Intergenerational fairness

By Jesse Hermans

Recently La Trobe's Philosophy Politics and Economics Society and Ideas Society joint hosted an event on Intergenerational Fairness with some good insights into what future generations face – including my own. I was sorely disappointed by John Daley, CEO of the Grattan Institute, for two reasons – his excellent data collection not among them – which sum up my great antagonism toward economics today: federal fiscal deficits (Monetary Macroeconomics) and land affordability.

"The single greatest challenge to the real purchasing power, real welfare and wealth inequality of new generations is unaffordable land prices."

The first issue I take with Dr Daley is his focus in modelling for intergenerational "unfairness" is the increasing government debt and deficits which future generations supposedly have to repay. As students of Modern Monetary Theory will understand, this is complete nonsense.

Federal government bonds are issued as an unrelated after thought in the process of running deficits. They are one possible policy tool, which could be done away with entirely, for preventing excess bank reserves (exchange settlement funds) which net increase with federal deficits (new "base" money creation and accumulate in the interbank lending market, driving down the RBA's cash rate to zero. They are a hangover from the days of fixed exchange rates and exist primarily as a form of corporate welfare for bond purchasers – banks, superfunds and the wealthy who like having risk free assets in their investment portfolios.

The second is what really gets my blood boiling. The single greatest challenge to the real purchasing power, real welfare and wealth inequality of new generations is unaffordable land prices. For context, the conversation at the time was about the need to price carbon, and how pricing water – a scarce resource in Australia – significantly increased agricultural productivity. Earlier Daley had also briefly talked about the housing market and how the issue was land prices. Since the conversation had shifted to pricing scarce resources, I asked:

"You said previously that the problems with housing affordability are high land prices, yet you have also said that we should be pricing scarce resources, including pollution. If land values are increasing because land is becoming more scarce, why aren't we as a nation pricing it with land taxes?"

Daley's response was to cite the Gratten Institute paper on property taxation, then move to his contention that unaffordability was primarily an issue of insufficient supply in the middle rings (of e.g. Melbourne), not enough density and regulatory/planning issues.

I was disappointed Daley failed to link pricing scarce resources such as water and land, and resorting to debunked mainstream rhetoric that the high land price is simply a matter of "regulation" and insufficient "dwelling supply/density". These have little to do with land price per m2 since a higher (legally sanctioned) productive use of land usually capitalises into higher land prices per m2, which then offsets major gains in the aggregate affordability of land price per dwelling; less land use (higher density) is offset by increasing land values per m2.

While it is true that urban growth boundaries do cause high prices by artificially restricting land supply (sterilizing land outside the boundary), this was not explicitly recognised by Daley; nor does it address fundamental imbalances and problems – which exceed the imbalance which employers would have over employees were there no standards, protections and other balancing measures in the current workplace relations system – that exist in the land market between landowners/developers and buyers/tenants. Furthermore it fails to acknowledge the poor "land productivity" of existing land, as well as ignoring how some countries with very little land such as Singapore, manage to overcome their land shortcomings and still provide affordable housing for their citizens.

As you may or may not be aware, the areas with the biggest land price booms in Australia – Melbourne and Sydney – are in dwelling oversupply.

The annual Speculative Vacancies report by Prosper Australia proves many properties lie unoccupied . Many exist purely as capital gains investment vehicles. This is certainly not a productive use of land. Additionally, Australia's developers are accumulating – land banking – decades of supply and drip feeding it into a market experiencing a "supply crisis". There is no current market mechanism to prompt the early release of developed land.

Furthermore, apartments not fit for human living known as "dog boxes" continue to be sold to investors who then struggle for tenants. The result is owners (usually foreign investors) simply sit on them and await capital gains in the land value.

> *"There is no current market mechanism to prompt the early release of developed land."*

This demonstrates there is no current market mechanism compelling landowners and developers to develop demanded dwellings which will quickly find willing tenants (meet demand). A market mechanism which would force landowners to quickly find tenants – thus forcing them to build demanded dwelling stock and release it quickly, would resolve this issue efficiently and effectively.

The point is the new generations do not suffer from lack of affordable land because of "insufficient dwelling density" or "bureaucratic planning regulations". These are certainly contributing factors – including the corruption which comes along with zoning and permits, but the biggest fundamental obstacle lies within Daley's own words (paraphrased) "Housing is a [significant] savings [vehicle]".

Land has been commodified, becoming a rentier's get rich without work (or relative investment risk) scheme that rewards highly unsociable behaviour at the expense of wage-earners, entrepreneurs and the landless.

Bankers and landowners profit from the community created land rents which arise from the natural increasing scarcity of land, and increases in land values which arise from public and private investments made around the land. Meanwhile the public is sold the necessity of taking out mortgages spanning decades – for their share of the commonwealth (land value), which is theirs by birthright – to ensure their "foot on the property ladder" will provide them with a retirement without poverty. Yet to rub it in, we are told by asset rich income poor millionaires that made it onto the ladder they need our support.

Until our society ends this commodification of land and our commonwealth, until the individual's equal birthright to the soil is enshrined, until we collect the socially created land rents which give our land value; there can be no intergenerational fairness.

If we continue down this well-trodden path, land will inevitably concentrate in the hands of the old and wealthy through inheritance (e.g. England), wealth inequality will accelerate as land prices increase and future Australian generations will become landless serfs in the very lands their ancestors fled to (some unwillingly as convicts), to escape the serfdom which existed in their ultra-concentrated, land baron societies.

The beginning of "worse off generations" is merely the euphemism for the beginning of neo-serfdom: Where the landed, financial gentry extract all of the free unearned lunch which our society creates, while forcing those who continue to work and produce to pay the entire tax bill via increasingly regressive and distortionary taxes. This is an unsustainable social and economic structure – a time tested, failed institution which must not continue; else our society fails as all others before it.

The solution is simple. Henry George 1839-97 figured out you could ensure an equal per capita distribution of land value by simply taxing land rents (which cannot be passed on and falls solely on the landowner) until the capitalised price of land falls close to zero, completely eliminating barriers to entry in the land market; then issues the surplus as a per capita dividend.

Thus everyone receives their share of the commonwealth (community created land rent); anyone who wants to use more than their share simply ends up paying more land tax, anyone who uses less than their share can keep the cash as compensation – a sort of basic income for those who own no land. Land must be used productively, forcing developers to develop what the buyers and renters demand else they find themselves with no tenant or buyer and a recurring tax liability. This system can also be used to remove damaging taxes by allocating a portion of the land tax revenues to that end. Eliminating Stamp Duty, payroll tax and the regressive GST come immediately to mind.

Transitions appear challenging; however it is now a choice of what we transition to. We can continue down this failed path, or try one of the many transition plans engineered by dedicated land reformers. The problem is only insurmountable if we think it so.