

Submission to the Productivity Commission: Inquiry into National Water Reform 2026 Unlocking Total Factor Productivity and Reducing Market Deadweight Losses through Georgist and Gesellian Institutional Reform

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EXECUTIVE SUMMARY

The Association for Good Government provides this submission to address Australia's structural productivity stagnation. Rather than minor regulatory adjustments, this framework targets the foundational misallocation of resources, labor, and capital within the water sector. By integrating **Georgist** (Henry George) and **Gesellian** (Silvio Gesell) economic reforms into a user-governed, co-operative utility structure, Australia can eliminate severe market deadweight losses (DWL) and boost returns across all productive factors.

Core Pillars of Institutional Reform

- **Natural Resource Productivity (Just Allocation):** Conventional policy treats water access as financial assets, driving resource hoarding and speculation. By treating locational and watershed advantages as common property and introducing Gesellian "use-it-or-lose-it" parameters, co-operative structures ensure water flows strictly to active producers and highest-utility applications.
- **Labor Productivity (Wage Expansion):** Current fiscal regimes heavily penalize labor through income and payroll taxes. Eliminating taxes on wages and socialising infrastructure rents removes structural work disincentives. Workers retain the full market value of their exertion, maximizing intrinsic motivation, real take-home pay, and output.
- **Capital Returns (Un-taxing Real Capital):** Shifting the revenue base entirely to resource and locational rents exempts physical upgrades (like filtration plants or solar pumps) from corporate and asset taxes. Infrastructure surpluses are retained within the co-operative rather than siphoned to external equity holders, funded democratically through user capital accounts.
- **Diminishing Deadweight Losses:**
 - *Allocative DWL:* Co-operatives operate on cost-of-production pricing ($\$P = MC\$$) rather than monopoly profit-maximizing pricing ($\$P > MC\$$), expanding supply toward the socially optimal level.



- *Fiscal Distortion*: Transitioning to inelastic land and resource rent capture reduces the tax drag to zero without distorting production incentives.
- *Frictional DWL*: Institutional penalties on idle water rights eradicate speculative withholding.

Empirical Evidence & Policy Feasibility

While Land Value Taxation (LVT) enjoys strong theoretical backing—such as a 2022 IMF Working Paper and a 2025 Progress and Poverty Institute synthesis showing reduced speculation—the framework acknowledges real-world scale and design challenges. Co-operative utility efficiency is highly scale-dependent, and Gesellian provisions must be precisely calibrated to avoid driving wasteful over-extraction.

Politically, the submission leverages active 2026 legislative and institutional momentum:

1. **Anti-Speculation**: Aligns with the *Water Amendment (Water Markets Decisions) Regulations 2026* targeting Murray–Darling Basin price manipulation.
2. **Rent Socialisation**: Capitalizes on broad property tax policy shifts advocated by the Grattan Institute and recent legislative proposals.
3. **Fiscal Precedent**: Points to the ACT's highly durable, multi-decade transition away from stamp duties as proof-of-concept for gradual tax restructuring.
4. **Democratic Capitalisation**: Connects with regulatory advocacy from the Business Council of Co-operatives and Mutuals (BCCM).

MAIN BODY

1. Natural Resource Productivity: Just Allocation of Locational Advantages

Conventional water policy treats access entitlements as financial assets, leading to resource hoarding, market speculation, and artificial scarcity. Henry George's *Progress and Poverty* establishes that locational advantages—the natural fertility, elevation, and catchment quality of a watershed—are common property whose unearned economic rent belongs exclusively to the community. Silvio Gesell extended this by insisting that natural resources must be subject to a "use-it-or-lose-it" imperative (the principle of *Freiland*), preventing entities from holding nature hostage for speculative gains.

When operationalized through user-owned co-operatives, Georgist and Gesellian reforms maximize natural resource productivity:



- **Eradication of Speculative Hoarding:** Co-operative utility structures restrict resource access to active producers and consumers, preventing external financial entities from buying up water rights simply to sit on them and extract monopoly rents.
- **Optimal Locational Allocation:** Co-operatives allocate spatial and geographical advantages based on democratic deliberation and productive capacity rather than sheer purchasing power. Resources naturally flow to their highest-utility application.
- **Ostromian Self-Governance:** As observed in the **Coleambally Irrigation Co-operative Limited (CICL)**, when nearly 500 farms democratically manage a 516-kilometre gravity-fed channel network, resource waste is minimized via real-time peer monitoring and shared infrastructure optimization.

2. Labor Productivity: Higher Worker Output and Wage Expansion

The current fiscal regime heavily penalizes labor through income taxes, payroll taxes, and regressive GST, while simultaneously forcing workers to hand over a massive share of their earnings to pay for privatized infrastructure monopolies or inflated land costs.

Socialising infrastructure and resource rents while reducing or entirely eliminating taxes on wages triggers a profound shift in labor productivity:

- **Zero Tax Deadweight Loss on Exertion:** Eliminating taxes on wages removes the structural disincentive to work. Workers retain 100% of the market value of their exertion, directly boosting morale, workforce participation, and operational focus.
- **Higher Output per Worker:** In a cooperative utility framework, workers are frequently member-owners or directly accountable to a local member-base. The elimination of adversarial labor-capital dynamics—replaced by a shared interest in system efficiency—drives higher intrinsic motivation and technological innovation on the shop floor.
- **Elimination of Rent Extraction from Wages:** When water and utility rents are socialised (returned to members as patronage dividends, lowered tariffs, or reinvested public goods), wages are no longer cannibalized by soaring living costs. Real take-home pay increases naturally without triggering inflationary wage-price spirals.

3. Capital Returns: Un-taxing Real Capital and Socialising Utility Surplus

Under conventional corporate structures, genuine capital investments (like high-efficiency water filtration plants, solar pumps, and smart channel networks) are heavily burdened by corporate profits taxes, asset depreciation hurdles, and the need to pay out short-term dividends to external shareholders.

Shifting to a socialised co-operative ownership model unlocks superior capital returns:



- **Tax Exemption for Productive Capital:** By shifting the state and utility revenue base entirely onto resource and locational rents, real capital investments are freed from the burden of taxation. Every dollar invested in physical engineering infrastructure yields its full, unpenalized productive return.
- **Reinvestment of Socialised Rents:** In a non-distributing or subscriber-owned co-operative, the economic surplus generated by the natural monopoly is not siphoned off to external equity-holders. Instead, these vast infrastructure rents remain within the system's capital accounts.
- **Democratic Capitalization:** As described in the attached Executive Summary of *Transforming Utility Cooperatives for the Future: Rent, Deliberation, and Capability in Democratic Infrastructure*, necessary capital upgrades are funded not by regressive consumer costs, but through equity building. Capital surcharges on utility bills are credited directly to the user's capital account, transforming captive consumers into asset-owning stakeholders who actively monitor capital efficiency and prevent bureaucratic waste.

4. Diminishing Deadweight Losses in the Water Distribution Market

The conventional water distribution market suffers from massive, compounding deadweight losses (DWL) due to its dual exposure to monopolistic exploitation and distortionary tax policy. A Georgist-Gesellian co-operative framework systematically eliminates these market frictions:

Monopolistic Underproduction and Allocative DWL

Because water networks are natural monopolies characterized by high asset specificity, investor-owned or commercialized state utilities maximize returns by restricting supply or raising prices well above the marginal cost of production ($P > MC$). This creates a massive deadweight loss triangle representing consumers who value water above its delivery cost but are priced out of the market.

- *The Co-op Solution:* Co-operatives operate on the principle of **Georgist efficiency**, pricing services strictly to cover the *Value from Production* (true operational and capital maintenance costs). Because there is no external equity holder demanding a return on monopoly positioning, output expands closer to the socially optimal level ($P = MC$), diminishing the allocative deadweight loss.

Fiscal Distortion and Excess Tax Burden

Financing public infrastructure through traditional corporate taxes, GST, or income levies creates a massive "excess burden"—a deadweight loss where economic activity is suppressed because transactions are taxed.



- *The Co-op Solution:* By transitioning the utility's revenue model to capture the unearned economic rent of resource and land values, the tax drag is reduced to zero. Because the supply of natural resources and land is perfectly inelastic, capturing its rent does not distort production incentives or reduce supply, eliminating the traditional deadweight loss associated with fiscal collection.

Speculative Withholding and Frictional DWL

In standard water markets, water entitlements are frequently bought and hoarded by financial speculators who gamble on future droughts to sell at a premium. This creates an artificial scarcity that leaves agricultural land under-utilized and urban areas facing artificial water stress.

- *The Co-op Solution:* Incorporating Gesellian "use-it-or-lose-it" parameters within the co-operative entitlement architecture means that holding water out of use incurs an institutional penalty. Water can no longer be used as a speculative store of value, eliminating the frictional deadweight loss of idle natural resources.

5. Empirical Evidence — Verification and Challenges

Land Value Taxation: Strong Theoretical Support, Mixed Empirical Record

- The efficiency case — that taxing inelastic resource rents generates no deadweight loss — has the firmest empirical footing. A 2022 IMF Working Paper (Equity and Efficiency Effects of Land Value Taxation) confirms that LVT carries negligible deadweight loss and that even a revenue-neutral shift from income and corporate taxes toward LVT improves economic efficiency — directly supporting Recommendation 3. IMF WP/22/263
- The same paper introduces a real qualification: because over 60% of US households and 90% of the top income decile own land directly or indirectly, LVT can be regressive if applied flatly without redistribution mechanisms. The submission's patronage dividend and democratic capitalisation instruments partially address this — but the point should be acknowledged explicitly.
- The Progress and Poverty Institute's 2025 synthesis of roughly ten empirical studies of split-rate and pure LVT systems in Pennsylvania finds consistent evidence of increased building activity and reduced land speculation — directly supporting Recommendation 1. Progress and Poverty Institute (2025)
- In Australia, the ACT's stamp-duty-to-land-tax transition (underway since 2012) and Victoria's expanded LVT regime (2024) are the most locally relevant natural experiments. Early evaluation aligns with Georgist predictions — reduced transaction friction, more fluid land use — though longitudinal research is still accumulating.



Co-operative Utility Efficiency: Favourable but Scale-Dependent

- Evidence from irrigation co-operatives in Australia's Murrumbidgee Irrigation Area (including CICL), Spain's Huerta Valencia system, and New Zealand's water management bodies consistently shows lower administrative overhead, superior peer monitoring, and better capital maintenance relative to comparable investor-owned utilities. These findings support the submission's Sections 1–3.
- The challenge is scale. A 2024 Brookings Institution review of water utility financing across US cities found that governance model was less determinative of financial performance than regulatory quality and capital planning discipline. Co-operative structure is a significant advantage, but not independently sufficient — the quality of the regulatory framework around it matters just as much

Gesellian Use-It-or-Lose-It: Limited Direct Testing

- Formal use-it-or-lose-it provisions in western US water law and parts of Queensland show mixed results — some reduction in speculative hoarding, but also cases of wasteful over-extraction as holders demonstrate use to avoid forfeiture. Entitlement design will be critical; Recommendation 1 should specify trigger conditions that penalise idling without incentivising overuse.

The $P = MC$ Claim to Efficiency: By How Much? Needs Qualification.

- Empirical evidence from co-operative utilities — including rural US electricity co-operatives and Murrumbidgee irrigation bodies — shows that co-operatives in practice price above marginal cost to recover fixed infrastructure costs, but below monopoly profit-maximising prices. The welfare gain is directionally real but not an absolute elimination of deadweight loss. Co-ops are a major directional improvement; that is closer to the ideal of DL eradication

7. Political and Policy Momentum

Recommendation 1 (Abolish Resource Speculation) — Active Legislative Momentum

- The Water Amendment (Water Markets Decisions) Regulations 2026, gazetted by DCCEEW in April 2026, directly implements price manipulation prohibitions in Murray–Darling Basin water markets — responding to the ACCC's 2021 Basin water markets inquiry. DCCEEW (April 2026)
- The government has already accepted that speculative behaviour in water markets requires legislative remedy. Recommendation 1 can be framed not as radical departure



but as extending this existing reform trajectory with preventive entitlement architecture rather than after-the-fact prohibition.

Recommendation 2 (Socialise the Locational Rent) — Grow Parliamentary Support

- As recently as June 2026, the Australian Greens proposed a 5% land value tax on vacant investment properties, framed explicitly around anti-speculation and community benefit — the closest any major Australian party has come to formal Georgist legislative advocacy in recent years. *The Guardian*, June 2026
- The Grattan Institute's Orange Book 2025 advocates greater reliance on broad-based land and property taxes to replace bracket-creep-dependent income tax revenue — convergent with this submission's direction and carrying significant institutional weight with Treasury. Grattan Institute (2025)
- Georgists and co-op businesses operating in every state and territory in Australia can be relied on for the policy organizational support as natural coalition partners for amplifying this submission's impact before the Commission.
- The unimplemented Henry Tax Review (2010) recommendation to replace stamp duties with broad-based LVT provides established Commonwealth precedent that this submission can directly reference.

Recommendation 3 (Fiscal Untaxing) — Incremental Path via ACT

- No major party currently advocates eliminating payroll or corporate taxes in the utilities sector specifically. The most viable path is the precedent set by the ACT's ongoing stamp duty transition — which has survived successive Labor, Greens, and Liberal ACT governments since 2012, demonstrating a political durability that provides proof of concept for gradual fiscal restructuring at sub-national level.

Recommendation 4 (Democratic Capitalisation) — Institutional Champions

- The Business Council of Co-operatives and Mutuals (BCCM) has actively advocated for regulatory changes enabling public utilities to restructure as member-owned entities, and has a track record of Productivity Commission engagement. Treasury's Measuring What Matters framework and DCCEE's emphasis on community resilience create policy language compatible with democratic capitalisation — a bridge argument connecting equity stakes to existing government terminology on community ownership would reduce the rhetorical distance between this proposal and current policy settings.

8. Regulatory Engagement Map

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Federal Tier

Body	Relevance
Productivity Commission	Primary audience; NWI refresh terms of reference cover pricing design, governance, and alternative service models — all four recommendations fall within scope
ACCC	Holds water market integrity mandate under the <i>Water Act 2007</i> ; any use-it-or-lose-it entitlement conditions must be consistent with its manipulation prohibitions and developed with its Water Monitoring and Enforcement Branch
DCCEEW	Administers the <i>Water Act 2007</i> and Murray–Darling Basin Plan; primary legislative drafter for Recommendations 1 and 2
Murray–Darling Basin Authority (MDBA)	Manages entitlement registry, sustainable diversion limits, and resource planning; Gesellian entitlement conditions must be designed within MDBA's accounting framework
Australian Treasury	Recommendation 3's fiscal untaxing has revenue implications beyond the water sector requiring Treasury engagement; the Henry Review recommendations provide live precedent

State and Territory Tier

Body	Relevance
IPART (NSW)	Determines Sydney Water and Hunter Water pricing; the primary intervention point for cost-of-production pricing reform in NSW
ESC (Victoria)	Regulates urban water businesses; Victoria's 2024 LVT expansion and ESC's pricing framework create an immediate pilot opportunity
ESCOSA (SA)	Economic regulator for SA Water; its 2024–28 regulatory determination is a live vehicle for a democratic capitalisation pilot
QCA (Qld) / ERA (WA)	The Productivity Commission's 2026 call for submissions specifically flagged WA's need to strengthen independent economic regulation — a direct opening for co-operative utility pilots in both states

Intergovernmental Bodies

Council on Federal Financial Relations (CFFR) must be engaged for Recommendation 3, as payroll and stamp duty reductions involve state revenue base changes requiring intergovernmental fiscal coordination.



NWI Ministerial Council is the ultimate destination. The forthcoming NWI refresh — which this inquiry is designed to inform — is the single most important policy window for all four recommendations. Engagement at Ministerial Council level, through state and territory water ministers, is the pathway from Commission recommendation to binding intergovernmental commitment.

Regulatory Engagement Summary

Recommendation	Primary Body	Nature of Engagement
R1: Abolish Speculation	ACCC, MDBA, DCCEEW	Use-it-or-lose-it legislative drafting; entitlement registry amendments
R2: Socialise Locational Rent	Productivity Commission, state economic regulators	Pricing determination reform; rent-capture accounting standards
R3: Fiscal Untaxing	Treasury, CFFR, State Revenue Offices	Revenue-neutral tax restructuring; intergovernmental compensation arrangements
R4: Democratic Capitalisation	Productivity Commission, DCCEEW, BCCM	National co-operative utility guidelines; equity-stake legal framework

Respectfully submitted,

 **Joffe Caesar**
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The Productivity & Efficiency Matrix Illustrating the Foreseen Benefits Corresponding to the Recommendations

Economic Factor	Conventional Corporatised / Privatised Model	Georgist-Gesellian Co-operative Framework	Direct Productivity & Deadweight Loss Reduction Outcome
Natural Resources & Land	Treated as private commodities; prone to speculative hoarding and monopolistic rent extraction.	Treated as common property; locational rents socialised and access governed by active use.	Highest Resource Productivity: Speculation is eradicated; water and land are applied strictly to their most efficient, productive uses.
Labour & Wages	Heavily taxed via income/payroll levies; take-home pay is eroded by monopoly utility pricing.	Taxes on wages are reduced or eliminated; utility rents are recycled back to the workforce/community.	Highest Labour Productivity: Workers retain the full fruits of their labor, maximizing output per worker and real purchasing power.
Productive Capital	Penalized by corporate taxes; capital deployment is restricted by the short-term demands of external financial markets.	Untaxed capital; infrastructure surpluses are retained locally and grown via Democratic Capitalization.	Highest Capital Returns: Zero tax drag on infrastructure investments; capital accumulates rapidly in line with actual community use.
Water Distribution Market	Monopoly pricing ($SP > MC$) and tax distortions create severe allocative deadweight losses.	Cost-of-production pricing; elimination of distortionary taxes; use-it-or-lose-it mandates.	Increased Market Efficiency/Reduced Deadweight Loss: Market restrictions are eliminated; pricing aligns with actual costs, maximizing total societal welfare.

