Land and natural resources are monopolized far more than capital or wealth generally. Moreover, no wealth can be produced without access to land. Throughout history, economists, philosophers and statesmen have recognized that the monopolization of land and natural resources is a core economic problem.

People ordinarily think of land in terms of acres and fertility, which were the most important aspects in agrarian societies. In modern commercial society, the value of location dwarfs agricultural values. Also, the electromagnetic spectrum is like land in that particular frequencies are reserved for particular title holders. Broadcast media monopoly is essentially the same as land monopoly.

Throughout history, philosophers, statesmen and economists have argued that the amount of land people could hold should be limited, and that privately held land should be taxed on its value. When land value is sufficiently taxed, people do not monopolize land by taking more than they can effectively use.

Money Monopoly

Advanced societies cannot function without money. When money is loaned into circulation, its lenders and re-lenders can charge interest on values that they did not create. It is impossible

to pay back debt-money with debt-money, because the debt (including interest) exceeds the amount of money issued. As a result, society's producers are increasingly dependent on money lenders. Even businesses who do not borrow must deal with the fact that their employees, customers, suppliers, etc., are immersed in debt, and that a contraction of credit can disable the entire economy. The problem is not private lending of earned money, but the lending of new money into circulation. Government should issue money by spending it into circulation directly.

Our task is to show how these core issues underlie the symptomatic issues, and how working together on core issues can be more effective for everyone involved than working separately on symptoms.

Other Monopoly Privileges

Public Utilities and Right-of-Way Monopolies

The core privilege enjoyed by privately owned public utilities is the right of way -- the exclusive right to deliver water, sewer, gas, electricity, telephone, internet and cable television services along public streets and other rights of way.

Privately owned turnpikes and railroad tracks are also right-of-way monopolies. The only difference between them and utilities is that the utilities deliver one particular product to its service area, while turnpikes and railroads allow people and multitudinous products to be delivered from place to place.

These distribution systems should be publicly owned at the most local level of government possible. In some cases, the government should own and run the entire system. In others, private vendors should bid to provide services to the government, or the rights of way should be open to all on equal terms. We can see this with public highways and public airways, where traffic safety is enforced by the government, but the vehicles using these highways and airways are mostly private.

Franchises and Contract Monopolies

From military contractors to the food and gas purveyors at turnpike islands, businesses serve us through the government rather than serving us directly. To the extent that government awards contracts and franchises in an uncompetitive manner, or makes more awards than can be justified, the awards confer privilege. Those who enjoy the awards reciprocate by supporting the incumbents who supported them.

Self-Regulating Monopoly Businesses

Government agencies regulate businesses, and business lobbies regulate the regulators. The most notorious (at the moment) are health insurance and pharmaceutical companies, but one trade after another has lobbied for licensure to make it more difficult for competitors to enter the market. Even where some certification is appropriate to insure safety, the licensure requirements go far beyond what safety concerns justify.

Discriminatory Taxes, Subsidies and other Transfers

Most taxes are not charges against privilege, but levies against personal or business initiative. To the extent that the benefits do not match the taxes, some are paying for the benefit of others. Much ado is made about payments to the poor, even though the poor would, in a just system, enjoy far more in the form of a share of land or a share of its rent. Better examples are taxes that discriminate against small business to benefit big business, taxpayers served by poor roads paying to build good roads for others, etc.

Aggravating this are direct subsidies and special tax exemptions, ostensibly to advance some societal goal. These subsidies invariably go to those who are already privileged and politically well connected, at the expense of others who are already overtaxed.

In some cases, transfers are not part of the budget, but are still a product of bad law. For example, limiting the liability of corporations has the effect of blocking people from recovering just damages from those corporations. It has the same effect as a law that would transfer money from the victims back to the offending corporation after proper damages were awarded.

Cutting the Gordian Knot

It is not enough to point to core issues and declare them important. We accept that most people are interested in symptomatic issues. Our task is to show how these core issues underlie the symptomatic issues, and how working together on core issues can be more effective for everyone involved than working separately on symptoms.

Dan Sullivan is an American whose ability to clarify issues I greatly admire. He regularly writes on the email discussion group called Land Theory (<http://groups.yahoo.com/group/landtheory/>) and this article is from his website savingcommunities.org/issues/.

LAND GRAB

Fears for the world's poor countries as the rich grab land to grow food

What is to become of poor countries in Africa that are selling their land to richer countries? Are they only doing it to pay off their debt. Why can't they just lease the land and use the rent to support their population? This article is from the Guardian's website.

- **UN sounds warning after 30m hectares bought up**
- **G8 leaders to discuss 'neo-colonialism'**

The acquisition of farmland from the world's poor by rich countries and international corporations is accelerating at an alarming rate, with an area half the size of Europe's farmland targeted in the last six months, reports from UN officials and agriculture experts say.

New reports from the UN and analysts in India, Washington and London estimate that at least 30m hectares is being acquired to grow food for countries such as China and the Gulf states who cannot produce enough for their populations. According to the UN, the trend is accelerating and could severely impair the ability of poor countries to feed themselves.

Today it emerged that world leaders are to discuss what is being described as "land grabbing" or "neo-colonialism" at the G8 meeting next week. A spokesman for Japan's ministry of foreign affairs confirmed that it would raise the issue: "We feel there should be a code of conduct for investment in farmland that will be a win-win situation for both producing and consuming countries," he said.

Olivier De Schutter, special envoy for food at the UN Office of the High Commissioner for Human Rights, said: "[The trend] is accelerating quickly. All countries observe each other and when one sees others buying land it does the same."

The UN's food and agricultural organisation and other analysts estimate that nearly 20m hectares (50m acres) of farmland – an area roughly half the size of all arable land in Europe – has been sold or has been negotiated for sale or lease in the last six months. Around 10m hectares was bought last year. The land grab is being blamed on wealthy countries with

concerns about food security.

Some of the largest deals include South Korea's acquisition of 700,000ha in Sudan, and Saudi Arabia's purchase of 500,000ha in Tanzania. The Democratic Republic of the Congo expects to shortly conclude an 8m-hectare deal with a group of South African businesses to grow maize and soya beans as well as poultry and dairy farming.

India has lent money to 80 companies to buy 350,000ha in Africa. At least six countries are known to have bought large landholdings in Sudan, one of the least food-secure countries in the world.

Other countries that have acquired land in the last year

include the Gulf states, Sweden, China and Libya. Those targeted include not only fertile countries such as Brazil, Russia and Ukraine, but also poor countries like Cameroon, Ethiopia, Madagascar, and Zambia.

De Schutter said that after the food crisis of 2008, many countries found food imports hit their balance of payments, "so now they want to insure themselves".

"This is

speculation, betting on future prices. What we see now is that countries have lost trust in the international market. We know volatility will increase in the next few years. Land prices will continue to rise. Many deals are even now being negotiated. Not all are complete yet."

He said that about one-fifth of the land deals were expected to grow biofuel crops. "But it is impossible to know with certainty because declarations are not made as to what crops will be grown," he said.

Source: <http://www.guardian.co.uk/environment/2009/jul/03/land-grabbing-food-environment>



PHOTO FROM FLICKR BY MARTIN LABAR

THE ECONOMY IN PALLIATIVE CARE

(To palliate: to relieve a disease without curing) by David Smiley

David Smiley analyses the debate started by Kevin Rudd's essay titled 'The Global Financial Crisis'. It's disappointing to see that so many in the debate lack the understanding of land based economics that David and many of us have.

While the world's experts are arguing about how to relieve the pain of recession, few are diagnosing its fundamental cause and fewer still are prescribing a fundamental cure. Let us start in Australia.

THE GLOBAL FINANCIAL CRISIS was the title of an essay by Kevin Rudd in the February issue of *The Monthly*. Rudd's essay was largely ignored until Robert Manne explained some of its terminology in the March issue and then opened it up to debate in a symposium of international experts in the May issue. Rudd's essay argued for the replacement, by social democracy, of the free-market and neo-liberal philosophies of some outgoing administrations in the English-speaking world. It contained a powerful critique of the outcomes of these philosophies, and an argument for market regulation to correct market failure in the financial sector. Though this central thesis was extensively set out, quite crucial aspects of method and of scope were mentioned but, regrettably, not developed. For example, the methods for correcting market failure go far beyond market regulation. And the scope of the problems now facing social democracy goes far beyond the financial sector. Regrettably, there were very few references in the essay to the housing market where the meltdown started. And, though this meltdown will have very large impacts beyond the OECD economies, there were only passing references to the threats to the Millennium Development Goals, protection, climate change, and to emerging poverty-driven conflicts.

THE SYMPOSIUM, published in the May issue, contained an introduction by Robert Manne to five world experts asked to comment on Rudd's essay. This advice was inconsistent and, in some places, badly confused over the nature of land, capital, and the institutions that use them. Since this confusion is of extraordinary importance I will summarise the five contributions and then pose questions that Kevin Rudd should try to answer.

Eric Hobsbawm starts on firm ground, reminding us that monopoly capitalism and monopoly socialism have both crashed in the past and that all economies now combine the public and the private. The rationale for this combination is already well established in the constituents of market failure theory such as monopoly, externalities, merit goods, rent seeking, and non-monetary components of utility such as the environment.

However, in a single paragraph, the fourth, Hobsbawm makes four serious mistakes that compromise the remainder of his response. One: that the higher growth rate of the post-1945 "golden age" was due to the remnants of war-time central planning. No, it was due to massive infusions of Marshall-plan capital into war-torn Europe, with results predicted by the theory of marginal returns in situations where the capital base is seriously depleted. Two: that subsequent slowing growth in the OECD was due to market fundamentalism. Partly true, but during that period accelerating real estate speculation was already dragging investment away from the productive towards the unproductive. Three: that the Asian economic miracles rested on "distinctly un-Hayekian" principles. No, "In all three of Asia's biggest successes - Japan, South Korea and Taiwan - the groundwork for both fast growth and the income equality that eased the social strains of development was laid by a radical land reform." (*The Economist*, 29 June, 1991, p. 16). Four: that Atlantic capitalism was responsible for the economic stagnation of the bottom 40% of the US population. No, that stratum was a class that, until tempted by Fanny Mae and Freddy Mac, rented housing from a land-owning class whose wealth was rapidly increased by a raft of tax breaks, remorselessly increasing real rents paid and implicit rents received in huge un-taxed capital gains.

David Hale profoundly disagrees with Hobsbawm. He argues that the present crisis arose, not from systemic failure of false ideas but from easily avoidable factors such as the American obsession with home ownership. His criticism is that Kevin Rudd neglected to mention that "The downturn resulted from the collapse of the residential real estate market in the US" and that it was Congress that essentially promoted the sub-prime boom.

Dean Baker was the first economist to warn of the dangers of the housing bubble. His criticism is that Kevin Rudd had underestimated the role of the real estate bubble in causing the meltdown. Yet "There was overwhelming evidence that the economy was being driven by a gigantic asset bubble....creating US\$ 8 trillion in housing-bubble wealth."

Charles Morris is critical of the role of neo-liberal economics in getting us into this mess but, perhaps because he is a lawyer and banker, he seems unaware, as also does Hobsbawm as a

historian, of the warnings about market failure coming from mainstream economists in the last 20 years.

John Gray, like Morris, Manne and Rudd, is also critical of the neo-liberal experiment. For a political philosopher, he is surprisingly supportive of globalisation and capitalism: "Only one model of globalisation has broken down, and only one model of capitalism - the highly unstable, financially driven version promoted by the US over the past 20 years - has gone into retreat." His main concern is that, without any effective global government, the world's great powers are now competing with one another to gain natural resources and to avoid paying the costs of climate change.

PAIN ON THE ROAD TO RECOVERY is the title of Kevin Rudd's 6,100 word essay published on July 25. In this government blueprint he explains to us that his system of palliative care, the bank bailouts and stimulus packages, is much superior to that of other countries.

His diagnosis is that we have been living beyond our means, and his prescription is, essentially, that we must work harder and smarter. He seems to have completely ignored Hale's and Baker's criticisms, a point not missed by the Sydney Morning Herald in next day's editorial. "There's been no serious effort to 'deleverage'

households from their high debt levels, mostly associated with house prices. Instead the housing market has been primed a bit more, through the first-home buyer subsidy." I found no reference to real estate bubbles and no mention of the tax reforms that might have pricked the real estate bubble and thus reduced the risk of recession. In fact there was only a brief mention of a tax review, one due at the end of the year, the key focus of which was not to prevent future bubbles but to attract international investment and business.

QUESTIONS KEVIN RUDD SHOULD ANSWER (From points made in his July essay)

Infrastructure developments in roads, rail, ports, energy, schools and hospitals all increase nearby land values. These values are created by society and should be returned to society. Will your government tax these windfall rents, or will they be

collected and squandered privately? See tax reform below.

Coal. Do you intend to exempt the coal industry from the emissions trading scheme? If so it will cost \$10 billion in revenue over ten years. As well as set back your own initiatives on climate change. See tax reform below.

Financial regulation. "When markets do stabilise and start to rise once more, it is certain that financial institutions will find ways around the G20's new rules." (The Sydney Morning Herald editorial, News Review, April 4-5, 2009, page 10). Would it not be better to go to the source of the problem, housing bubbles, and prick them with heavy land taxes?

Global competitiveness. During the Great Depression, protectionism reduced global competition and added years to the depression. Are you going to yield to selfish pressures from those unwilling to share the pain of recession?

Innovation. Taxing our uses of scarce resources encourages

new inventions, substitutions, and better use of existing resources. Coal and petrol are just two of many examples. Innovations are also encouraged by shifting taxes off labour and capital. Why then is your blueprint for this vital subject confined to the setting up of a national broadband network?

Climate change. See tax reform below.

Water scarcity. See tax reform below.

Protection, in the wake of the recession, now threatens to further destabilise poor countries already suffering. Should your government be therefore yielding to pressure from unions and employers for protection? And should not your government be doing more to discourage agricultural protection? 'Farmers in poor countries struggle to compete with heavily-subsidized farmers in Europe and America - and even see their own market destroyed when food surpluses are dumped. Lost trade costs poor countries an estimated \$700 billion each year, says the UN, a figure that dwarfs aid spending' (Economist July 1, 2000:50). And "Rich country farm subsidies prevent the poorest countries from selling some of the only goods, other than illegal drugs, that they are able to export, keeping millions of people miserable. Consumers in rich countries pay over the odds for food. And for



PHOTO FROM FLICKR BY TRAVIS TRUMAN

what? So that a tiny number of farmers and a few large agricultural firms in rich countries can continue to benefit at the expense of the world's poor." (Economist, April 17, 2004).

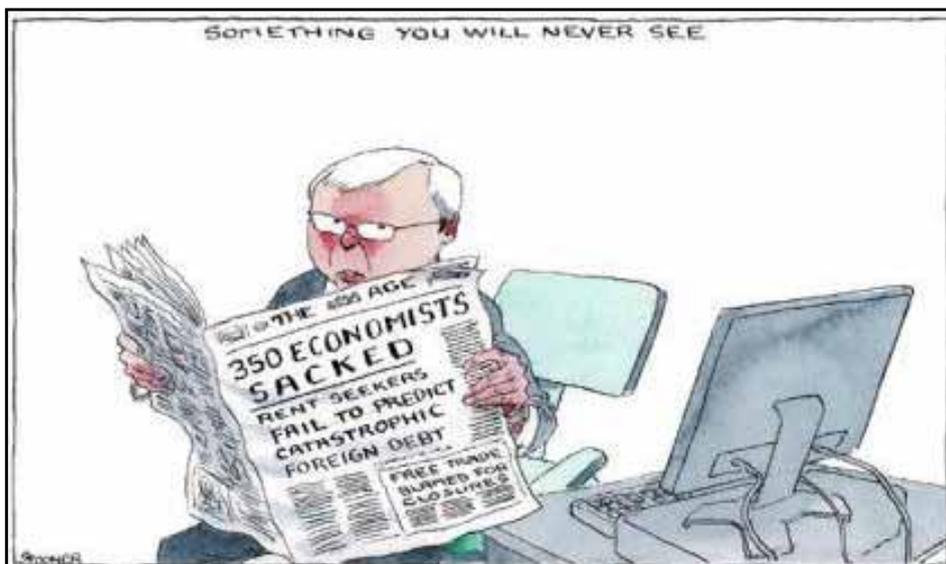
Failure to meet the Millennium Development Goals. A problem only briefly mentioned in your first essay, will destabilise poor countries, with a backlash on rich countries. There is already evidence of potentially explosive social unrest as reductions in livelihood are mixed toxically with rises in poverty, energy costs, water scarcity, and environmental damage. Why is this not even mentioned in your July blueprint?

Inoculation against future recessions. If real estate bubbles precede and then trigger financial bubbles, should you not prick this bubble by ramping up taxes and cutting subsidies that would discourage speculation in rising land values?

Tax reform. This is the most effective way of correcting market failures such as monopoly, rent seeking and collusion. Also, a tax shift away from the production of goods and services and onto our uses and misuses of land and natural resources can do the following:

- Reduce the rate at which we deplete our natural resources.
- Reduce the rate at which we damage our natural environment.
- Achieve redistributive justice.
- Achieve economic efficiency.
- Reduce the amplitude of business cycles and hence prevent recessions. See articles in Progress, especially by Bryan Kavanagh.

In conclusion. The journal in which you are reading this article is dedicated to achieving social justice by fundamental tax reform. If you agree with what you read, send a copy or write to your local MP.



TOP 10 REASONS TO STUDY ECONOMICS

1. Economists are armed and dangerous: "Watch out for our invisible hands."
2. Economists can supply it on demand.
3. You can talk about money without ever having to make any.
4. You get to say "trickle down" with a straight face.
5. Mick Jagger and Arnold Schwarzenegger both studied economics and look how they turned out.
6. When you are in the unemployment line, at least you will know why you are there.
7. If you rearrange the letters in "ECONOMICS", you get "COMIC NOSE".
8. Although ethics teaches that virtue is its own reward, in economics we get taught that reward is its own virtue.
9. When you get drunk, you can tell everyone that you are just researching the law of diminishing marginal utility.
10. When you call 1-900-LUV-ECON and get Kandi Keynes, you will have something to talk about.

LETTERS

A selection of letters that members have had published in the media.

Make a stand

THE Housing Industry Association's Gil King says that "any policies that aim to speed up development applications and increase Victoria's housing stock are welcomed" (The Age, 10/9).

So does the HIA support the replacement of stamp duty and payroll tax with land tax collecting the same revenue? The replacement of local council rates based on capital improved value and net annual value with rates based on site value?

Those policies would lead to an increase in housing stock (the HIA's stated aim), make it available at lower prices, and tend to reduce urban sprawl - but would drive a wedge between HIA members whose focus and interest is planning, engineering and construction (delivering the physical improvements) and those whose greater interest is land banking, land speculation and monopolising economic rent (to drive up land price). On which side of the divide does the HIA stand?

Andrew Gunter, Hawthorn East

Different thinking

EVERYONE'S in favour of more compact urban development ("Grow Melbourne from within", "No need to expand Melbourne's boundary", "Melbourne's empty nests" and "Let's win our city's battle with the bulge", The Age, 8/8). Your editorial and Moreland Mayor Lambros Tapinos rightly identify rates and taxes as able to provide incentives to more appropriate development of urban land, yet few councils take even Moreland's partial approach and impose higher rates on vacant land.

Only one, Monash, goes the whole

hog with the strongest incentive to develop underutilised urban land available to local government in Victoria, site-value rating. Too bad that a group of Monash councillors are considering repealing it.

Site-value rating acts as a powerful antidote to urban sprawl, but councils that adopt it are permitted to make almost no distinction between the residential, commercial and industrial rates they impose.

Local councils' take-up of site-value rating as an anti-sprawl antidote will be much greater if the arcane "limited differential" restrictions in rating legislation are repealed. Melbourne would be the better for it.

Andrew J. Gunter, Hawthorn East

Site Rating Should Rule On Setting Rates

Dear Editor, Re your report, " 'Wrong' rates ping home builder" (POST 15/8) (W.A.). Gill Vivian is absolutely right when she says she is being penalised for helping to improve her suburb, and that the system is wrong.

The alternative is however much simpler and more obvious than Cottesloe mayor Morgan seems to suggest.

Instead of basing the rate on the gross rental value, it should be based on the unimproved value of the land or "site value", which is only determined by the location of the property.

While the value of improvements are created by the land owner, site values are created by the community and depend on closeness to schools, government services, economic and social activity and so on.

Taxing improvements naturally causes a decrease in improvements and an increase in house rents.

Site value taxation, however, is the only tax that has no negative effect on the economy because the supply in land is fixed; this has been acknowledged by all economists since Adam Smith.

On the contrary, site value taxation heavily encourages land owners to use land productively and discourages property speculation (which bring about housing booms and busts, one of the main causes of the global economic crisis).

Shifting rates from the gross rental value to the site value would therefore increase the supply and lower the prices of accommodation.

It would thus benefit people with the lowest incomes the most. Taxing land and natural resources in replacement of taxing useful economic activity should be a policy of higher governments too.

Niels Charlier, Jolimont

Cost of Urban Sprawl

Dear Editor, Graham Wines (The Age, Letters, 18/7) refers to the cost of urban sprawl. Some people hold land unused and grow rich while they sleep, as the land value increases.

The best way to curb the resulting outer metropolitan sprawl would be to have a flat rate land values tax. This would deter people from holding land unused to take advantage of rising prices over the years.

It would be a fair tax, as government expenditure is higher in denser areas. The revenue could replace taxes impinging on productivity and other unfair taxes and charges. A good start would be payroll tax.

David Barkley, BoxHill

BERTRAND RUSSELL (1872 - 1970)

Geoists in History by Karl Williams

He was born in the loftiest aristocratic family of Victorian England, yet his politics and economics would make him a class traitor. He somehow also found time to become famous as a philosopher, logician, mathematician, educationalist, political theorist, historian, social reformist, and pacifist, but he was also a geoist.

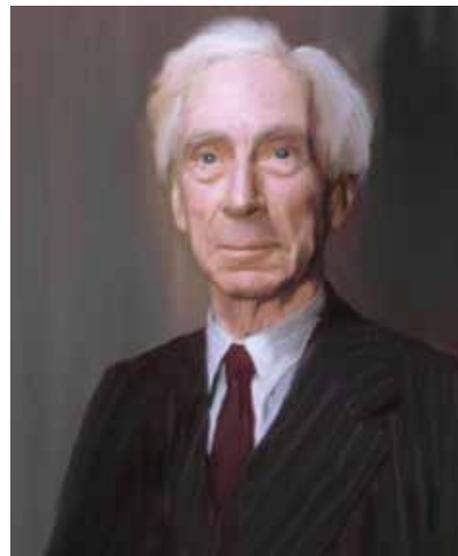
Bertrand Arthur William Russell, whose grandfather had twice been prime minister in the 1840s and 1860s, was born into a family that had been prominent in Britain for several centuries, coming to power and the peerage with the rise of the Tudor dynasty. Nevertheless, they were a radical freethinking lot, who undoubtedly left their mark (if not their politics) on young Bertie. Little wonder that the life of 3rd Earl Russell (a title Bertrand never used) was full of public controversies, three divorces and two major job dismissals – but none of this seemed to deter his outspokenness.

His wasn't really a life of silver spoon privilege. At the age of three he was left an orphan, to be brought up by his grandparents and educated at home by a

series of tutors rather like in those BBC costume dramas. His lonely youth came to an end when he started at Cambridge aged 18, beginning with philosophy and logic. Thus began an immensely broad academic life, with frontiers conquered in all directions.

His early career was marked by the publication of his three volumes of *Principia Mathematica*, which soon made Russell world famous in his field. His mind soon turned to philosophy, where he broke new ground across the board of philosophical disciplines. Then came ethics, religion & theology (or the dismantling of it generally as superstition) and women's suffrage (which, as a member of the Liberal Party, he tried to bring about).

He rocked the Victorian boat with his writings against conventional sexual morality and his advocacy of homosexual law reform (not that he was a pillow-biter himself). His prominence as an anti-war activist and anti-imperialist got him a jail sentence during World War I, and he later campaigned against Hitler, against Israeli aggression, against Soviet totalitarianism,

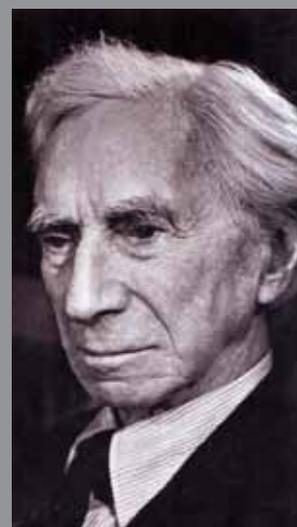


for nuclear disarmament and against the USA's involvement in the Vietnam War. He invariably proved to be right on the money.

While giving tentative early support to the USSR, his 1920 trip to Russia (in which he conversed with Lenin) disabused him of this – he wrote that he was “infinitely unhappy in this atmosphere - stifled by its utilitarianism, its indifference to love and beauty and the life of impulse.” He believed Lenin to be similar to a religious zealot, cold and possessing “no love of liberty” – for a libertarian like Russell, this was intolerable.

He referred to Marxism as a “system of dogma” and, in his first leanings towards geoism, wrote that “as regards the analysis of the power of money, I think that Henry George was more nearly right than Marx”. Russell wrote that socialism wasn't even a proper means

“Every improvement in industry, every increase in the population of cities, automatically augments what the landowner can exact in the form of rent. While others work, he remains idle; but their work enables him to grow richer and richer.”



of securing economic justice although it would generally alleviate the worst disparities of wealth. In time, he also came to side with George on the question of free trade.

The great pity is that a polymath like Russell had too many irons in the fire and never properly prioritised The Great Cause over what are, by comparison, mere intellectual distractions. We all know how tricky it is to convey the enormity of our paradigm, but Russell's eloquence could have rewritten and revitalised our stumbling explanations.

In 1950 Russell was awarded the Nobel Prize in Literature, "in recognition of his varied and significant writings in which he champions humanitarian ideals and freedom of thought". With millions looking up to Russell as a sort of prophet of the creative and rational life, one can only wonder how easier our task might be today with a Russell text on geoism to confidently hand to enquirers.

Quotes

"The mere abolition of rent would not remove injustice, since it would confer a capricious advantage upon the occupiers of the best sites and the most fertile land. It is necessary that there should be rent, but it should be paid to the estate or to some body which performs public services; or, if the total rental were more than is required for such purposes, it might be paid into a common fund and divided equally among the population."

"I would never die for my beliefs because I might be wrong."

"All power to exploit others depends upon the possession of some complete or partial, permanent or temporary monopoly, but this monopoly may be of the most diverse kinds. Land is the most obvious."

Next issue: The 18th century Italian jurist and philosopher, Gaetano Filangieri

HISTORY

Here's a bit of Australia's history you may not have heard of. Ed Dodson sent me this. It's from the May-June **1935** issue of Land and Freedom (based in San Francisco) by Joseph Dana Miller.

Western Australia asks to secede

It is news that has not yet got into the news that West Australia is anxious to secede from the Australian Commonwealth because of the high tariff taxation of the Canberra Government. It is even hinted that West Australia with half a million people is willing to take up arms to enforce its demand if it should be refused. King George and the British Parliament have been petitioned for permission to secede. If the petition is not granted a peaceful withdrawal is to be put to a referendum of the people of West Australia. Either the tariff must be abolished or greatly lowered. In the San Francisco News its correspondent Sam Ewing has interviewed one of the leading business men of Perth, West Australia, who said: "I do not mean to predict in advance what the vote will be. But it is a matter of life and death with us. My state is agricultural. It sells products in the world market. The eastern Australian states have the power to enforce a high protective tariff for the protection of their infant industries. The tax is too much of a burden on our farming community." This presents a very interesting situation. And it can easily lead to civil war. Again let it be said, and it cannot be said too often, that the two causes of war one a primary and the other a secondary cause are the private ownership of natural resources and hostile tariffs.

PROSPER AUSTRALIA NEWS

Latest news from our office manager, Anne Schmid.

We are presently working on getting everything in place for the Michael Hudson Lecture Tour. We are looking forward to having Michael in our midst. It will be a great opportunity to hear one of the world's foremost analysts of the circumstances which have led to the GFC and more importantly the actions needed to set the global economy back on track. It is our aim to gather people who believe that there are alternatives to the present economic chaos and that we are capable of building a society with strong values and an agenda for economic justice.

At our last meeting the Executive paid tribute to outgoing Progress editor, Mr Ed, Karl Williams for his long stint as editor of this magazine. I am sure all our readers wish him well and thank him for all his generous efforts in building up the journal. And so in this edition we welcome Lloyd Churches as the new editor. Lloyd is presently vice President of Prosper Australia and a Trustee of the Henry George Foundation. Please continue to send in your press cuttings, observations and articles which all help to make our journal great. We have also decided that now is the time to give the journal a "new look."

Gavin is leading our fight to have Monash Council retain Site Value Rating. Monash is the last Victorian council to remain on site rating. We are calling on all Monash ratepayers to lend a hand. Gavin can be contacted here at Prosper.

Members still have time to fill in the "member survey" It is really helpful for the Executive to get your feedback and we appreciate the time taken to fill it in. Other news is that Ben has held another successful speedrenting event. And a reminder to tune into "Renegade Economists" on 3CR Wednesdays 5.30pm.

Anne Schmid



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NEXT ISSUE'S THEME IS... ...RESOURCE RENT

Editor: In addition to our general focus, I would like to allow approximately half the content of each issue of Progress to be based on a single theme. In future I envisage connecting themes in Progress with Prosper's events and research and perhaps coinciding with debates in the media, government submissions or bills before parliament although that could take considerable planning.

At our last executive meeting we discussed how mining companies were profiting enormously from mining our resources and how we needed a clear policy on how to collect the rent from resources. So in the next issue I would like to focus on resource rents and answer questions like the following:

Which Australian governments are collecting resource rent taxes and how much? What is the best way to value a mining site? How do we allow for the risks of mining? How is collecting economic rent for resources different to rent from residential land? What have georgists previously written? I don't want to consider all resources, just the non-renewable extractive type

resources including iron ore, gold, nickel, uranium, coal, gas, oil. So send in your thoughts or information you have read that is interesting. Send your ideas to progress@prosper.org.au.

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