

WHO MADE THE EARTH?



FOR RANSOM

- THE GREAT AUSTRALIAN DREAM -
WHY WORK? SPECULATE!
COMMUNITY CREATES THE VALUE
YOU TAKE THE PROFIT

realestate4ransom.com

We need you to:

- Watch the film
- Organise a home screening with friends
- Study the economic forces that allow some to earn money in their sleep
- Become a member so we can mount a serious campaign to overturn negative gearing

The global economy crashed under the weight of excessive debt - debt caused by the giant ponzi scheme known as the real estate game. Drilling down, we see that it is high land prices that caused the debt drain.

Greece had a property bubble of some 220% over a decade. Spain 201% and Ireland a staggering 400% . Australia's mortgage debt/ GDP was 18% higher than America's at its peak.

Dare we ask – who are rising property prices good for? This game of life is becoming incredibly risky on economic, environmental and social grounds.

Within this game are incentives to buy and sell prime pieces of land for purely profiteering reasons. In a typical market, higher investment leads to more of a certain product being produced. But the fact that the earth, the land is fixed in size, escapes policy makers.

The results is higher land prices. The IMF's *Asset bubbles and the cost of economic fluctuations* (2009) is one of many papers by major institutions identifying why asset bubbles are damaging.

From the home of democracy to the death of economic sovereignty, Greek officials are struggling to keep their government afloat. Much of this has to do with the central premise of the film. We are taxing the wrong things and this is causing more problems than it solves.

Warren Buffett famously complained that he pays a lower effective tax rate than his secretary because of his ability to stream earnings towards capital gains (taxed at 15% in the USA) rather than the top 35% income tax bracket.

Here in Australia, we are taxed at the highest rate if we work a second job, but subsidised if we invest in a second property (via negative gearing). Tax exemptions to property owners cost us some \$54 billion p.a - equivalent to 20% of federal tax revenue (in 2008 figures). Even though economists have long understood the dangers of speculating in real estate, more and more of the tax game is sliding toward the investment in scarce resources – where monopoly powers can be enforced.

Not satisfied with negative gearing or the 50% discount on capital gains tax, lobbyists have worked hard over successive administrations for Self Managed Super Funds to invest in real estate – paying zero capital gains tax.

Whilst Project Wickenby has had some modest success in scaling back the use of tax havens, the use of tax minimisation as a strategy is still commonplace amongst those lucky enough to afford an accountant, especially those who can keep up with the milleau of tax loopholes opened and closed each year.

If economic justice is to be achieved, we need to occupy the tax code to re-direct our economic activities back towards entrepreneurial practices rather than risky speculative bursts.

The trillions in bailout money has been siphoned away from investing in genuine employment creating industries and into speculating in scarce commodities. We have seen record prices in barely, wheat, and corn. The result? Riots in Africa and the Middle East, leading to the Arab Spring.

Thankfully more and more are realising that without economic rights, civil rights mean little. The appointment of Washington consensus cronies in Greece, Egypt & Spain give little hope for the future. We need economists in power who understand the forces of monopoly.

Adam Smith and the Classical economists wrote on the importance of balancing the natural advantages in owning prime land with those who were running a bakery in a sprawling suburb. Land values were the marker of advantage. Those living in Toorak should pay more to the government than Warragul for the locational privilege.

The difference between city and rural is even more extreme. We all pay the same income and GST tax rates. However, the capital gains in a city suburb like Toorak can in just a few years of a boom be enough to cancel out a lifetime of taxes paid. However, we are taught to look the other way.

It is far sexier to blame the banks. Seventy percent of bank assets are mortgages. The land component for a typical mortgage accounts for some 70%. For older houses like my 1960's home in Braybrook, land values are 93% of the total value according to council valuations.

The key issue is that land is a scarce commodity. Our tax system encourages speculators to invest in the pursuit of lowly taxed capital gains. The growth in land prices has been extraordinary, with land prices increasing 126% (1995 – 2010, inflation adjusted). Such capital gains have been greater than possible rents earned. In 2009 for example, the average rent was \$17,000, but the capital growth was over \$30,000 in Melbourne. For many of the 1% who have landholdings in the 100's if not 1000's of properties, it actually works to their advantage to keep some of their holdings vacant – in effect holding Real Estate 4 Ransom.



Such speculative vacancies enforce scarcity, pushing prices up. These vacancies aren't recorded in the widely quoted REIV vacancy numbers. Their figure looks at total rental properties on the market to rent as a percentage of all rental properties on REIV member's books. This does not include speculative land banks or apartments bought off the plan and held for speculative profit.

We are told there is nowhere to live - but there is plenty of room to speculate.

Earthsharing Australia has been surveying the wider property market via our innovative utilities based measure, looking at water consumption of under 50L per day over six consecutive months as a proxy for vacant property. In surveying just 64% of Melbourne's residential property, we found 46,220 speculative vacancies.

In the buildup to the global land bubble, similar spin was used by the well funded property lobby in places like Ireland to entrench the belief that there was nowhere to live. Builders built to satisfy the ponzi game, not the reality of housing for humans.

With climate change to threaten arable land, enhance the values of elevated locations and penalise those living in the sprawl, we need to use precious locations for the common good, not as a short term gaming of the system.

Watch the film Real Estate 4 Ransom!

- Karl Fitzgerald, Co-Director & Producer, access@realestate4ransom.com