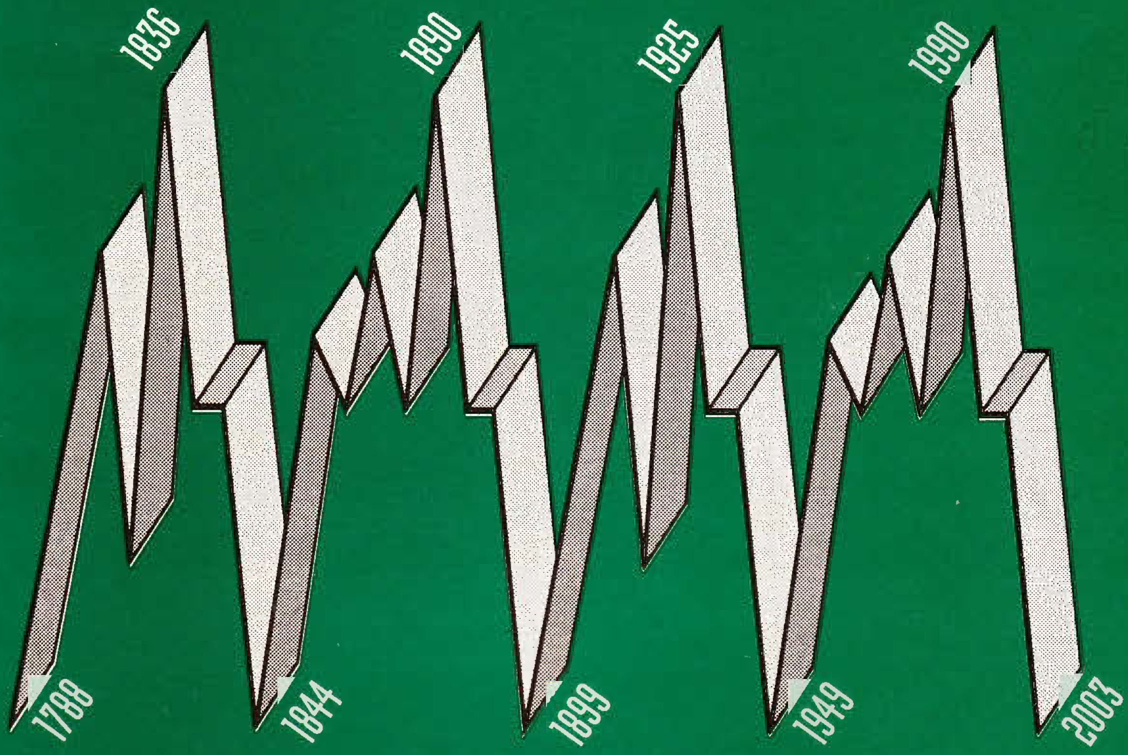
THE RECOVERY MYTH



Bryan Kavanagh

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A Positive Response

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The Recovery Myth

The Need For A New Vision

Western analysts at first portrayed revolutionary turbulence in Poland, the disintegration of the USSR and Yugoslavia, collapse of the Berlin wall, and turmoil across the whole of eastern Europe in terms of the fatally-flawed Marxist economy. However, as free markets in the West have also ground into recession, there is growing apprehension among their peoples - if not their experts and institutions - that something is terribly amiss.

In view of the monumental scale of these events, it could be therapeutic for economists to contemplate the *possibility* that economic depression is settling across the globe - but they remain in denial phase, claiming that hesitant economic growth during 1994 signifies a technical end to recession in the West. For people intelligently contemplating the implications of record levels of public and private debt, high unemployment and gross under-investment, the advent of consecutive quarters of economic growth *per se* is a ludicrous manner in which to define economic revival. Modern economists appear to have lost all touch with reality and to serve only a ceremonial function within society. Both facts and common sense declare them benighted in their optimism.

The media have nevertheless seized upon the news of recovery uncritically, choosing to ignore that its bearers are the same people who failed not only to predict the economic downturn, but who have an unequalled ability for 'getting it wrong'.

Therefore, we have to look more broadly than conventional analysis in order to understand the social and economic upheaval that surrounds us. We need to develop an overarching perspective: one that throws light on historical trends. ***The Recovery Myth*** seeks to do this by offering an economic interpretation of critical events over the last 200 years, together with a study of recent Australian figures which complements this thesis.

Ruthven, Batra and Harrison: Three Seers

From different continents, three analysts did emerge from the ruck in the mid 1980s by boldly forecasting economic depression in the 1990s. That their reputations remain intact and untarnished ten years on distinguishes them from the vast majority of their peers.

After founding IBIS Corporate Services in 1970, Australian **Phil Ruthven** built up an enormous data bank of figures culled from files in public libraries and from the Australian Bureau of Statistics (ABS). He examined long-held data on the national accounts, and details on the production of all manner of goods and services in the 200 years following white settlement. Painstakingly graphing the data, he observed that each analysis displayed regular cyclic waves. Even items with a recalcitrant spread of data points tended to describe the familiar pattern after he had fitted something similar to a tube or pipe around their extremities - the 'pipe' itself then forming the regular waves.

Ruthven's presentations to business organisations were fresh, stylish and eminently quotable. In 1987, he told **The Age** in Melbourne: "*Since 1975, our economic growth has all been force-fed by deficit spending. If you deduct that, our average growth has been minus two percent a year. The Australian public has been conned by fiscal morphine for more than a decade. Morphine is a good painkiller and heart-starter, but we have been mainlining.*"

His analyses permitted him to forecast with 'a benign certainty' in the mid '80s that "*Australia's social and economic life is in for a decade of turmoil*". (ibid.) He softened the gloomy prediction by advising that there would be strong job growth in outsourcing services, including cleaning and gardening - and that a new golden age was in prospect from the outset of the new millennium.

Ruthven's prognostications were ruggedly different from other commentators - and more reliable. His commentaries vividly describe the acts and omissions that made economic depression inevitable. He failed though to provide a final solution for economic 'busts' - settling for Australians increasing their level of savings, adopting 'world's best practice', and such adaptations to unemployment as job sharing.

Earlier in the US, academic economist **Ravi Batra** foresaw global depression and social revolution from 1990. In arriving at his conclusion, he had linked the 50 to 60 year 'Long Wave' cycles observed by Russian economist Nikolai Kondratieff to periods of government regulation, inflation, and growth in the money supply: these appeared to choke off prosperity every third decade. It was a repetitive process in which wealth became concentrated in fewer and fewer hands, and in which inflation increasingly robbed the vast majority of people of their purchasing power. Importantly, like Ruthven, Batra sees the 1990s depression as an opportunity to shed the excesses of communism and capitalism alike - a precondition for the emergence of a new economic synthesis.

Supporting his words by action, Batra set up a body, SAD (Stop Another Depression), to try to forestall another depression. He urged a new taxation policy for the US, having as its cornerstone a federal tax on all real estate except the family home.

Meanwhile, in the UK, journalist and economist **Fred Harrison** had published **The Power in the Land** in 1983. The book studied land markets on four continents over many years, and demonstrated that recession had less to do with confidence, greed or stock market failure than it had to do with land booms.

Harrison showed that cyclic real estate booms burst every eighteen years - at all times being followed either by economic recession or depression. Following the land boom peak in 1972, the scenario was that: "*...the Western economy will recover and enjoy 18 years of growth before tail-spinning into yet another deep-seated depression of even greater magnitude than the structural recession which began in 1974.*" (Harrison, p.302)

He demonstrated that the heavy and arbitrary incidence of taxation acted as the catalyst that channels funds away from capital investment and into land prices - and that cycles of recession and depression were cemented into the capitalist structure by taxation, land monopoly and speculation. His studies cast light upon why the idea of 'the level playing field' had proven to be illusory and the 'free market' an absolute myth under present forms of capitalism.

"*These rules had been sanctified by Adam Smith. So working people were forced to use the system of withdrawing their labour as the only counter to the unequal power of the landowner and the capitalist. Thus was born a system grounded on the principles of deprivation and conflict.*" (ibid., p.30)

Prophets may not actually see the future, but they do witness a truth which the broader community has yet to perceive. As a result of their penetrating historical studies, the prophecies of Ruthven, Batra and Harrison were broad-visioned and practical, while their fellow analysts put their faith in lagging economic indicators, such as in movements in the GDP, or in theoretical models having no real world application.

Quite independently, the three men had criticised huge expenditures and unnecessary debt involved in purchasing land, stating that there were negative implications for investment and demand in so doing. Harrison saw the remedy to this situation to be "*... a 100% tax on the annual rental value of all land, and a simultaneous reduction in other forms of taxation.*" (ibid., p.17) Of the three economic prophets, Harrison's arguments appear to be the most intellectually rigorous. He not only establishes the cause of the *process* that leads the world to regularly repeat economic mayhem, but incidentally offers a scientific explanation for the 'long wave cycles' observed by Kondratieff.

Understanding Cycles

Nicolai Kondratieff first sketched the theory of long wave economic cycles in 1922, in **The World Economy and Its Condition During and After the War**. **The International Encyclopedia of the Social Sciences** says:

"The analysis of smoothed deviations from the trend of a collection of 36 annual price, value and physical quantity series for the United States, the United Kingdom, France and Germany led Kondratieff to suggest the following dating of long waves: (1) from the end of the 1780s (or beginning of the 1790s) to 1844-51, with a peak in 1810-17; (2) from 1844-51 to 1890-96, with a peak in 1870-75; and (3) a rise from 1890-96 to 1914-20, when a decline probably begins."

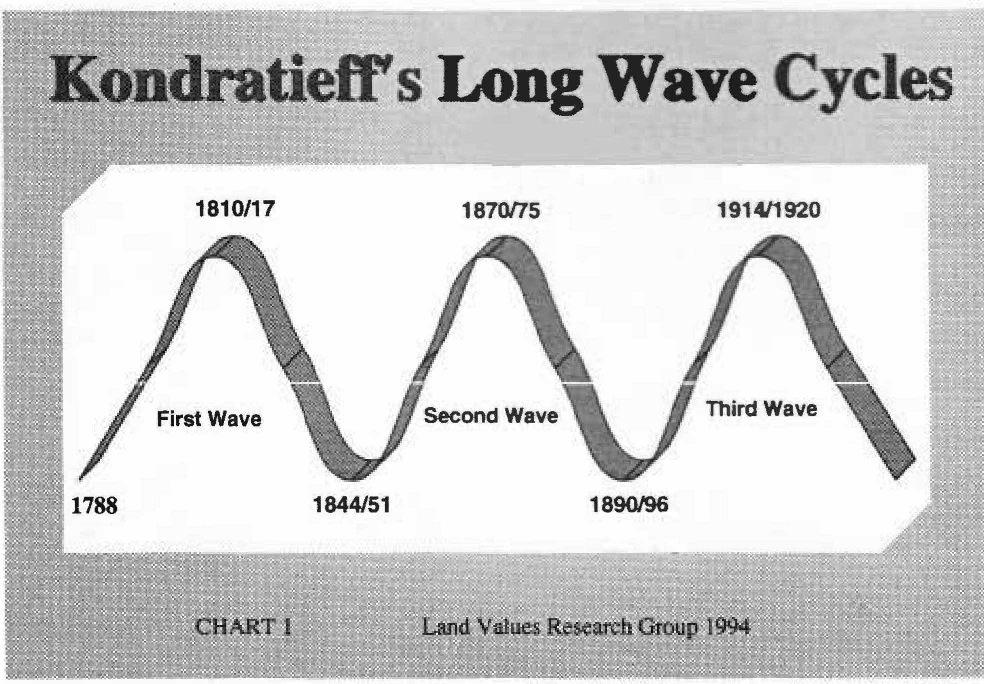
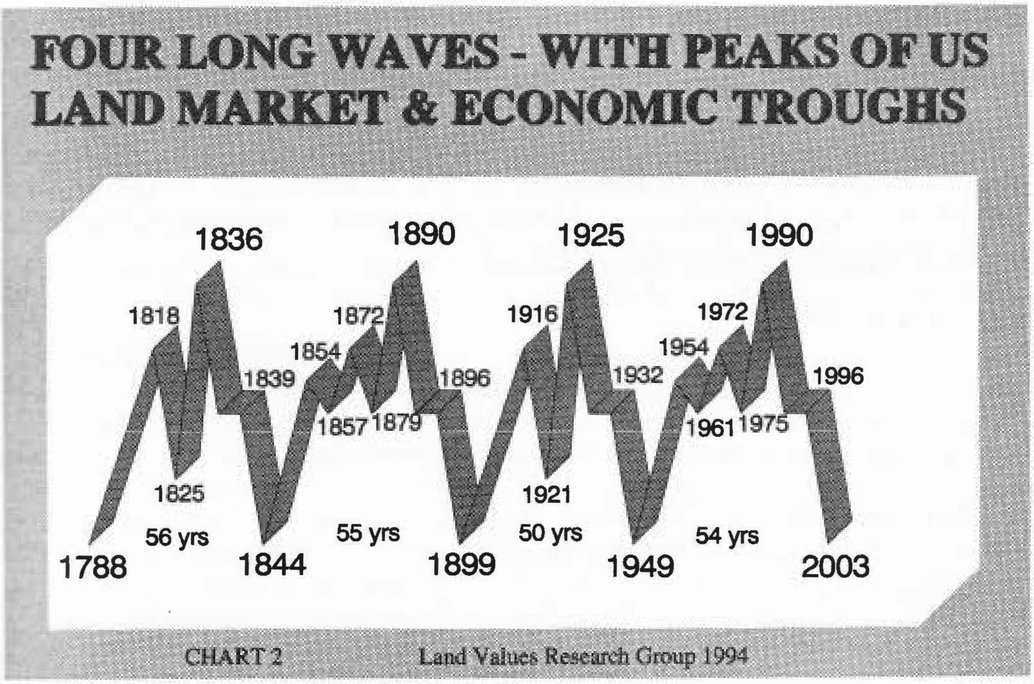


CHART 1 Land Values Research Group 1994

Stirring events are evident at the depression at the bottom of each cycle. Immediately preceding the first cycle shown, the US had fought and won its war of independence from Britain; the French had overthrown the system that had subjugated them, and the young William Pitt skilfully averted revolution in the UK, amongst other things, shipping the excess of his overflowing prisons out to the new colony at New South Wales. **Chambers Encyclopaedia** says that it had been a period of: *"many-sided attack upon the entrenched privileges of aristocratic landowners, clergy and office-holders, and upon the forms of royal absolutism that sheltered this structure of privilege."*

Kondratieff suggested that spurts in reinvestment of fixed capital were connected with economic upswings, but he had no complete theory to explain the phenomena of long waves. They are pictured diagrammatically at Chart 1 as regular trend curves, but it is instructive to add at Chart 2 the sharp peaks of the US land market, together with economic troughs. The US land market has strong similarities to those in other Western countries. The graph represents a *schematic* view of Harrison's thesis - suggesting that economic troughs follow speculative peaks in the land market. Importantly, the collapse of the peak in the final leg of each cycle forewarns of the depression that defines the period of a Kondratieff long wave.



Each of the long waves can be subdivided into four phases, viz:-

1. Growth/Boom Phase
2. Recessionary Phase
3. False Boom Phase
4. Recessionary (Pause) Depressionary Phase

A brief historical examination of these follows. There are, of course, smaller fluctuations within each phase. Note the extrapolation to features in 1996 and 2003, and, with the exception of the third cycle, the *regular 18 year land boom peaks.*

1. Growth/Boom Phase - 20 to 30 years

There is an initial period of up to ten years tentative capital investment along the lines described by Kondratieff, ascending from the trough of the previous period of economic depression. After that, growth expands into booming prosperity and liberalising social attitudes.

As governments levy higher taxes to fund ever-expanding programs, however, individuals and businesses begin to seek unearned income in land price increases, assisting them to avoid escalating taxes - and variously granting them greater security, authority, power or privilege.

Land prices continue to rise to meet the demand, and banks create credit based on the 'security' of the inflating land price. As inflation increases, others are impelled to participate, as 'a hedge', because no other form of 'investment' is as lightly taxed nor grants such benefits. Because well-located real estate is in short supply and levies on real estate are an insignificant proportion of revenue, there is little incentive to 'play the game' - that is, to compete. Real estate might simply be held off the market, even if underutilised or idle: big money will be paid for it eventually.

CYCLE I: 1788-1818

The era of industrialisation commences, the use of rivers and canals often complementing roads for transport. The benefits of industrialisation foster international trade and create higher real wages - despite wars between Britain and France, and Britain and the United States. Inflation grows from 1800, and the land boom bubble bursts in 1818.

CYCLE II: 1844-1872

There is gradual recovery from the depression of the 'Hungry '40s'. Railways are established and expand, creating boom conditions. In 1854 the property market collapses, resulting in a recession. The steamship evolves. Gold rushes encourage immigration to the new world. Economic growth turns inflationary. US Civil War takes place from 1861-1865. The land market peaks again in 1872.

CYCLE III: 1899-1916

The world gradually recovers from the 1890s depression, including the 'Panic of '96.' Development of electricity, steamships and the motor car continues. There is heady growth and prosperity. Universal suffrage and women's rights are at issue. Inflation occurs from 1910. World War I breaks out in 1914. The real estate market peaks in 1916.

CYCLE IV: 1949-1972

A strong growth period follows the 1930s depression and World War II. This particularly features further development of the electronics, aviation and motor vehicle industries. Solid trade and growth during the 1950s and 1960s is interrupted by a credit 'squeeze' at the outset of the '60s. There is soaring public and private debt, and skyrocketing land prices and inflation in the early 1970s. The Vietnam War (1965-73) turns costly and unpopular.

2. Recessionary Phase - 3 to 7 years.

A short postwar recession follows the peak of each land boom. It damages speculative developers and puts severe strain on both the more adventurous lenders and the least protected members of the community. There is distress among workers and within the financial system.

CYCLE I: 1819-1825
Tariffs are imposed and increased by conservative government. Property speculators fail. There is a banking crisis in 1819. Unemployment increases.

CYCLE II: 1873-1879
High levels of debt follow the Civil War in the US. In the aftermath of the land boom, stocks and bonds collapse in 1873, leading to financial crisis and unemployment. A conservative government is elected.

CYCLE III: 1917-1921
High interest rates prevail. Financial panic occurs when the stock market falls dramatically again. Production falls and unemployment increases. A conservative government is elected.

CYCLE IV: 1973-1975
High interest rates and runaway inflation follow the peak of the 1972 land boom. Financial and unemployment troubles result. They are blamed on the 'oil crisis', although that was only part of the story. Conservative government elected.

3. False Boom Phase - about 10 years

Unlike the earlier land boom in the cycle, this phase is based mainly upon a feeling of confidence that the recession is over. It is ultimately a speculative era. Some technological innovation does occur, but capital investment is grossly inadequate. During this period of up to fourteen years, the economy not only 'recovers', but culminates in a bout of speculative frenzy that far surpasses the earlier boom.

CYCLE I: 1826-1836
The coming of the railways leads to runaway land speculation. Commodity speculation also occurs.

CYCLE II: 1880-1890
The Roaring Eighties': uncontrolled railway expansion leads to land booms. Government debt increases. Protectionist sentiment is to the fore.

CYCLE III: 1922-1925
'The Roaring Twenties' witnesses money growth and credit expansion (rising public and private debt), the decline of agriculture, euphoric confidence, rising stock and land markets. There is social experimentation and search for self-fulfilment. Financial pirates abound.

CYCLE IV: 1976-1990
The 1980s 'Decade of Greed' follows the 1970s recovery. Land values escalate, accompanied by growing money supply and inflation - and unprecedented levels of debt. There is enormous growth in electronics, especially in computer technology. The period is characterised by mega deals, 'paper shuffling' and company fraud. The stock market collapses in 1987. Saving and Loans bodies fail. Under the weight of impossible levels of taxation, Marxist systems collapse - except in China. The land boom peaks in 1990.

4. Recessionary (Pause) Depressionary Phase - 8 to 23 years

The land market practically halves in value, precipitating serious recession. Company failures, bankruptcies and high unemployment follow. People rail against free trade, and extremist groups arise, scapegoating ethnic minorities for growing social problems.

A brief respite follows the initial shake-out, during which time stringent debt reduction programs and the shedding of employment has been undertaken, especially in the public service. Gambling is seen as a creative means to collect tax and to offer people hope at the same time. The quiet before the storm is referred to by politicians and experts as 'the recovery'.

Finally, just as things are starting to look up - the stock market having recovered to former record levels (and the property market now stabilised) the secondary collapse occurs. The share market bottoms again, land prices contract further, and the financial system is in tatters. Strikes, riots, debt repudiation and increased crime are common. The depression is socially damaging in the extreme and lasts up to 23 years.

CYCLE I: 1837-1844
Property collapses. Recession: 'Panic of '37'
Pause: Shake-out; some recoveries, including the 'cotton boom' of 1839.
Depression of the 'Hungry '40s'.

CYCLE II: 1891-1899
Real estate collapses. Economies begin to falter from 1890; 'panic of '93'.
Pause: shake-out; 'recovery of 1894-95'.
General collapse: 'Panic of '96' confirms world depression.

CYCLE III: 1926-1949
Recession: the real estate market collapses in 1925 and shares fall 85% in value in 1929.
Pause: Stocks recover; other modest recoveries.
The 1932 depression occurs worldwide, not ending until after WW II, although it is sometimes wrongly considered to be earlier.

CYCLE IV: 1991-2003
Following the collapse of the property market, the early '90s recession sets in.
Banks falter and fail. Bankruptcies and unemployment are widespread.
Pause: In 1993/94 share markets reapproach their record 1987 peaks. GDP growth occurs, signifying that debt-reduction may be working. Trade wars threaten.
1995/96: (Projected) Share markets fail, creating financial and social disaster. Major wars loom over territorial and distributional problems.

How Australia Fits The Cycle

Even the above perfunctory outline of the last 200 years of economic history is sufficient to validate Harrison's analysis of the key role played by land booms in precipitating economic downturn. It is remarkable, then, that Western governments, their central banks and bureaux of statistics, all fail to record and analyse data on real estate expenditures other than building commencements. This hamstrings economic analysis and leaves governments reacting to events, rather than controlling them.

In an attempt to rectify this omission, the ***Land Values Research Group*** has quantified the real estate market in Australia in recent years in order to assess the depth of the Australian recession, and to estimate the proximity of economic recovery.

The following table contains total **sales** for the whole of the Australian real estate market. In addition, total real estate **values** and levels of national income and total taxation (at all levels) are given, in order to have other economic references to the scale of the property boom. Real estate data was collated from information becoming increasingly available from official sources within the six states and two territories of Australia.

YEAR	No. OF SALES	VALUE OF ALL REAL ESTATE SALES	TOTAL VALUE OF ALL REAL ESTATE	NATIONAL INCOME	TOTAL TAXATION AT ALL LEVELS
1984	556145	$36.339bn	$464.792bn	$157.882bn	$56.544bn
1985	536136	$38.445bn	$520.574bn	$175.208bn	$66.272bn
1986	513473	$42.308bn	$553.870bn	$192.772bn	$73.544bn
1987	514932	$50.020bn	$639.548bn	$210.838bn	$83.024bn
1988	654106	$77.003bn	$785.884bn	$239.961bn	$94.476bn
1989	661503	$87.709bn	$1021.428bn	$273.854bn	$106.269bn
1990	486412	$65.654bn	$866.666bn	$299.251bn	$115.589bn
1991	490267	$61.993bn	$824.670bn	$304.297bn	$119.405bn
1992	530606	$66.428bn	$715.000bn	$310.831bn	$115.065bn
1993	545390	$71.392bn	$750.000bn	$329.863bn	$117.723bn

The *value* of real estate sales was double at its peak in 1989 what it was in 1986, while the *number* of sales was up 29% - signifying a remarkably speculative increase. This had the effect of raising total real estate values about 1.9 times in the same years. However, following collapse of the market, $306 billion in land prices was written off the value of Australian properties to June 1992 - equivalent to one year of the national income.

[The Australian Financial Review 3/2/1994 reported that the collapse in Japan has wiped about $A14 trillion off real estate and share values to the end of 1993 - 2.5 times the Japanese national income. One therefore suspects that the depth of their resulting economic and social problems may prove to be even greater than those of Australia - despite the hitherto great strength of the Japanese economy.]

Chart 3 compares Australian real estate and Stock Exchange (ASX) sales. $469.2 billion went into both markets between 1986 and 1989 - *equivalent to* 51% of the national income for those years. Sales of shares increased 450% in value in the three years to the $68.2bn peak in 1988, while the value of real estate sales increased by 140% in the four years to its subsequent and higher peak at $87.7 billion in 1989.

The shapes of the graph of real estate and share markets have some notable similarities, there being a closer relationship between the two markets than is generally appreciated. Much of the asset backing of shares remains underpinned by interests in real estate. While each market serves a valuable role, neither is flattered by the frenzied speculative 'bubbles' evidenced in the chart.

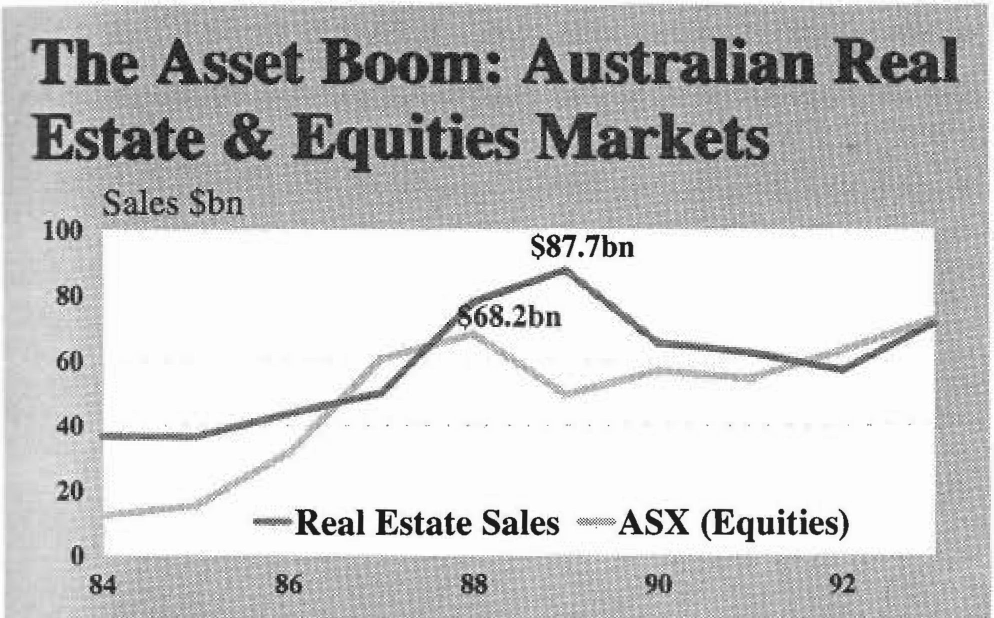


CHART 3 Land Values Research Group 1994

Sales of shares outperformed the property market in the financial year before the October 1987 'crash'. Downturn of the share market then promoted further investment in real estate. The 1990 real estate 'bust' resulted in share prices spiralling upwards again - capitalising to 45% of total real estate values - when traditionally they are about 25%. This is dangerous, because although high real estate values supported the value of shares when they collapsed in 1987, they no longer do so - property values having declined 30% on average. Therefore, the ASX and the bourses of the world seem to overrate the business (or non-real estate) value of shares at present .

Despite the construction boom - epitomised by Victorian premier John Cain's boast of 77 cranes on the Melbourne skyline in 1989 - the real dynamic in Australian real estate during the 1980s was the *land* component. The **land share of real estate value** (LSREV) in relation to sales in 1989 was $61.4 billion, or 70% - equivalent to more than 22% of national income.

The more telling statistic, though, is that while the LSREV increased by a factor of 1.75 between 1972 and 1989, it almost trebled in relation to national income. This is a critical factor. ***Australia clearly entered disinvestment mode in the '80s***. Producers were losing ground to those who had been encouraged by the tax system to speculate or 'rent-seek' in real estate.

To further understand the '80s land boom in Australia, it is necessary to investigate what was happening to the taxation system at the time.

How Taxation Promoted 'Hedging' Into Real Estate

It is arguable that Commonwealth, State and local governments would have been doing very well to maintain their revenue at a fixed percentage of the Australian national income, which had risen by 527% between 1972 and 1987, or from \$33.623 billion to \$210.838 billion. But *in addition* to this growth, total taxation at the three levels of government rose another 34.5% - from 29% to 39% of the national income.

As the **Income Tax Assessment Act** (ITAA) took more and more of the earnings of Australians, they reacted logically by turning to capital gains and other benefits that it offered to real estate investors. While the ITAA stimulated their desire for property, people were oblivious to the dangerous bifurcation that was arising between production and speculatively escalating land values (Chart 4).

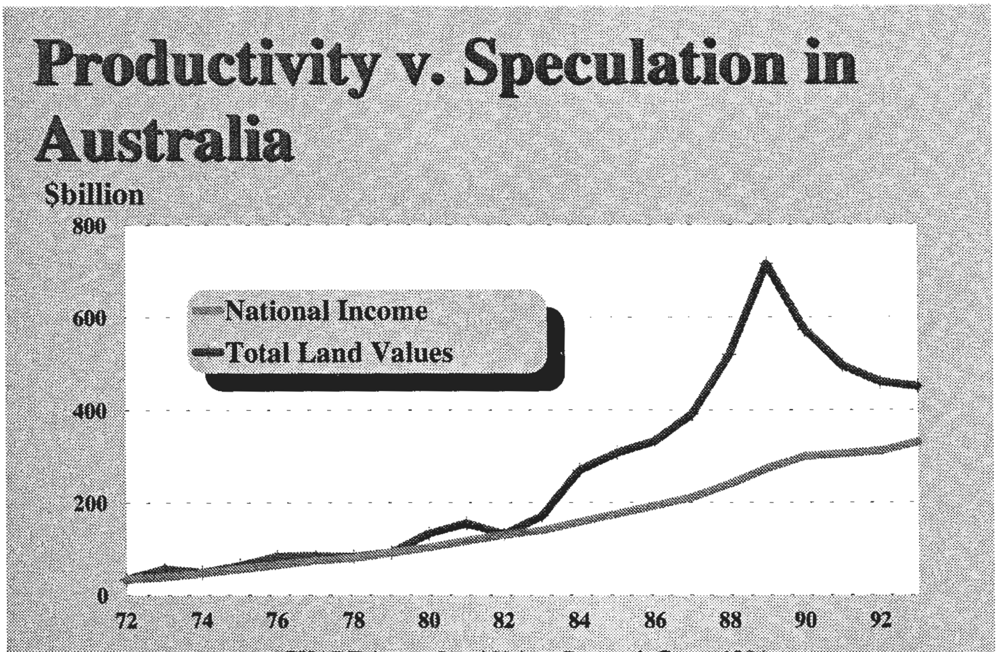
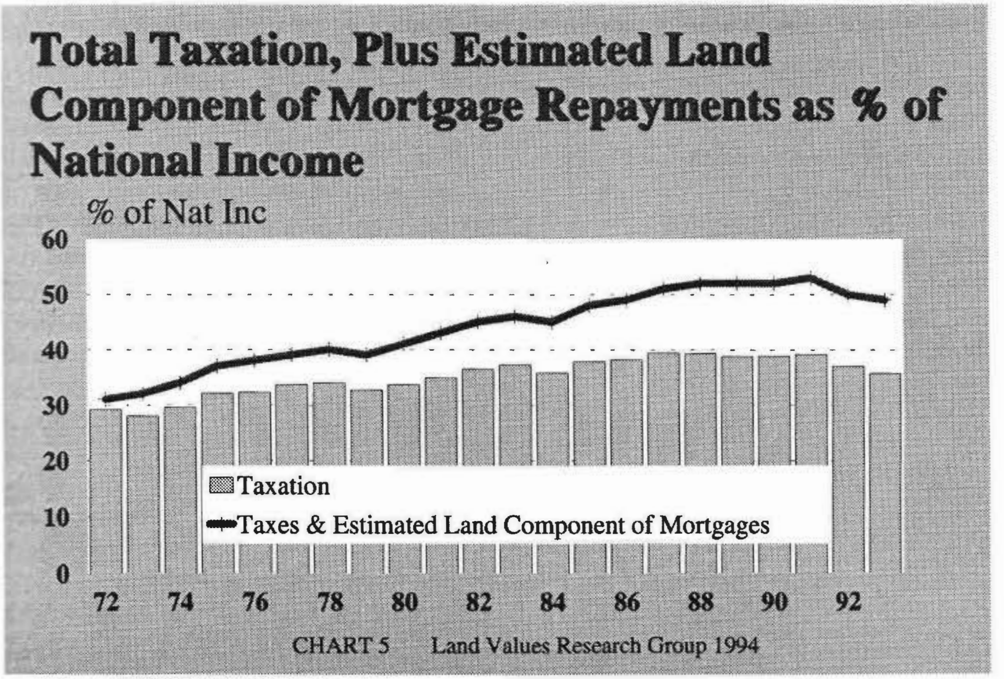


CHART 4 Land Values Research Group 1994

'Bracket creep' rather than legislation accounted insidiously for much of the increase in taxation. That is to say, the combination of wage increases and inflation put many lower and medium income earners into income tax brackets originally designed for top income earners. New taxes and stricter compliance procedures, under the euphemism of 'tax reform', accounted for further increases at federal level.

Whereas Australians paid the equivalent of 33% of the national income in wealth inhibitors - ie. taxes and the *land component* only (principal and interest) of their mortgages in 1972, by 1991 they were paying 53% in this form - a staggering increase of 60%. (See Chart 5.) The economic situation of most people had become untenable. Stress characterised family circumstances; many new mothers were denied the choice of remaining at home for any lengthy period with their infants, in order that they helped to service the family mortgage and other borrowing that had become necessary just to 'stay afloat'.

Armies of Australians fought either to administer or escape from the effects of the million words and 5250 pages of the **Income Tax Assessment Act**. By the early '90s the battle-ground had become littered with the bodies of corporate and private victims. As the country blew a fuse over the direct results of taxation, sections of the welfare and charity industry were still heard to mutter that Australia was not a highly-taxed country. Because they had consumed less poison than other nations, it seems Australians needed to take more.



Increasing Land Prices v. Economic Activity: The Leading Economic Indicator

Before Harrison's projected economic collapse set in, bureaucrats had merely been 'keeping the books' on the Australian economy - Treasury and the Reserve Bank again having missed the opportunity to use the relative level of real estate activity as a long range forecasting tool. They nodded wisely about speculative activity immediately *after* the real estate bubble had burst - but were not perceptive enough to suggest action that would prevent its effects continuing to reverberate throughout the economy. Nor, even then, did they bother to quantify the extent of land speculation that had occurred. A new boom in residential lending for housing and for debt consolidation set in, replacing the 1980s boom in the residential, industrial and commercial property markets.

Extravagantly embracing the touted recovery, Mr Keating and his treasurer, Mr Willis, have reacted by applying damaging penalties on home lending - rather than further reducing taxes to foster capital investment. Their action ensures that the savings and investment necessary for economic recovery cannot now happen. Official concern remains only with tackling possible inflationary outcomes. Addressing the initiatory cause of Australia's *real* plight, and getting to grips with inflation in so doing, is not even on the agenda.

It is illuminating to plot at Chart 6 Australian real estate sales *in constant 1972 dollars*. On the assumption that governments *will* again lack the political courage to deal effectively with the onset of depression - as in the final 'leg' of previous cycles - the chart has been extrapolated after 1993. Although early '94 figures are suggestive of an amazing secondary sales peak which rivals that of 1989, this seems to be largely 'numbers-driven' (including continuing 'distressed sales' at lower values) rather than a new *speculative* peak which would affect the 'ledge scenario' in Chart 2.

The sheer enormity of the 1989 land boom and subsequent sell-off (plus the attendant high levels of public and private debt that these have generated) confirms that we are indeed balanced on the final ledge of the depressionary precipice. If a secondary shock - for example, a share market collapse - is overlaid against Australia's already tenuous economic circumstances, a slide into depression can be seen to be the inevitable result.

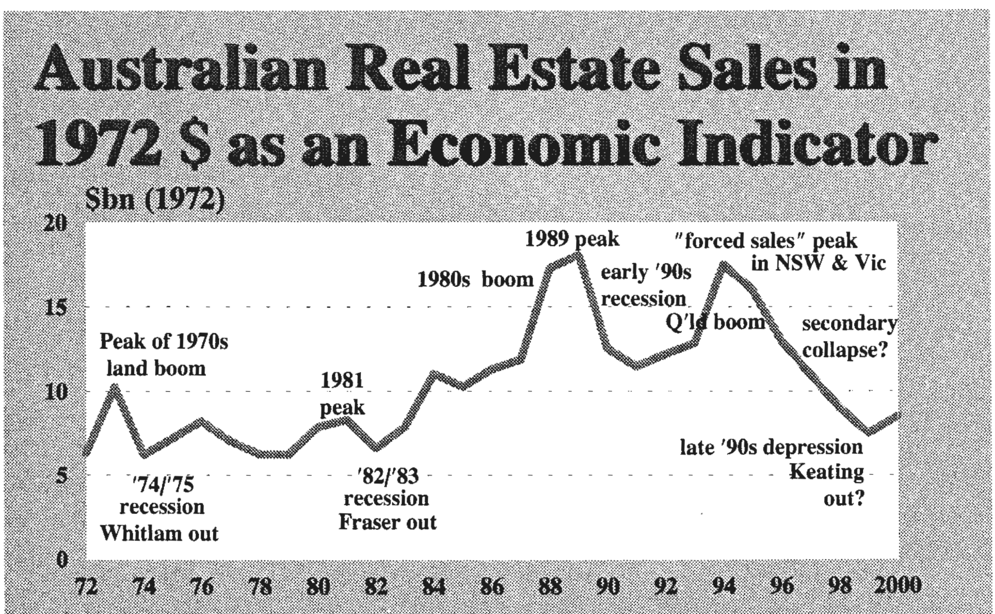


CHART 6 Land Values Research Group 1994

The deepest point of the *economic* depression could be about 2003 - in its usual lag against real estate. It is quite probable that international friction generated by the depression will again lead to war. Recovery will possibly gather pace after that. If the chart does not paint an immediately optimistic picture, in view of the unaddressed structural problem, it can be seen to be fairly realistic, nonetheless.

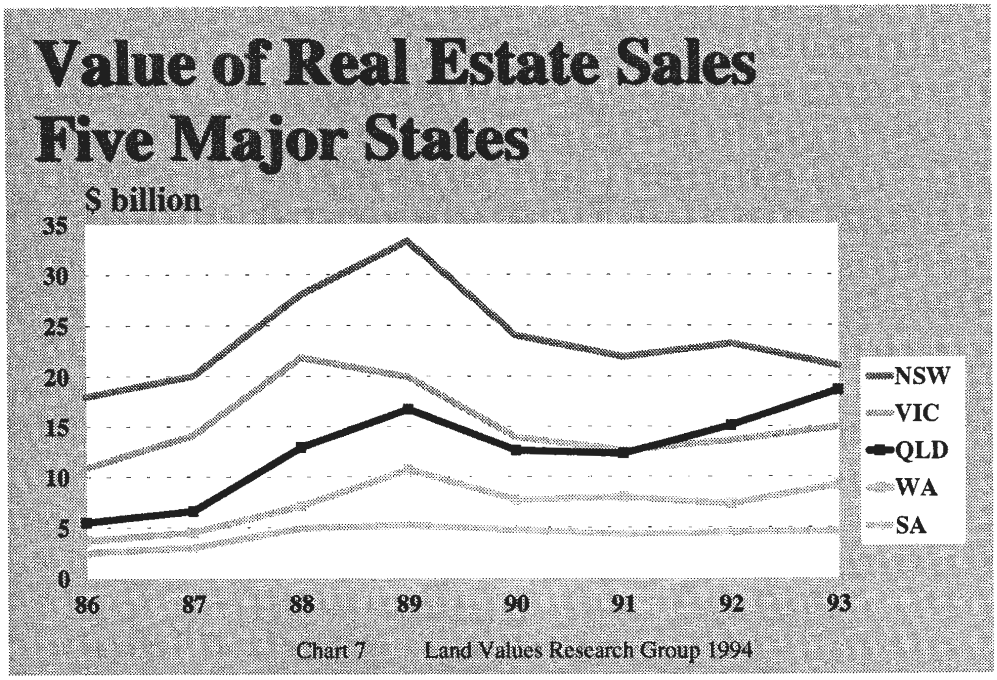
The graph has a secondary use. It records that political outcomes are usually driven by economic factors. Although the media may portray a change of government in terms of how people may perceive party leaders and their policies, the Australian electorate's dismissal of governments appears to follow periods of economic distress. When the electorate's 'hip pocket nerve' is sore enough, it will cast a government from office. It is all too often a case of 'out of the frying pan into the fire', though, as the incoming government has no inclination to tackle the thorny residue of speculative rent-seeking either: "We can do anything but address that. It offends powerful interests, and would be political dynamite." It is possible that anger at the effrontery and apparent irrelevance of political parties worldwide stems from perceptions of such cosiness with influential interest groups, and a remoteness from the aspirations of their peoples.

Analysts who wrestle solicitously with the latest movements in share and currency markets, or who canvass the future direction of inflation and interest rates, all fail to factor in that the economy was set firmly on collision course during the 1980s - and that it is necessary to *reverse* the process of the '80s in order to remove the lingering structural problem. Confidence that the worst is over is misplaced.

The taxation bias in favour of real estate ownership has now led 750,000 Australians to become investors in rental dwellings, according to a July 1993 survey by the ABS. This has continued apace with the obvious over-development of inner city apartments in Melbourne and Sydney, representing the final glimmer of their real estate booms. The forthright and independent positions adopted by Ruthven, Batra and Harrison - that capital expended in this fashion diverts investment away from more productive areas of the economy - draws irrational and hostile opposition.

Closer study on a state by state basis (Chart 7) shows Queensland to be still experiencing a strong real estate boom - its sales surpassing those of Victoria, and very nearly equalling those of New South Wales for the first time on record. This is partly explicable in terms of the recent northern drift of tens of thousands of stunned Victorian seeking economic refuge over the Queensland border. But, as real estate activity far outstrips production in that State, a sharp economic decline appears to be also in store for Queenslanders. Parts of the Western Australian real estate sector appears to be growing disquietingly, too.

While these two States boom, current property sales in Victoria, New South Wales and elsewhere are more generally being driven by tougher economic exigencies.



Stumbling Blocks

The Australian experience appears to mirror economic troubles in other parts of the world. Collapsing economies attest to the fact that Western institutions have not yet developed any useful economic interpretation of history.

One wonders how political parties, business, unions and the church could hope to explain their part in the longstanding neglect of the proposition that land speculation is conducive neither to economic nor social health. Rather than admit either to corruption or foolishness, they are found advocating even higher taxes, setting up new government programs, or promoting charitable aid bodies - instead of working for economic justice. As a consequence, social problems proliferate *because of* the increasing private and public bureaucracies that are spawned to address them. In turn, self-interest leads people in the employ of these institutions to oppose fundamental reforms, and to preserve the perverse edifice of taxation to which they owe their jobs.

Therefore, it is probably too optimistic to expect reform to come from within existing institutions. Stock brokers who warned the flood of Australians being currently introduced into the share market by new floats that their investments were at risk would be sacked: likewise, an academic economist who, grasping the implications of Ricardo's Law of Rent for a more equitable distribution of wealth, dared to instruct his students on the comparative advantages of taking 'economic rent' for revenue.

The case of the intrepid Nicolai Kondratieff shows that employees are rarely rewarded for speaking such bitter truths. After advising Stalin that the economy of the USSR would probably, along with the West, experience economic depression in the late 1920s, he was accused of being a spy for a secret peasants' society and banished to the salt mines - where he presumably died. Kondratieff's heresy, merely *contemplating* that his economy could founder, has strong parallels in the present economic hegemony of the West.

Privileged interests in Australia have been successful in winning resistance to a federal levy on the value of land - the value given by virtue of the existence of the community, and of public infrastructure. They claim that real estate is already a source of revenue at state and local government. But it is far too low for macro-economic purposes to deliver the benefits that would flow from significantly restructuring the tax burden. ABS taxation statistics show that direct revenue from real estate (excluding stamp duty) has *declined from 4% to less than 2% of all taxation* in the last 20 years - and thereby provided additional incentive to speculators. The principle of 'user pays' is rarely mentioned in respect of land over which we have exclusive use.

While this largely explains Australia's parlous state, influential groups remain hard at work to ensure that this lowly rate is further reduced, in their efforts to monopolise and exploit resources *completely* without fetter. Because of its different incidence they are not so opposed to the introduction of a 'goods and services tax' (GST), although the logic of dearer goods and services assisting economic recovery is most elusive.

So, even in these extreme times, change will be hard won. The ruling mindset tends to play down the extremely turbulent economic situation, justifying inaction in the name of remaining "positive". If democratic institutions do have the prerogative for wilful inaction, one wonders whether they should also be permitted to plead special privilege in the hard times that then result from land booms.

The Positive Response

To have a vision for the future, we need to understand precisely where we have been. Supported by recent Australian data, and two centuries of economic history, this booklet provides a different perspective on economic collapse. It reveals the process by which escalating taxation, land monopoly and speculation have developed another economic depression - the depression we could never again experience because 'we now know too much to let it happen again'. We are slow, indeed, to learn.

What value an economic system whose distribution is choked off by taxes that create a wealthy elite and dispossess both middle *and* working classes? At least one government agency has belatedly recognised the problem. In its Research Paper No.3, **Income Tax and Asset Choice in Australia**, the Prime Minister Mr Keating's Economic Planning Advisory Council (`EPAC'), concludes, amongst other things:

"*Geared property investment is highly tax favoured;*" (p 11)
"*the tax system favours housing investment.*" (p 13),

If the tax system does act to channel funds into real estate, creating disinvestment, inflation, and unemployment - then the response of public policy is surely ***to make it more onerous to speculate in land, and more profitable to invest productively***. Taking a greater part of the annual value of *all* land for revenue - be it in public or private ownership - answers this criterion fairly and squarely, whereas the imposition of a GST, death duties, or wealth taxes would continue to fine investment and employment. The case argued herein supports the fact that it was *not* coincidental that Australia began to lose its world standard of living supremacy following Prime Minister Menzies' abolition of the federal land tax in 1953.

Although it has become public fare to attack property rates and land taxes, economists privately acknowledge that these, being rents in nature, are the only forms of revenue that *cannot be passed on in prices*. They are not prepared to use this fact creatively, however:-

The various combinations of taxes account for about 50% of the price of all goods and services that we purchase. Therefore, significant tax cuts would reduce prices, restore Australians' purchasing power (and the ability to save or service debt), *without* being inflationary. The resultant drop in on-costs has the potential to make Australia the most cost-competitive nation on the face of the earth. One would expect this to be a desirable objective.

Unlike so-called primitive societies, both Marxist and Western economies have failed to accept the primacy of people and land. So long as they are regarded as objects of exploitation, our endeavours in all spheres - from philosophy, human rights, law, civics, and religion, to business, science and conservation - are rendered a mockery.

Contrary to common opinion, there ***are*** simple solutions. Justice and hard evidence beckon us as never before to derive a greater part of our public revenues from the value of land ownership, and less from fining people for being productive. To act upon this principle would have even more positive impact than the role of Nelson Mandela in South Africa, or of Wilberforce in the abolition of chattel slavery. It is surely *equally* unjust for people to claim ownership of others, the land they occupy, or the wages they earn?

Paradoxically, in an era of marvellous advances in micro and bio technologies, the looming question is whether we have lost the wit to be able to recognise and respond to the gigantic problem that now confronts world economies.

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Land Values Research Group

The ***Land Values Research Group*** (***LVRG***) was founded in 1943, following the visit to Australia by Canadian land economist, H Bronson Cowan, director of the International Research Institute on Real Estate Taxation. He conducted surveys in the cities of Brunswick and Camberwell in Victoria - employing research techniques that so impressed a small group of professional people that they formed the ***LVRG*** in order to extend and continue the studies. These demonstrated the benefits of revenue drawn from a levy on unimproved land values - as compared to imposts upon labour and its products. The current research panel consists of 21 people.

Publications

Under the directorship of the late Allan Hutchinson for 45 years, the ***LVRG*** published 37 studies. These included: works on rating; decentralisation studies in Victoria and interstate; surveys on leasehold and freehold land tenures; primary production analyses; and submissions to a number of Inquiries and Royal Commissions.

Included amongst those publications are:-

Social Effects of Municipal Rating (60pp): data prepared for the City of Footscray

Reclamation of an Industrial Suburb (40pp): the effects of site value rating on blighted areas - carried out for the City of Fitzroy

Natural Resources Rental Taxation in Australia (62pp): a study which assessed the economic rental value of all land in Australia in 1976/77 - and its potential to replace taxation as revenue

Anatomy of a Depression (4pp): a study summary explaining and quantifying the 1980s boom and subsequent bust - on which ***The Recovery Myth*** is partly based

To ensure that nothing is really done to change a distributional system manipulated to their advantage, less than 2% of the world's population encourages the other 98% to treat economic symptoms rather than causes. As a result, we cling to "flat earth" economics and continue to commit economic suicide at regular intervals.

Using Australia as a case study, THE RECOVERY MYTH establishes how economies of the world have slipped into the early stages of another economic depression. It formulates the response that could stimulate prosperity and put paid to devastating depressionary cycles once and for all.

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