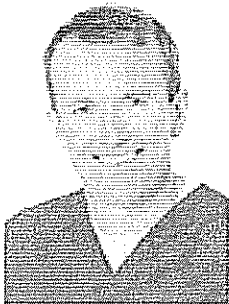


A DIFFERENT SLANT ON PROSPERITY

BY MARK HASSED



A few years ago a friend started sending me emails telling me that the banking system is behind a lot of our economic problems. Naturally, having read Henry George's works, I knew much better and so I politely put him straight and then promptly forgot about the whole thing. I had more important fish to fry and was working on an explanation of why Australia's economic fortunes had declined over the past 40 years. And, clearly they had.

40 years ago it was possible for anyone who wanted work to be employed. There was none of this 10% chronic unemployment we have today. It was possible for young people to get a job without years of training in TAFEs.

We had a standard of living that by whatever way they used to measure it was near number 1 in the world. Housing was affordable and generally good quality. Inflation and interest rates were very low. A single wage could keep a family (and families were larger back then) in comfort and security. Business was buoyant and not tied down with mountains of form filling. We even had a currency that was worth something – our dollar was worth more than \$US1 and more than DM4. Europe was a cheap travel destination!

Then a couple of decades ago things started to change.

Unemployment today fluctuates between 6 and 15% despite vigorous manipulation of the figures. The 30% unemployment among youth would have been considered a national outrage

40 years ago, but now we accept it with a resigned shrug.

Our standard of living is number 17 in the world and heading south, housing costs are rising beyond the means of even solid wage earners, and 2 wages are need to keep a family afloat. Ten Aussie dollars and a nice smile will almost get you a cup of coffee overseas. Forget about that European vacation unless you have serious money to throw around.

So, what happened?

It started to dawn on me that my friend who blamed the changes on our banking system was right. Let me explain.

In a system, such as ours, based on

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outright ownership of land, low land prices lead to prosperity. Why? Because they mean that you don't end up saddled with large amounts of debt in order to gain access to the land you need. High land prices, by contrast, mean that you end up with huge debt and crushing mortgage repayments. Also, high land prices divert capital away from productive activities, such as plant and equipment uses. Ask yourself whether the boom in land prices in Australia created any more jobs.

So to summarise: low land prices lead to prosperity, high land prices lead to poverty.

I believe that politicians 40 years ago were aware of this, but this knowledge has been forgotten by today's pollies to our detriment. Those of you who can think back 40 years will remember how regulated the banking system was. To qualify for a loan you needed to have a 20% deposit saved for 5 years. 15% and 4 years didn't cut the mustard. This restraint on borrowing kept the heat out of the property market.

Also, regular credit squeezes stopped excess borrowing capacity finding its way into property prices. In 1961 Sir Robert Menzies almost lost a federal election because he imposed a strong credit squeeze. You have to believe that either Sir Robert thought credit squeezes were fun, or he knew of their value. Then, successive Federal Treasurers threw the shackles off the banking system. The stated reason was to create competition and to get customers a better deal, but the results have been disastrous.

Today the qualifying attribute for a substantial loan seems to be that you have a pulse. "Is \$500,000 enough or is \$600,000 better?" ask 'helpful' bank staff. This removal of all restraint on borrowing capacity has created a white hot property market. Every Saturday at sites all around Melbourne it is possible to see people bidding frantically for the opportunity to become slaves to the bank for the next 30 years. Last year the median house price in the 'leafy' suburbs of Melbourne rose 20% and in Canterbury 50%.

The deregulated environment has produced record profits for banks, land speculators, and real estate agents. For the rest of us it has been a disaster.

So, what's the relevance to us? We have reached the position that it is time we got things moving in the right direction. We can go on attempting the quixotic task of getting the federal government to impose a land tax, or we may try a different approach.

We could try lobbying for restraint in the banking industry. This is an achievable objective; an objective that the general public could agree on and support; one that the politicians could get behind. After all, who doesn't despise the banks today? Or, we can shrug our shoulders, like I did, and go on lobbying for a reform that every major political party regards as electoral suicide.

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