

THE JUST SOCIETY:

MANY GEORGISTS labour under the illusion that the “two-rate tax” occupies a long standing and respected role in their tradition. The separation of land from buildings in tax assessments is an idea usually attributed to George. Separate assessments provide an opportunity to set separate rates and shift taxes from capital improvements to land. This policy also appeals to those of a pragmatic disposition, who see it as an intermediate or transitional stage, which can lead eventually to the collection of the land’s full value in a gradual and non-disruptive way. Add to this the switch in political emphasis away from grand campaigns to grassroots initiatives and the policy seems tailor-made for Georgists.

This could not be further from the truth. The flaw in all this lies in the notion that the two-rate tax is a Georgist idea at all. It is not. Now more than two centuries old, the two-rate tax is a cuckoo in the Georgist nest. If it bears any resemblance to George’s vision then it is trivial and coincidental and certainly one that George himself neither entertained nor endorsed during his life. As Ken Wenzler’s historical review documents, the idea was in fact most frequently promoted as an alternative to water down George’s vision of collecting the land’s full rent as the principal source of public revenue.

The most serious shortcoming, however, and what should concern us most, is its revealed preference for untaxing property rather than untaxing labour. In its minimalist fiscal approach and commitment to “revenue neutrality” it reflects Georgism’s recent association with the libertarian right, for whom small government and low taxes are ends in themselves. In tandem with advocating the removal of taxes on capital gains (most of which consist of rising land prices and not the savings of labour) the two-rate tax looks well designed for the interests of property rather than labour. It was. George urged that labour be untaxed and warned repeatedly against his programme being mistaken as a campaign for tax reform. It was a campaign for radical reform of the structure of society and not marginal tax changes. Much of the early popularity of *Progress & Poverty* stemmed directly from its defence of the rights of labour over the rights of landed property.

Today the trend of taxation throughout the world, but principally in America, is away from taxing property and towards taxing labour. So successful has this been – and so lacking any Georgist critique – that real estate has provided a shrinking proportion of state and local revenues. In 1929 it supplied some 80% of state and local fiscal revenues. Today that has fallen to about 17%. As recently as 1945 local real estate taxes absorbed about half the rental income generated by real estate. Today, it has fallen to about 16%.

Rather than popularising and explaining this inequity, U.S. Georgists have devoted nearly all their resources to local two-rate initiatives in the few Eastern states that had such laws on their books dating back a century before George wrote *Progress & Poverty*.

AS A STEPPING STONE to full reform, in every jurisdiction and throughout its long life the two-rate tax has been a conspicuous failure. Far from leading to true reform, the two-rate tax has become a political dead end. It provides “busy work” for Georgists, diverting resources away from other projects of *action or research* that might place the role of land and its rent in its broad economy-wide perspective. It seems to be a task of Sisyphus for Georgists *endlessly* to trudge from one locality to another, decade after decade, trying against all the odds to effect a marginal change.

In those jurisdictions, which have inherited or adopted it as a result of local activity there is the continuing threat of reversal in response to protest mounted by interests no less banal than parking-lot owners and used-car dealers. The exposure to such threats of defeat show how weak

the political and ideological basis for the two-rate tax is. This is inevitable for a policy that appeals not to the ideals of economic justice *in the context of the society and the economy as a whole* but to the pecuniary interests of high-rise real estate and construction.

NOT A SINGLE two-rate town has gone on to implement the full land tax. In fact, its promoters usually sell it as “revenue neutral.” This means they will not raise real estate taxes, merely redistribute them from built-up properties (high rise buildings, electric power utilities) to low-rise properties. Among the latter, of course, are not just the parking lots but the homes of most workers. *Where these previously enjoyed low assessment or escaped taxation altogether, a careless implementation of the two-rate tax could have the appalling political consequence of driving labour into alliance with the parking lot owners to resist a tax shift designed to favour big buildings and big capital.* By shifting taxes from “capital” in the form of high-rise commercial buildings, electric utilities and factories to the land’s site value, the two-rate tax would free property in general from taxation, and could at least initially *increase* the burden on workers as homeowners and renters.

To make things worse, if the two-rate tax is not to be accompanied by a general re-appraisal of land values, then the single most effective move to breath life into a moribund and discredited system is denied. Why?

The two-rate tax predates Henry George. It was assimilated into Georgist tradition as part of the movement’s political abdication to the interests of capital. George’s U.S. followers retreated to this position because of his own renunciation of an explicitly pro-labour strategy in the closing stages of his life. The new “capital Georgists” have vanquished the old “labour Georgists.” Rather than leading toward the Single Tax ideal and freeing labour of the fiscal burden, the two-rate tax is aimed specifically at freeing property from its burdens.

GEORGE’S CENTRAL IDEA – like that of J.S. Mill and other British predecessors, as well as French writers from the Physiocrats through Cherbuliez – was that the land was naturally public property, and its rent was historically the basis for supporting the community’s fiscal needs.

George adopted from European historians the outlines of a long-term perspective showing how the land’s rent formed the earliest source of support for public institutions – the palaces and temples – in Sumer and Babylonia at the outset of civilisation. When appropriated by powerful individuals as their private property, they created a fiscal crisis that plunged society into debt and poverty and, ultimately, a Dark Age. This same process was re-run in the privatisation of the Royal Domain in Europe at the end of the feudal period and again in the U.S. as George was writing in the 1870s.

The two-rate version of Georgism wholly ignores this philosophy. Its motivation is not to collect the land’s rent, to free labour and return the public domain, but to make incremental shifts in the distribution of the burden of taxation whilst leaving it substantially unchanged in either amount or incidence. Where has the idealism gone that won George popular acclaim? His ideal was one of economic justice expanded to the plane of social justice. Much of the world today is looking to restore that dimension to economic thinking. But Georgists have not joined in this debate, except to fall meekly in line and advance the interests of capital against those of labour.

In the modern economy capital itself is increasingly a rentier phenomenon: seeking its own “free lunch” as around the world one economy after another falls prey to the privatisation of its resources monopoly and debt. George witnessed this process in operation in his



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A CALL FOR ACTION

life and supplied a basis for analysing it and a remedy for turning it around. Today the process continues on a global scale and his followers are mute. None of George's vision and magnanimity appears in the limited programme of the two-rate tax. Georgism has lost its way and made a fatal compromise with the interest of property. The two-rate tax cannot be justified upon grounds that it frees labour nor that it collects the land's full rental value, but only on the ground that it will free (some) property from (some) tax.

This sense of scale and proportion is not even micro, it is minuscule, losing sight of the broad sweep of history and the real challenge of Georgism. Thus, while the issue of whether to privatise the rent generated by land and natural resources is at the very centre of politics in Russia, Norway and Cuba, America post-Georgism as a whole is in the grip of a town hall tax reform. Can a prospective construction boom be expected to save civilisation, as we stand today in a situation where hitherto public wealth is being appropriated and privatised on one continent after another? Where is the notion of economic justice that goes beyond parking lots and car show rooms?

IT MAY HAVE BEEN the success of early Georgists in promoting the progressive income tax in the United States in the 1910s that led the movement to drift away from the principled message of Henry George into the world of compromise and tax tables. But note, this tax fell mainly on the highest brackets, and hence more on the rental income of land and other natural resources than on wage income. There was a high starting point for income-tax liability, leaving most wages un-taxed. Also, a critical piece of Georgist analysis, capital gains (headed by land-price gains) were initially to be taxed as if they were income and taxed at the same rates as regular "earned" income.

Today the picture is different. The high starting point has been eroded by inflation. Wages bear the brunt of the income tax. Capital gains

are now not taxed until realised and then at lower rates than income. Write off and allowances that result in the tax yielding hardly any revenue at all ameliorate these charges. If tax reform is the way forward then why not income tax reform or capital gains tax reform? At least

that could be justified by a genuine appeal to the Georgist tradition of untaxing labour.

The upshot of this abdication of responsibility and supine reverence for property is that the strongest principled defence of land taxation and the genuine vision of Henry George passed to academics such as Thorstein Veblen in America, Michael Flurscheim in Australia, Maclaren and subsequent land taxers in Britain. These writers, politicians and academics, socialists as well as liberals developed the same insights as Henry George and expanded his analysis to comprehend the changes taking place in society since his death. Sadly they have found scant support from the post-Georgist movement in America.

Languishing in irrelevance, the movement has been unable to answer the main challenges that the opponents of real reform always advance. For example, how much rent is there? Where is it going? How does it circulate in the economy? What are the effects of land tax upon banking and credit: what about interest? And on and on.

When he wrote *Progress & Poverty* Henry George challenged the power structures of his day. His message was simple and profound: even today it still carries the force of his conviction and it is still an inspiration to action. There is a crying need for that challenge to be reissued. We need to

rediscover the power and the confidence that lie in a vision of a just society. We need to initiate a campaign of research and advocacy which will carry his message to today's world. We need to enlist the support of the writers, academics and politicians whose expertise and equal commitment to the creation of a just society can be harnessed to this work. We need to go for broke. The alternative is too dismal to contemplate.

Table 1: State & Local Government Receipts (\$bn)

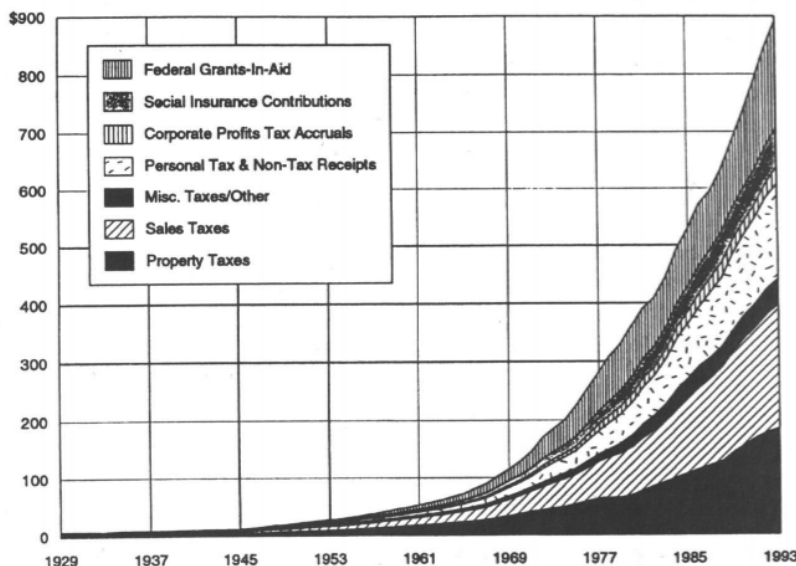
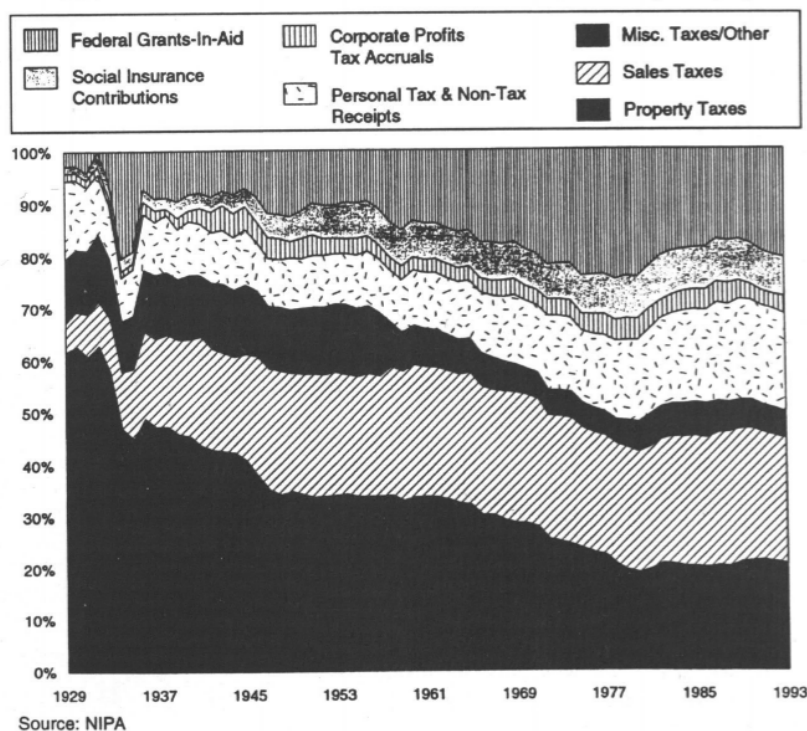


Table 2: State & Local Government Receipts (%)



Source: NIPA