

GEORGISM

by

STEALTH

Melbourne's Stork Hotel was the venue for the **2007 Henry George Address** on October 16, delivered by the former editor of this feisty little journal, **Mark**

Hassed. Here follow excerpts of Mark's rousing address, interposed with happy snaps from the night.

Australia is a nation of home owners.

The Australian dream is to have a quarter acre, a house, 2.4 children and a mortgage. I won't get in to arguing whether these are worthwhile goals but whether we agree with them or not that is how it is. Recently 60 Minutes ran a program on the stress of having and holding a home. Despite obvious financial, marital and health problems servicing a large mortgage cause one person who was interviewed said he would hold on to his house "till they dragged him out".

Alas, I couldn't manage to catch Mark with his mouth full

Any political party that proposes any policy that is perceived to interfere with the Australian dream of home ownership would be toast. Conversely, any political party that proposes a policy that is perceived to make home ownership easier raises their chances of success.

Now, as Georgists, we all know that land prices will always take up any increases in productivity in increased land prices. This is how we find that we have a highly productive, highly educated, hard working Australian population who find themselves under tremendous financial pressure.

A survey quoted on radio 3LO just last Friday says that 81% of Australians are worried about their level of debt. Think of it. Despite a decade of prosperity and "superb" economic management we now have 4 out of 5 people worried that they may not be able to pay their debts.

Many people today can just about service their mortgages but in a bad week – say when the rates come due – they live on their credit cards. That's why credit card debt is hitting new records every month.

People who are under pressure are not open to new (or old) ideas. They cannot think coherently long enough to follow an argument. They think simplistically and do not follow cause and effect. This is bad for Georgists because understanding our message takes a little applied effort and re-programming of the misinformation we find ourselves swamped in.

It is also bad because it allows people to accept and be electorally wooed by inane, worthless proposals such as the first home buyers' scheme.

What a conundrum we face!

And the situation is not helped by the fact that most journalists, economists and political commentators today get the principles of prosperity plain wrong.

They recognise the problems created by soaring real estate prices and the hardship and debt induced poverty it brings but they do not relate cause and effect.

No sooner than admitting those problems they propose a "solution" that makes the problem worse. Rather than "Industry experts reveal radical rescue plan" I feel a more accurate caption would be "industry leaders reveal radical plan to make their companies even richer."

Feast your eyes on Saul Eslake's & John Symond's proposals. They boil down to tax breaks on interest payments. As we in this room know all this will do is to give the price of properties an upward push until every bit of the benefit ends up being recaptured by property lenders and landlords. Maybe that is what Eslake, who works for the ANZ Bank, and Symond who runs Aussie home loans intend. Every upward move in property values and hence the size of mortgages is worth millions to them.

I feel sure the parents in the audience cannot but feel a bit sorry for their children or grandchildren trying to break into this hot real estate market.

If you believe Eslake's and Symond's "solutions" will help then I have a bridge in Sydney I'd like to sell to you. This is the type of simplistic but politically saleable advice that has produced our current debt levels.

You can hardly open a newspaper today without finding mention of the so called "affordability crisis" in housing.

To people who have "seen the cat" as we all have it almost beggars belief that this economist Eslake can fail to see that land prices always absorb every bit of excess income and leave the average person with a bare living. He notes in this article that in the 1980s with rates at 18% things were tough. Now with rates at half that level things are still tough. We know as Georgists that even if rates fell to 5% it would not improve affordability.

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Unfortunately very many of the general public believe that soaring real estate prices are good and low real estate prices are bad. Occasionally however a journalist gets it right. I was delighted to recently find this article in Time Magazine. It hit the nail on the head. Kinsley writing in the September 3 issue noted:

"Look at it this way: in the housing market, people fall into three categories. Some, mostly young folks, are trying to buy their first home. Some, at various stages of midlife, own a home but will trade up someday, or at least think about it. And some, mostly older, are trying to sell and downsize. Who is served by soaring house prices? Not the first group: rising prices make it hard for those people to get into the game. Not the second group: what it will have to pay for a bigger house is probably increasing faster than what it can get for the current one."



Some of our scholarship students were getting a bit clucky with Tara, K2 & Rayna's new bub

The only clear beneficiaries of rising house prices are those, generally older, who want to sell their home and buy a smaller one or none at all. These people, on average, have benefited the most from the spectacular rise of real estate prices. If they have to forgo part of that windfall, it is no tragedy.

I especially like the analogy Kinsley uses about debt putting "economic history on speed". If that is the case then we are heading for a pretty nasty detox.

In actual fact people almost instinctively dislike being in debt and many realise they are being stitched up by the current system but can't work out how it is being done. The

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dislike debt for the fact that it makes them a slave to the lender but due to our current economic policies and housing prices they have no way out.

What a situation – to know you are being stitched up but to not know how it is being done.

By the way, there is one thing I should be clear on. In most places across Melbourne when I refer to "housing process" or "home prices" the major part and the appreciating part of that price is the land price. For example, the property next door to where I live recently sold for \$2,000,000 despite the fact that the house is only fit for demolition.

So the question has to be asked: Has anyone solved the riddle of creating true prosperity in a way that is

politically feasible? That is, in a way that is politically saleable to the Australian people. Of course, if I am posing the question the answer must be: "Yes, there has been such a person."

In the quest for Australia's greatest Georgist Prime Minister I am going to pose the question: "Who was Australia's greatest Prime Minister?"

There are lots of criteria you could use, some rational, some not. You could say longest serving, best orator, most radical or best adherent to some ideology or other. But, I am going to use a simple test: "Which Prime Minister produced the greatest prosperity?"

There was one Australian Prime Minister who delivered the number one standard of living in the developed world and did it consistently. He was like the famous Melbourne team that won 5 premierships in 6 years during the 50s and 60s – Robert Menzies.

The ALP supporters among you will have just mentally checked out but please stay with me. I have absolutely no party political leanings.

The only true way of measuring prosperity is relative to other comparable countries. Prosperity fluctuates in different eras depending on world conditions. But how you go relative to other countries is the way you can see if you are successful.

While Menzies was Prime Minister Australia won the premiership every, or nearly every, year. We had the number one standard of living in the world, bar none. Since then we have slipped to be a Fremantle or a Western Bulldogs or an Essendon. We are still playing in the big league but not winning premierships like we used to. We are middle of the pack.

To be number one once maybe it is luck, but to be number one over and over for years on end; that is not luck. Menzies knew something.

So, what did Menzies understand that subsequent generations of Prime Ministers have totally forgotten?

I believe that Menzies had an excellent understanding of Georgist principles and that while he knew he couldn't sell straight Georgism to the Australian people he could apply the principles behind it to good effect.

Menzies clearly knew that controlling land prices was essential to prosperity. He knew that any improvements in productivity he made would find their way higher land prices and people would end up on the debt treadmill. In short he understood the primary principle behind Georgism.

But, also, Menzies was a canny politician. He knew that to do anything at all he had to be elected. Having all the good ideas in the world and sitting on the opposition benches counted for nothing.

Great to have newcomer Ed (l) and former Proz Oz vice-prez, Kostas Antoniadis (r), turn up on the night



So, understanding the crucial role of land prices as he did, how did Menzies produce prosperity for the Australian community? This is a question I asked myself for years and the answer to which I am about to share with you.

The first step in unravelling this came in discussion with my father-in-law. He ran a business through the Menzies era. He told me, and I subsequently confirmed it, that Menzies used to have a credit squeeze every 3 years or so. My father-in-law told me that a credit squeeze made business tight but you knew it was coming so you prepared for it.

Today banks only have to check that you have a pulse before offering to lend you a million for real estate

This perplexed me at first. Why would anyone want to make business conditions tight? Why squeeze credit? Why not just leave the pressure off the whole time?

The second piece of the puzzle comes from loan procedures. Today banks only have to check that you have a pulse before offering to lend you a million for real estate. And if a million won't do it, how about 2 million?

But, it wasn't always that way. Some will remember when you had to save 20% deposit and have it saved for 2 or 3 years prior to applying. This was needed because Menzies kept a tight control on the banking system and people's ability to borrow money.

The net effect of these two things – the credit squeezes and the impediments to borrowing – meant that property prices were kept low relative to wages. People, when they finally got into their home, could comfortably afford the repayments. They had no trouble servicing their debt. And, they had a few bob left over to spend on consumer goods (without having to borrow) promoting a robust flow of goods and services.

It was a happy situation. Low property prices – low debt – good ability to spend – robust economy – strong employment – strong currency – happy citizens.



The Stork Hotel is building a reputation for staging plays and theatrical productions of a serious or philosophical bent

If you wind the clock back 40 years you find that an average plot of suburban land in Melbourne cost around 5 years wages for an average worker compared with around 11 years wages today.

So, where did it all start to unwind? Who dropped the ball?

It all started with a treasurer, who was purported to be the world's greatest, and who decided to deregulate the banking system. I remember at the time it was to get us a "fair deal" to use his political rhetoric. Ironically the very thing the measure was supposed to achieve it destroyed.

So, what happened? Firstly, money was dropped into the system.

Then the tap was opened.

And we have been paying for the consequences ever since. Property prices entered a period of consistent and prolonged growth that far outpaced the growth in wages.

Once property prices have been allowed off the leash we experience the situation where people are reduced to a basic living where they spend 30 years as slaves to the bank. That's great for the banks, who are making record profits but not so good for the general public. And, where people are struggling just to afford their home they have nothing left over at the end of the week. Nothing left over to spend buying the goods and services, that is, unless they go further into debt. Not such a happy situation I'm sure you'll agree.

If today's politicians would simply remember the link between increases in productivity and land prices and work to control land prices as Menzies did then we would all be much better off. We would all have smaller mortgages. We would all have more cash left over at the end of the week. We would all not need to be borrowing to survive.

An understanding of Georgist principles is pretty powerful stuff.

So, what can we do as individual Georgists and what can we do as an organisation?

Firstly, I think that we, who have been fortunate enough to have seen the Georgist cat, can let people know what is going on. The message I have just given to you is an easy one to explain and an easy one for people to accept. The land tax message and the full-on Georgist message is hard to explain and most people brand you as some sort of crank for even thinking that land tax is a good idea.

Secondly, we can all start looking for other bright, innovative ways to apply Georgist principles. This organisation and its members have a unique insight into how the economy operates. We need to be looking for new answers and new ways of looking at the world through Georgist eyes. As you see from the Menzies example great good can be done with a little Georgist medicine even if it is applied indirectly.

And thirdly, when we do discover new ways we can lobby politicians with ideas that are politically do-able; ideas that are not politically poisonous. If you and go and speak to your own federal Member of Parliament and talk about land tax they will not listen. I know. I've tried it. Even if you could convince them that Georgism is a good idea (and that is a BIG ask) they instantly realise that it is not politically possible in today's Australia.

As I said at the start, I believe in Georgism and I'd love to have Georgism introduced tomorrow. But that won't happen in today's Australia.

If we, as an organisation can come up with soundly-based, politically achievable ideas then maybe, just may we can become respected and listened to in the halls of power.

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