The Case Against the Global Economy and For a Turn Toward the Local

Jerry Mander and Edward Goldsmith (Editors)
Sierra Books, 1996

I read this book because I wanted to understand what is happening to national economies worldwide under the new regimes of GATT, NAFTA, the World Trade Organization (WTO), Maastrict, and the old World Bank and the International Monetary Fund, established at the Bretton Woods Conference after WWII. I was not disappointed.

The editors are co-founders of the International Forum on Globalization, a new international organization of activists opposed to the global economy. Jerry Mander is a senior fellow at the Public Media Center in San Francisco and director of the Deep Ecology Foundation. Edward Goldsmith is founder and publisher of *The Ecologist*, Europe's leading environmental journal. He is author of fifteen books and a recipient of the Right Livelihood Award. Sierra Club Books invited them to compile this case against the global economy. Unfortunately, there are no articles explaining the European Common Market.

I learned the histories of the organizations named and how they evolved into the menaces they are to labour, farmers, the environment and nations. I learned how they are threatening democracies in every part of the globe as their legislatures rubber-stamp "free trade" agreements, in reality fashioned by the lobbyists of international corporations. To my dismay, I learned that protecting "international property rights" is more about patents on biogenetic new life forms (seeds, animals, and microbes) than movies, CDs or video tapes. Heretofore forms of life had been considered *common property*, not patentable. Intellectual property rights agreements are the latest attempt to privatize our heritage, the gifts of Creation.

In one chapter, the history of corporations in the U.S. is explained as well as how citizens rights to control corporations have been eroded. Originally, corporate charters were granted for limited times, mandated to serve the public good, and dissolved if the company caused harm. After our Civil War, the courts began establishing corporate law, overturning those passed by state legislatures, though corporations are still chartered by individual states. Judicial law now protects owners of corporations against liability, charters them in perpetuity, and has given them all the rights of *natural persons* (freedom of speech, property ownership, etc.). Thus international corporations become super monsters, fictitious humans and inhumane; ruling and ruining national economies with the aid of their dispute-resolution agencies NAFTA, GATT, and the WTO.

However, we shouldn't be surprised at corporate antisocial behaviour, and no amount of pleading will change their ways. Information Age technology has only permitted them to become more efficient in their nefarious efforts at control. Corporations do what corporations are set up to do - make a profit. They do so by keeping labour costs low, by depleting natural resources without regard to sustainability, and by polluting the environment, using the planet as a sink for wastes, without regard for the health of life forms.

What recourse do we have against the super monsters?

The book suggests building regional economies, tariffs to protect farmers and wage-earners, revitalizing local political and economic control, self-sufficiency, and ecological health. Sounds good but no one suggests *how*, given the insecurity of individuals worldwide.

The world has forgotten the wisdom of Henry George. As Fred Foldvary has pointed out: "The benefits of free trade do not go to the worker because of tax and land-tenure policy that concentrates benefits to owners of property rather than to labour. The remedy presented by Henry George is true free trade, with the rent benefits of the global economy being shared by all." Dr. Foldvary teaches a class on the Global Economy at John F. Kennedy University in California. Unfortunately, Foldvary was not one of the 43 authors in this book.

Jeremy Rifkin in his chapter on "New Technology and the End of Jobs" asks, "Who will be the last service worker?" He ends his article by saying, "Throughout the world there is a sense of momentous change taking place - change so vast in scale that we are barely able to fathom its ultimate import."

So forgive the Russians and Albanians for not understanding the corporate propaganda about the benefits of free trade and the free market system, because neither do we.

META HELLER

LAND AND LIBERTY

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Brazil: land tax to help poor

Essay: two-rate tax strategy

Westminster shamateurism

Black box in economics

LAND
AND LIBERTY

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COVER PHOTO: President Cardoso of Brazil who has proposed a rural land tax. *(See story on page 3)*

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Labour landslide is a gamble for Britain

THE LAST time Britain's Labour Party enjoyed a landslide victory was 1945. War leader Winston Churchill was rejected by voters attracted by the vision of the Welfare State. Labour captured 393 seats; the Tories were humiliated with 189 seats. The legacy of that landslide has been a series of policy disasters, the costs of which are still being paid today.

♣ The Welfare State is bankrupt: the social experiment is living on borrowed time. The dream of universally available pensions for the aged and 'free' health services for the sick has disappeared. Socialism is not a self-financing system.

♦ The Agriculture Act (1947) was supposed to raise the living standards of marginal farmers. Instead, it enriched the large landowners through the state-sponsored boards and marketing systems, subsidies and quotas: anti-market controls that were disastrous for the countryside. Graham Harvey has documented in *The Killing of the Countryside* (London: Jonathan Cape, 1997) how that Act established "The industrialisation of Britain's countryside". Ecology suffered.

♥ Towns fared no better under the Town and Country Planning Act (1947). This tried to capture part of the unearned increment that was going into the pockets of private landowners. The provisions were so badly framed that Labour managed to distort the pace and the pattern of the rebuilding of war-torn Britain.

♠ A subsequent Labour government had another try with the Land Commission (1967). When that failed, it came up with the Community Land Act (1975), followed the next year with the Development Land Tax. And they failed, too. These attempts at directly capturing rent for the community's benefit did not just fail: they were a botch-up that disadvantaged low-income earners who needed homes. But they also enriched the property speculators who were allowed to keep time - and the tide of the political cycle - on their side.

The outcome was a demoralised Labour Party: 18 years in the wilderness, taunted by the roughshod policies and contempt of Margaret Thatcher, whose pseudo-scientific defence of what she called "the market" will with time also be discredited. For Thatcherism was no better equipped to tackle the fundamental land-related problems than the post-war Labour governments.

The losers, as ever, are the common folk. The winners, of course, were the people who owned land before the speculative boom of the late 1980s.

And now we have New Labour. This is a pseudo-Thatcherite creation which will hold together only for so long as Tony Blair is able to deliver power. But what of the poor? What of our collective sense of social justice? New Labour does not have effective policies to deal with town or countryside. But perhaps this is just as well. In a sense, Tony Blair has already served his historical function: he has dragged Labour into the post-Soviet era by abandoning the blunderbuss Clause IV promise to socialise all the means of production. Now, with a clean slate, Labour is free to figure out the answers to problems that defeated it after the last landslide in 1945.

Seats without solutions are worth nothing.

Brazil plans land tax

PRESIDENT Fernando Cardoso has announced a rural land tax which he hopes will accelerate reform in his plans to redistribute land in Brazil, *writes Fred Harrison.*

A total of 80% of the country's farmland belongs to 10% of the population. About 49,000 landowners each hold an average 3,347 hectares, reports the Catholic Church's land commission. This compares with an estimated 4.8m landless families.

Landlessness is the prime reason why poverty-stricken families migrate to the Amazon rain forest where they cause ecological damage in their fight for survival. Cardoso wants more of them to resettle on fertile, under-used land in the South.

Announcing the controversial tax, the President declared that it was mainly aimed at owners of unproductive properties who will have to pay an annual tax of up to 20% on the value of their land.

"The tax-collection will be rigorous in the case of large unproductive land holdings," he said. "And it will put a stop to tax evasion which occurs in 88% of these types of land holding."

The President's proposal has now been submitted to Congress where, if it is passed, "we will be turning the page on 500 years of history of injustice ... which has resulted in one of the worst distributions of land in the world".

Tax rates will range from 0.05% on productive properties of up to 50 hectares, to 20% on holdings of up to 5,000 hectares which make use of less than 30% of their land.

Land considered unproductive may be confiscated after five years if the owners do not pay the new tax. The land would then be included in the agrarian reform programme.

IT REMAINS to be seen whether landowners accept this plan without resistance. From past experience we know that it is easy to apparently sub-divide large estates among family members so that lower tax rates apply. And unused land can be made to look as though it is in productive use.

But the most strenuous measure at the disposal of Brazilian landowners has been violence. According to the Catholic Church, 90 people have died since January 1995 as a result of conflicts over land.

The timetable also favours the landowners. A five-year timetable gives them adequate time to prepare counter-measures for the next presidential election. Meanwhile, according to the Minister for Agrarian Reform (Raul Jungman), receipts from the land tax would increase from $300m in 1996 to $1.5bn in the next two years.

According to Mr. Jungman: "all this money will go directly towards agrarian reform".

AMAZON INDIANS have a different view of their President's attitude to justice.

Although Cardoso promised to remove intruders from the tribal lands in the rain forests, the Minister of Justice has reduced the size of one reserve by 200,000 hectares to preserve a number of ranches and five gold miner settlements.

The settlers pollute rivers and are accused of killing and raping the indigenous Indians. They were supposed to be expelled under the President's election programme, but Decree 1775 has facilitated the reduction in the size of the Makuxi reserve. Protests have now been lodged by OXFAM, Survival International and Cafod, the Catholic Development Agency.

■ According to the IMF, Brazil's public finances are in a "worrisome" state. The federal debt was 34% of GDP, and high interest rates mean that the burden is growing rapidly. The president has acquired a reputation for being astute at stabilising the economy as the prelude for a further push in the direction of free market economics.

Ecology gets rent treatment

A RARE attempt by an ecologist to relate the problem-solving properties of land-rent to the environmental crisis has captured the headlines in Washington State, ***reports Paul Knight.***

Alan Durning cut his teeth as a researcher for leading US think-tank, Worldwatch Institute, before returning home to Seattle to establish Northwest Environment Watch, where he wrote ***This Place on Earth*** **(Seattle: Sasquatch Books, 1996).**

Photo: PAIGE RENEE PLUYMERS

■ **Alan Durning**

Drawing on material produced by San Francisco-based Georgist activist Clifford Cobb, Durning explains how governments that do not charge for the use of environmental services have contributed to the damage inflicted on nature.

Though discussion on the budgetary impact of a switch to the rent of natural resources is limited, Durning does demonstrate that environmentalists can make good use of the theoretical tools offered by land tax reformers.

He is incorrect to portray the fiscal system as having "no reason, no consistent rationale, no underlying principle or unifying form". On the contrary, there is a rationale behind fiscal policy - irrational though it may be - which must be exposed if governments are to undertake a radical restructure of fiscal policy.

He correctly states that taxes "penalize work, enterprise, and investment, aggravate inequality, and accelerate environmental decline". But that is the price the landowners are willing to pay to preserve their rake-off from rent.

The amateur shamateurs

BRITAIN FACES the prospect of a period of constitutional change under a Labour government led by Tony Blair. Whether these changes are meaningful for ordinary folk, or mere cosmetic exercises, will depend on the perceptiveness of the Labour government. Public debate is confused by hypocritical language, and a Blair government, if it really wants to make a difference, will have to begin by distrusting the very meanings of the words that will be used in opposition against it.

Take the case of the House of Lords. Labour says it wants to eliminate hereditary peerages. Already a representative of this privileged class of citizen has threatened Labour with rearguard action to prevent reform. Labour has now responded by threatening to swamp the House of Lords with life peers in order to secure a voting majority. The last time such a threat was issued was in 1910 when Lloyd George raised this prospect as a way to overcome the opposition by landowners to the Liberal government's proposal to raise revenue from the rent of land. The biggest landowners in the nation, of course, occupied seats in the Lords; and they were not going to allow commoners to take some of 'their' rental income.

Today, one of their spokesmen is Lord Cranbourne, heir to the 400-year-old Salisbury titles. He has launched a defiant defence of inherited political power. And he is seeking to intimidate democratically elected members of the House of Commons by questioning their motives. He says, for example, that, as amateurs, the peers who inherit their seats in parliament were "less interested in climbing the greasy pole" than elected MPs.

That word *amateur* is loaded. It seeks to separate the aristocracy from the commoners by suggesting that their motives in the service of the community are loftier than those of elected Members of Parliament. But what Lord Cranbourne does not say is that his kind are not amateurs (meaning: unpaid) at all. These hereditary peers don't have to climb greasy poles because they are carried on the backs of the people who pay them the publicly created rental value of land and natural resources. For centuries the Peers of the Realm have not had to work for their living, because their income came to them *gratis*, courtesy of the people who worked. *Ergo*, these gentlemen have had the free time to enjoy the pursuit of politics. But that does not make them amateurs: they were paid with the sweat of the people who generated the rents which were then privately appropriated by the ancestors of Lord Cranbourne.

Tony Blair, if he is installed in Downing Street at the election on May 1, will need to be armed with a healthy disrespect for conventional wisdom. Otherwise, the old guard in Westminster and their Old School Tie companions in Whitehall will find many soothing words with which to try and obstruct attempts at reforms that would improve the condition of society.

THE FUTURE of the Welfare State will be more of a challenge for the next administration than all the proposals for constitutional change put together. Altering the voting system and adopting a Freedom of Information Act are important, but they are secondary to the adoption of a new vision of how to restructure the economy to make it fit for people in the 21st Century.

The Conservative government of John Major is in the last throes of privatising what little is left of public sector assets. If re-elected, a Tory government will have to shift to reducing the financial obligations of the State by dismantling social services. Privatising the pension scheme is one of Mr. Major's goals. So is the private financing of nursing care for old folk. These measures are being developed outside the framework of a coherent philosophy. If implemented on the basis of conventional wisdom we will be recreating a 19th Century society based on private charity.

Margaret Thatcher's place in history is now well established: the yawning gap between the rich and poor which existed in 1979 when she came to power grew by leaps and bounds over the past 18 years. Unfortunately there is no evidence in the manifestos of the Labour and Liberal Parties which encourages us to believe that the gap will be eliminated over the next 18 years.

Mr. Blair's Chancellor designate, Mr. Gordon Brown, is putting most of his eggs in the windfall tax basket. He plans to raise a one-off £5bn by taxing the utilities that were privatised over the last couple of years. The money is supposed to be invested in activities for educating young people back into the jobs market. Nothing about this proposal suggests that new jobs will actually be available for these young people, who are today resigning themselves to the prospect of living on welfare handouts. A Bill of Rights that does not transform the economy into a dynamic system capable of returning to full employment will not be worth the paper it's written on.

GERARD WINSTANLEY

... World Briefs...

HONG KONG
Capitalist dowry

The British Colonial government pulls out on July 1, leaving what Governor Chris Patten calls the "biggest dowry since Cleopatra". The Colony which reverts to China has £28bn in reserves, according to the latest budget documents. But it also has a "land fund" of £48bn.

Hong Kong's economy has proved to be unique because of the twin policy of free trade and of capturing the bulk of economic rent for public purposes. All the land in the Colony has been held on lease, which has meant that capitalists have had to pay the government for the privilege of operating on the island.

Even so, Asia's richest man, Lee Shau-Kee is a Hong Kong resident who made his fortune as a property developer. Average incomes in the Colony now exceed those in Britain, and the residents own more Rolls Royce cars *per capita* than any other city.

The Colony will now be known as a Special Administrative Region (SAR) of China. Beijing takes over the "land fund", but it is not possible to tell whether it will continue to operate an efficient land market under the new regime known as "one nation, two systems".

LONDON
Election news

Premier John Major seeks re-election on May 1 with the aid of a £500,000 donation from one of Hong Kong's richest men with property investments in Britain. Ma Ching-Kwan is said to keep Tory MPs on his payroll. His father is a fugitive from the Hong Kong law authorities, who want him to stand trial for drug smuggling.

If the Tories are re-elected, they plan to sell the airwaves used by mobile telephone companies, according to Ian Lang, President of the Board of Trade. The rents of the radio spectrum would fetch a reported £1 billion. In the US, $20bn (£12.5bn) was raised from selling parts of the spectrum to the private sector.

On the local property tax front, the Labour Party claims that hundreds of "Mayfair millionaires" will pay less council tax in the next year than 7.7m poorer households thanks to the "rigged" system of Tory funding. The government took money from the rest of the country to hold Westminster's council tax low. And, promises Labour, an incoming Blair government would undertake a "root and branch" review of arrangements for sharing money between local authorities.

But the former socialist party was determined to secure votes by doing a deal with Big Business: Labour invited the Confederation of British Industry to draw up their "business" manifesto. The party did not draw up a comparable "employment" document with the trades unions.

Labour's plan for a "windfall" tax on newly-privatised utilities - expected revenue: $5bn - did not worry the American owners of British electricity companies. The Ohio utility that bought Midlands Electricity last year says it is seeking a "partnership" with a Labour government.

■ British poverty levels, affecting 4.2m children, are the worst in the European Union apart from Portugal and Ireland. Every year there are 227 poverty-related deaths among the children, who are five times more likely to die in an accident than those from the richest households, according to the Child Poverty Action Group. Child poverty had tripled since the Conservatives came to power in 1979.

PARIS
Bust banks

France's financial institutions have lost at least £20bn through property speculation according to an investigation by the respected *Les Echos* newspaper. The top 18 banks and insurance firms had engaged in "collective madness and economic waste", according to the newspaper, whose estimates are said to be conservative.

The money lost in the property speculation was sufficient to have built five super-speed train networks and the Channel Tunnel. Instead, the money disappeared in the property collapse of 1990 after one of the worst periods of speculation which was partly fuelled by nationalised firms. The speculation had been encouraged by both socialist and Gaullist-led governments whose political appointees (according to a *Le Monde* commentator) had "gone completely nuts in their gambling mania and their battle of egos".

LONDON
Empty homes

Almost 800,000 homes in England - one in 25 of the total - stand empty according to the Empty Homes Agency. About 667,000 are in the private sector. In the public sector there were 79,000 empty council-owned homes. Up to 20% of homes owned by the Ministry of Defence are reported to be vacant.

EDINBURGH
Queen censured

THE Queen has been censured as Britain's worst landowner for her "poor management" of Balmoral, her Scottish retreat in the highlands. Queen Elizabeth, who is patron of the Royal Society for the Protection of Birds, was condemned in a competition organised by the environmental group The Land Is Ours. The public was invited to nominate the worst owner of land, and the Queen's estate's attempts to exclude important conservation sites on Balmoral from wildlife protection laws was judged to be unacceptable.

Critics claim that the Queen excluded conservation experts from monitoring management practices on the estate, which covers some of the most important wildlife habitats in Europe.

The estate claims that important sites should not be designated for special protection because the Wildlife and Countryside Act did not apply to Crown land. Threat of action in the European Court of Justice preceded the estate's decision to agree to allow two of the most sensitive areas to fall under the EU Habitats Directive.

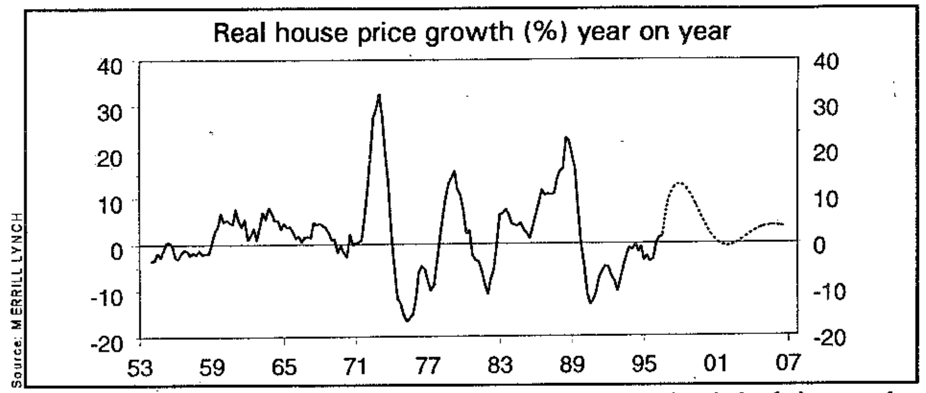
SALISBURY
Title fraud

Pensioner Frank Higgins built a bungalow in a Hampshire village, which was then left empty for five years after he became ill whilst holidaying in Scotland. He remained north of the border for five years. A fraudster moved in, swore that he was the true Frank Higgins - and the Land Registry issued him with deeds. He then sold the bungalow to an innocent buyer. Now the Land Registry accepts that it was duped, and will pay out £100,000 to reimburse Mr Higgins and the fraudster's victim.

HANOI
Paddy power

Police were forced to retreat when rice-growers rioted against plans to build a golf course in the middle of their paddy fields in a village on the edge of Vietnam's capital. "This is our land and the people are ready to sacrifice their lives for it," chanted the villagers. Observers are resigned to continued social conflicts as the communist regime tries to defend its claim that all land belongs to the state - a view challenged by the older tradition based on communal ownership.

Boom-time in housing market



AFTER THE great property crash of the early 1990s, brokers in the City of London - especially those representing pension funds and insurance companies - remain cautious about the prospects of property. Money is not slushing into commercial property - and the Bank of England is keeping a wary eye on the sector that overheated in 1988, *writes Fred Harrison.*

"Most of them have lost so much money in real estate they'd be bust if they were independent plcs," observed John Ritblat, one of Britain's leading real estate dealers who has a low opinion of City financiers - many of whom are tenants of his company.

But homeowners are abandoning their caution. Gazumping is back in a market where the demand is now outstripping the supply of houses for sale.

Because of high land prices, construction of new homes is not keeping up with demand. That is why many British bricklayers and electricians are heading for Ireland where they are promised better pay and job prospects. This reverses a migration trend that has been going on for generations, in which Irish labourers have flowed into England to seek work.

But all is not lost for the British construction sector. According to City stockbroker Merrill Lynch, house prices will double over the next 10 years - yielding higher returns than stocks and shares. The depression advice - buy a house as a home, not an investment - is again being ditched in favour of calculations of capital gains.

The Merrill Lynch research makes its prediction on the basis of variables that include disposable incomes, interest rates and inflation. Their new model concludes that house prices are trading at 20% below their true value, after peaking in the late 1980s when they were 32% overvalued.

The mathematical model fails to take into account future trends in land prices. That is why it forecasts the next peak in annual price increases as 16% in 1998, levelling off to an annual rate of 7% until 2007. On the basis of such insights, one media pundit, David Smith of *The Sunday Times*, stated (March 16): "I do not think we will again see the annual house-price rises of 20% to 30% that we saw in the late 1980s". He will have forgotten those words when, 10 years from now, the graph line - instead of flattening out as Merrill Lynch predict - explodes exponentially. And it will do so because of the influence of the land market, to which the economists have turned a blind eye.

Black box in the economy

WITH the general election on May 1 Britain enters a new phase of constitutional change. For most citizens this will make little or no difference because there will be no substantive changes in the substructure of the economy. Why? Because policy-makers turn a blind eye to one-third of the economy, *writes Peter Poole.*

Just about everything related to the land market is dumped into a black box and hidden away from the government ministers who claim to want to operate a stable economy based on fairness to the people who create the wealth. These are not wilfully ignorant people. The ignorance was fostered in the body politic long ago.

Take the case of a post-war Labour Party Chancellor of the Exchequer. Hugh Dalton had been a Reader in Economics in the University of London as well as a Member of Parliament during the inter-war years before coming to power in the socialist landslide of 1945. As Chancellor of the Exchequer he could have laid the foundations for a new fiscal policy that would have done more for people's constitutional rights than anything which Labour and Liberal leaders Tony Blair and Paddy Ashdown now plan.

Mr. Dalton knew of the claim that the rent of land was sufficient to pay for public spending, but he had already disclosed his ignorance when he wrote that "it would not, in most modern communities, bring in enough revenue to balance the public accounts". The economist had not done his homework. Which is not surprising, for he had no concept of the economic rent of land and natural resources. Take his claim that the substitution of rent for income taxes "would lead to a very bad distribution of the burden of taxation. For a millionaire, who owned no land, would pay no taxes, while a poor man, who had invested all his savings in the purchase of his house, would pay in taxation ... a considerable proportion of his income".*

Would this millionaire live rent-free in a house? *Not many of them do!* Would he not invest his wealth in revenue-yielding activities that required the use of land and natural resources? *Most of them do!* So under a rational fiscal system he *would* be paying rent to the exchequer, directly (as land owner) or indirectly (as tenant/resource user). The only way he could escape is to sink all his money into priceless works of art, and hoard them in a boat on which he lived in mid-Atlantic.

Every person in the community adds to the rental value of land, even if he or she does not own land. Therefore, every person contributes to the national exchequer through the added rental value which his or her presence has made possible in the community.

In the past, property owners restricted the right to vote only to those who owned property on the grounds that these were responsible citizens with a stake in society. *Eyewash!* Every member of the community was a joint owner of the common property. And that, of course, was the reality which had to be hidden in the back box.

* In *Public Finance*, London: Routledge, 1932, p.42.

POPULATION AND POVERTY

John Young

In *Progress and Poverty* Henry George argues vigorously against the population theory of Thomas Malthus (1766-1834). It is not just factually wrong, he claims, but is against fundamental economic truths. Today we find neo-Malthusianism being widely promoted, and even taken for granted as expressing an obvious reality.

Malthus stated that "population, when unchecked, goes on doubling itself every twenty-five years, or increases in a geometrical ratio."[1] But the means of subsistence, "under circumstances the most favourable to human industry, could not possibly be made to increase faster than in an arithmetical ratio."[2] The inevitable result will be starvation unless the increase of population is controlled.

John Stuart Mill (1806-1873) endorsed the theory, and stated that: "The niggardliness of nature, not the injustice of society, is the cause of the penalty attached to over-population."[3]

Against the Malthusian contention that a smaller number can be better provided for than a larger number, George argues for the opposite conclusion. "I assert that in any given state of civilization a greater number of people can collectively be better provided for than a smaller."[4]

Nature is prolific. George points out that a fact constantly emphasised by Malthus and his followers is the prolific character of living things; but they deny the obvious consequence. A pair of rabbits, if preserved from enemies, could soon overrun a continent; "many plants scatter their seeds by the hundred fold, and some insects deposit thousands of eggs..."[5] Since the sources of man's food have greater productive power than man, subsistence has the power to increase faster than population.

Human creativity. The difference between the jayhawk and man, says George, is that the more chickens the jayhawk eats the less there are; whereas the more chickens man eats the more there are - for he breeds them.[6] He alone has the power to increase his food supplies as needed.

Co-operation. The fundamental reason why a greater number can be better provided for than a smaller is found in the power of co-operation, to which George devotes two chapters of *The Science of Political Economy,* and which permeates the whole of his economics. "Twenty men working together will, where nature is niggardly, produce more than twenty times the wealth that one man can produce where nature is most bountiful."[7] When numbers are larger, the greater combination, subdivision of labour and economies of scale more than compensate for the lessening of natural advantages.

Facts confirm the principles. "The countries where population is densest and presses hardest upon the capabilities of nature are, other things being equal, the countries where the largest proportion of the produce can be devoted to luxury and the support of non-producers..."[8] That was true in George's time and is true today.

An editorial in the *Far Eastern Economic Review* of 13 May, 1993 stated: "On the basis of population density, the supposed problem countries have relatively low numbers of people per square kilometre of land. Indeed China and Indonesia rank well towards the bottom of the list. Even more interestingly, the places at the top end of the population density list are among the wealthiest in the region: Hong Kong, Singapore, Taiwan, South Korea and Japan. Nor is the relationship confined to Asia. Italy and Britain have more than double the population density of Indonesia. The Netherlands is one of the most crowded places on earth, but we don't hear the World Bank warning of too many Dutchmen."

Some statistics for Asia: Hong Kong has a population density per square kilometre of 5,948, Singapore 4,484, Taiwan 602, South Korea 450, Japan 329, India 270, Philippines 224, Vietnam 209, North Korea 185, China 125, Thailand 113, Indonesia 104 and Malaysia 56.[9]

In November 1993 the World Bank issued a report, *The World Food Output,* which gives detailed statistics proving that food production has been increasing for years at a faster rate than population. Indeed, the biggest increases have been in recent years. Donald O. Mitchell, a senior economist with the World Bank, summed up the situation in an *Executive Report.* He gave the following information.

Agricultural prices are at their lowest level in history. Crop yields are growing faster than population. Since 1950 world output of cereals has increased by 2.7 per cent per annum, while population has grown by about 1.9 per cent p.a. "If yields [of world grain consumption] were to grow at 2 per cent p.a. during the period to 2010 - not unreasonable in our view - then an additional 11 per cent of the world cropland would need to be removed from production."

George refuted Malthusianism with facts. Today neo-Malthusianism is refuted by facts. George also answered

Malthusianism from principles. Today the same principles answer neo-Malthusianism. In particular, once we grasp the marvellous power of economic co-operation to generate wealth we see the solution to the fears of those who think population growth is an enemy.

According to George, the main cause for the triumph of Malthusian theory is that, "instead of menacing any vested right or antagonizing any powerful interest, it is eminently soothing and reassuring to the classes who, wielding the power of wealth, largely dominate thought."[10] This cause still operates. Injustice is the great cause of poverty, and those who benefit by injustice want to shift the blame for poverty onto others. Here they shift it on to the poor, who are charged with perpetuating poverty by having too many children. The population controllers would deprive them of their children as well as of material wealth.

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10. George, *Progress and Poverty,* book II, chapter 1, p. 98.

Cape Metropolitan Council rating action

THE resolution that was passed by the CMC to collect all rates from site values only has run into a few snags, *reports Godfrey Dunkley from Cape Town.* These difficulties will most likely cause a delay in some cases and a postponement in others.

It is sometimes difficult to obtain accurate statistics of what is likely to happen in the long term. Each set of statistics seems to vary slightly, depending on how they were built and their source.

A further factor which could have a significant effect is Cape Town's bid for the Olympic Games in 2004. This could affect all six sub-structures or Metropolitan Local Authorities.

The table gives a good overview of the CMC:

Population (Feb. 1997) and Rates Income 1996/97

	Population	%	R million	%
Cape Town...	1,076,000	38	436	50.1
Blaauwberg (North of CT)...	130,000	4	45	5.2
South Peninsula...	345,000	12	137	15.7
Tygerberg (East of CT)...	980,000	34	174	20.0
Oostenberg (East of Tygerberg)...	246,000	8	45	5.2
Helderberg (S/E of Oosterberg)...	128,000	4	34	3.9
Total CMC...	2,905,000	100	871	100

The first three Metropolitan Local Councils (MLCs) are working towards a new valuation roll based on site values. This will reduce the time needed to complete the rolls which are now urgently required. There has been a delay in clearing the legality in terms of both the new Constitution, which is not very clear, and the former Provincial Ordinance, which has to be modified. After this it is necessary to fix the effective date of valuation. If a Local Authority starts to update the Valuation Roll and the effective date is then changed, all the work done to date could be ruled as ineffective.

The other three MLCs have fairly up-to-date valuation rolls, some of which have only just been completed, and they do not wish to finance another revaluation. There also seems to be some resistance from a few councillors who have vested interests in under-developed property. The power struggle is starting.

In March I had a small stand at the "Art of Living Exhibition" in Cape Town. A number of books were on sale and graphs showing the factors of production and effect of taxes at the margin of production. This presented the opportunity for a large amount of discussion with a wide cross-section of people. There was great interest from the public to these "new ideas". Don Northcott assisted. Some exhibitors from Port Elizabeth, the only other RSA city still on Flat Rating, were keen to take both literature and the ideas back to their City Councillors.

On March 26 I attended the Cape Metropolitan Council monthly meeting as a reporter for *Land and Liberty.* The rates issue was on the agenda but the proposed modification was not carried. However, as President of the International Union I was introduced to the new Mayor and Deputy Mayor of the CMC and received a very friendly response. The invitation was extended for further discussions. The Mayor, Rev. William Bantom, also expressed interest in sending a delegate to the IU Brighton Conference.

Galbraith's Despair

by Ian Lambert

Georgists should welcome Professor Galbraith's latest offering* and should read it.

There are very few political economists today who have anything like the broad perspective on society that Henry George had, let alone the ability to write eloquently about it. John Kenneth Galbraith has both.

The quest for the Good Society Henry George would have admired and encouraged, even if he would have disagreed with Galbraith on many subjects — perhaps passionately. In an age when ideology is in retreat in political economy, one must admire the fact that Galbraith at least asks the questions, and raises the issues, that George would surely have raised.

So, for example, he sees the central problem of the modern economy as being the boom and bust cycle, with the devastating unemployment it brings. He even analyses the cause, as speculative excess in good times — in securities, real estate, junk bonds and mergers and acquisitions, although he fails to point out that a considerable part of the speculation in securities and mergers and acquisitions — and indeed junk bonds — was indirect real estate speculation. All quite Georgist in its analysis.

But sadly he formulates the problem in terms of an insufficient flow of aggregate demand. There is here no mention of Say's Law, no mention of why supply and demand fail to match. Galbraith's approach is reminiscent of Keynes', so it is not too surprising that the remedies he prescribes are essentially "demand management". Government must push along the flow of aggregate demand. So, in bad times, Galbraith says, Government can lower taxes, reduce interest rates or spend into the economy on a deficit finance basis. The first two courses of action do not help to reduce unemployment significantly, so we must use the third. In good times, we must keep high taxes to counter speculative excess. All well and good, I suppose, but there is no mention here at all of land value taxation. (In fairness to Professor Galbraith, he may have taken the view that there is at large "no listening" for LVT. While at times, he is idealistic, Galbraith is not intending to set forth a Utopian theoretical ideal, but a model current statesmen could embrace.)

What is disappointing, and perhaps the weakest aspect of Galbraith's writing, is that he does not embrace methodological individualism in the way that George did. True to his "institutionalist" background, he can write in terms of broad effect, but unlike George and the Austrians he does not start from individual motivation and behaviour and work from there to the societal level. The result is that much of what he says is liable to be dismissed as gross over-generalisation.

So, for example, there is no analysis of speculation or how speculators are supposed to be motivated into becoming more truly productive by a high rate of progressive income tax (the blunt instrument that Galbraith advocates). If the modern economy rewards speculation better than production, it will surely reward highly taxed speculation better than equally highly taxed production. Moreover, he fails to recognise that high taxes encourage emigration of the talented (and correspondingly discourages immigration). And abroad it is often easier to be a speculator — putting back into the country what is misleadingly called "badly needed investment from overseas" rather than stealing jobs away overseas — than genuinely productive. So his high taxes might actually exacerbate the disincentive effect. In fact, it seems, that he is more concerned about Government raising money to spend on protecting the poor in society (through the welfare state) in bad times than counteracting the speculation that causes those bad times. In short, the prescribed remedy is relief of the poor, not cure of poverty — half a Georgist loaf.

What is powerful in this presentation is Galbraith's recognition of the inevitable failure of his Humane Agenda in a democratic society where the poor and disadvantaged do not vote. He has a certain admiration for Australia and Belgium, where voting in elections has been made compulsory, although he frankly doubts that could ever be introduced in America because of the civil libertarian lobby.

There is much in this book to admire, not least that at least someone today in academia is still prepared to ask these questions and to take a broad look at the emerging world society, beyond the nation state. But, in the end, I got the impression of a note of despair from a once popular institutionalist who has now been marginalised, who recognises that he is on the losing side, and is not particularly optimistic for the future. There is an air of resignation in some of the chapters, where he resorts to dogmatic assertion rather than argument.

His younger critics will tear this essay to shreds, his older ones will damn it with faint praise. More is the pity; he deserves better than that. At least he has the courage to ask the right questions.

* Galbraith, J.K. *The Good Society: The Humane Agenda*, USA: Houghton Mifflin Company, UK: Sinclair-Stevenson.

Letter to the Editor

Sir, It is fine to hear that Simon Winters endorses my research on behalf of the Henry George School of NY (Open Forum: Winter 1997). He and then-president Ed Dodson were my two strongest supporters. But they were out-voted, under conditions that need to be set straight.

In 1994 I signed a two-year contract to create a computer model of rent's magnitude in the U.S. economy. The contract included $20,000 for expenses. But the School's director, George Collins, repeatedly refused to release the funds to purchase the computer hardware to calculate and chart the data. When I made an initial computation by hand, my statistics offended Mr. Collins and School trustee Steven Cord. They claimed that my methodology conflicted with Mr. Cord's earlier efforts (which was why Mr. Dodson proposed that I be hired in the first place).

Mr. Collins forbade my research summary to be published in the *Henry George News*. He recalled all the issues that had already been printed but not mailed out, and trashed them. He forbade me to teach a scheduled course on the methodology of national income and flow-of-funds analysis, or to train School staff and advanced students in basic economic statistics. He also refused to give me permission to publish an advance report on this research when I was invited to do so by the *Wall Street Journal*.

With no adequate computer facilities, I was not able to produce a computer model and chartbook. In March 1995 I requested a meeting to ask the Trustees to direct Mr. Collins to release the funds. As Mr. Winters' letter points out, the key question is the timing: "Why the Trustees who supported Hudson's research for over a year would end it?"

First item on the agenda was the Plotch Report. It enraged the Trustees, first for revealing that the majority of Georgists surveyed refused to contribute to the School until it stopped its self-dealing with board members. Secondly, it showed that few Georgists felt that they were getting much out of the "two-rate" tax program.

Almost as infuriating was Mr. Plotch's finding that what Georgists *did* want was research into the magnitude of rent. In the absence of such a calculation, the School talks about taxing land rent without any idea of how large a magnitude this is, or how large land-value gains are, or how these sums compare with federal, state and local tax collections. We are left only with the evangelical "Henry George Lite" (10 Easy Lessons), with nowhere to go from there to interest professionals, academics and policy-makers in the ramifications of land's economic role in the economy and in tax policy. Mr. Winters informed me that rather than leading the Trustees to be glad to be financing this research, the report had just the opposite effect. Mr. Cord saw that continued support for my project would deflect the focus of Georgist economics away from him. He asked to be appointed director of research himself. The vote went against me.

Oscar Johannsen said that my research was the kind that the Lincoln Institute should be financing, not the School. As treasurer, he pointed out that the School already had fully allocated all its net income (after meeting its fixed carrying charges) to Mr. Rubinstein, Mr. Cord and Mr. Winters for their own programs and personal remuneration. He said that the School's budget was in deficit even before voting on my contract.

Mr. Winters has not come to terms with the fact that his Board has behaved irresponsibly. Its self-dealing pushed the School budget so far into deficit as to leave no room to fund a research program. A conflict of interest rule is needed. Mr. Winters warns of "a disciplined minority, willing to procrastinate and delay decisions, to take control of the board." I fear that this may be just what has happened!

The School's endowment has been decoupled from the needs and opportunities of the land-value tax movement. In my case, the School tried to pay a tiny sum to send out ineffective press releases, and then tried to brag that it had played an important role in funding research. Such characterizations seem designed to distract attention from the vast amounts of money that are being spent without much visible effect.

Matters can be clarified by two simple steps. First, make public the School's financing. Secondly, publish the Plotch report. Give the public access to this service which the School has performed for the movement.

Regarding the School's love/hate behaviour towards my statistical model, perhaps the real problem is reflected in Mr. Winters' repetition of Mr. Cord's claim to have collected "$65 million in land rent." It is my understanding that hardly a penny of real estate taxes has been added. The overall tax rate has not been raised. All that has occurred is a re-classification from "column A" to "column B", that is, from the building component to the (still under-assessed) land component. The marginal inducement to build instead of to hoard vacant land has no more effect than a half-percentage point change in the mortgage interest rate. It hardly seems important enough to get excited about.

The School did not finance my historical research. My *Bronze Age Finance* manuscript on land redistribution and debt cancellations in antiquity was completed before I met Mr. Winters. It is incredible that he claims that the $500 or $800 he paid me to write a press release covers a decade of work.

From 1992 until June 1994 I received about $3,500 from the School to develop a college course syllabus on land tenure and to write press releases. During this period, Mr. Winters tells me, he received about $25,000 annually for himself for "expenses".

As for the 1994 NYU conference on land privatization, Mr. Winters asked the School Board to cover the costs of editing and typesetting the proceedings, but was turned down. So I underwrote the costs. Mr. Collins told people that the meeting was a waste of resources, and he forbade School staff to attend them. The School chose not to contribute to the follow-up conference on the role of land-rent in urbanization in antiquity.

I never received payment from the School for writing my Notre Dame paper (the School did pay a part of my travel costs to deliver it) or the paper that Mr. Winters mentions on Wilhelm Roscher, delivered in Germany. All this was done on my own time and expense.

Michael Hudson,
New York, USA

Sidetracked!

Counting the cost of the Two-Rate Tax

Michael Hudson and Richard Noyes

TAX CUTS on income and capital can be financed either by cutting public services, or by taking an increased share of land rents for the public exchequer. The two-rate reform favoured by some Georgists is not the solution, argue the authors, for the property tax accounts for only 21% of state and local revenues. Instead of advocating taxation on the full rental value of land, the two-rate taxers would leave existing real-estate tax rates unchanged. So 79% of state and local revenues and all federal taxation would remain as sales taxes and income taxes, or other non-land levies.

HISTORIANS of 20th Century economic thought will be puzzled by the way land speculation remained the major get-rich strategy even in industrial and post-industrial economies.

A more modest irony also needs to be explained. There was a body of theory (indeed, at one time a political movement) devoted to collecting land values for the public. Why did the followers of Henry George fail to bring to the public's attention the key role played by land-value gains? Why has the annual value of land and other natural monopolies not been authoritatively calculated, and why has the scale of the "capital gains" from land and land-like natural monopolies remained shrouded in mystery?

A related irony is this: why did the land-value tax movement use most of its resources to advocate that real estate taxes be reduced, rather than to raise the tax to capture the capital gains in land value? The essence of what has become the "two-rate" tax movement is not to raise overall real estate tax collections, but merely to redistribute the existing tax to focus more on land. *This change is mainly only nominal.* It will capture slightly more of the site value of under-utilized lands. But it will still leave substantial land-rent (and hence, land-value gains) in the hands of private holders and speculators.

Dr Michael Hudson is a Wall Street analyst and a co-author of *A Philosophy for a Fair Society* (London: Shepheard-Walwyn, 1994). He is currently writing a history of land privatisation.
Richard Noyes is a Representative of the General Court of New Hampshire (the state assembly), on whose Local and Regulated Revenue Committee he serves as chief of local revenue.

Rental income for the U.S. real estate industry is running at about $800 billion per year - *about 14% of national income*. At least, this is what the National Income and Product Accounts (NIPA) report for residential and commercial real estate. The figure does not include mining or the oil and gas industries, farming, forestry or ranching, or the income generated by land-like monopolies such as the electromagnetic broadcasting spectrum. Even for the real estate sector, it misses the implicit rental value of much owner-occupied land and underutilized sites. And it does not include revenue taken by owners as capital gains, that is land-value gains.

The $800 billion figure only reflects residential property and commercial real estate investment, after defraying all direct operating expenses. From this, real estate owners pay over $300 billion to mortgage lenders as interest. This *substantially outstrips* the $225 billion paid in local real estate taxes. Virtually nothing is paid in federal income tax, largely because landlords are able to set aside about $200 billion as a reserve for the presumed decline in the value of their buildings as a result of wear and tear. Also, as more and more revenue is paid out in interest - as landlords "pyramid" their equity by putting down as little of their own money as they can - this leaves less for the tax collector.

While buildings and their fixtures wear out, land values rise over time (despite some years of price corrections following real estate bubbles). On balance, landlords come out ahead. They deduct from their taxable income the interest they pay to mortgage lenders, as well as the local property tax, and a fictitious amount representing the pretended loss of the value of buildings.

Nothing is left for the federal government after the tax accountants walk through the winding and rather tricky maze of loopholes, small print and blatant giveaways that legislators *have provided for the real estate industry.*

INCREASES in land value are not reported in the National Income and Product Accounts, despite the fact that they represent a major part of business enterprise's "total returns." Land values are drastically underestimated by the Federal Reserve Board in its "Balance Sheet of the U.S. Economy." Even so, these statistics show that land values in the United States are now rising at about $1 trillion per year.

This amount is commonly dismissed by national income economists on the ground that it is not "earned" income. The national income and product accounts focus on earned income (and interest and taxes).

Land is not a "product": no more of it is being produced. What today's landlords and speculators obtain is not so much a flow of revenue, but a capital gain. However, this capital gain is realized only at the point where the land is sold, or where the property is refinanced. Landlords may borrow the added land value from the banks, simply by taking out a larger mortgage. Thus, because the land is not "sold," the landlord gets his money from the bank without having to pay tax on it! Indeed, refinancing the property often is taken as an excuse for beginning to re-depreciate its buildings all over again - that is, writing off their value as if the overall property were falling rather than rising in price.

The important point is that capital gains from land substantially outstrip the property's rental income (except, of course, when real estate bubbles burst).

The existing real estate tax captures only a small fraction of overall capital gains from land. This means that even if the two-rate tax were levied entirely on the land, it would collect only about 28 to 30% of the rental value, and less than an eighth of the total return.

The two-rate tax leaves the great bulk of these capital gains in the hands of speculators and other property owners - unless the overall tax rate is sharply increased. Real estate will continue to get special tax treatment denied to industrial manufacturing, and to all recipients of "earned income."

Lower taxes on capital gains than on "earned" income (industrial profits and wages) induce investors to take their returns in the form of speculation in real estate and the stock market (The key to much of the stock market's gains represent the growth in underlying land values, especially for newly privatized enterprises which tend to underutilize their land value).

SPECIAL tax breaks for the real estate industry are often rationalized on the ground that they are necessary to spur construction. This approach would reclassify what Georgists (and indeed, classical economists) call "rent" and turn it into "profit," that is, what Frank Knight called "compensation for risk."

By the early 1990s the real estate industry's gross rent was about $700 billion annually. But only 0.3 percent of this was paid as income taxes. The industry avoided income taxation by using many loopholes, most of all by over-depreciating buildings even as rising land prices more than made up for the wear and tear. The upshot was that rental income appeared as a "capital gain" rather than income - and low capital-gains rates provided an incentive to hoard, rather than to build and actually earn income.

To the real estate industry, mortgage interest now represents the most important cost. Most of the rental value of US land has been pledged to mortgage lenders as interest to carry the property. This creates a political problem. Collecting more of the land's rental value for the public would be at the expense not simply of the landlords holding title to this land, but at the expense of the bankers behind them. Landlords could rightly claim that they are being "squeezed," because the gamble they took - that they could hold out by always using the land's rental value to pay interest to their bankers in their belief that land prices would rise indefinitely - did not provide them with the pot of gold they had anticipated.

Examine the chart (from a study by Michael Hudson and Kris Feder, published for the Levy Institute at Bard College on "Real Estate's Role in the Capital Gains Debate"). The mortgage figures show that even a half-point increase in the mortgage rate is more important, quantitatively, than a total shift of the real estate tax from buildings to land. For the local real estate tax itself is only 1% or 2% - nowhere near as high as interest rates. Shifting this marginal tax from buildings to land thus is an insignificant shift. It gets easily lost in the wash of overall mortgage debt and depreciation manoeuvring.

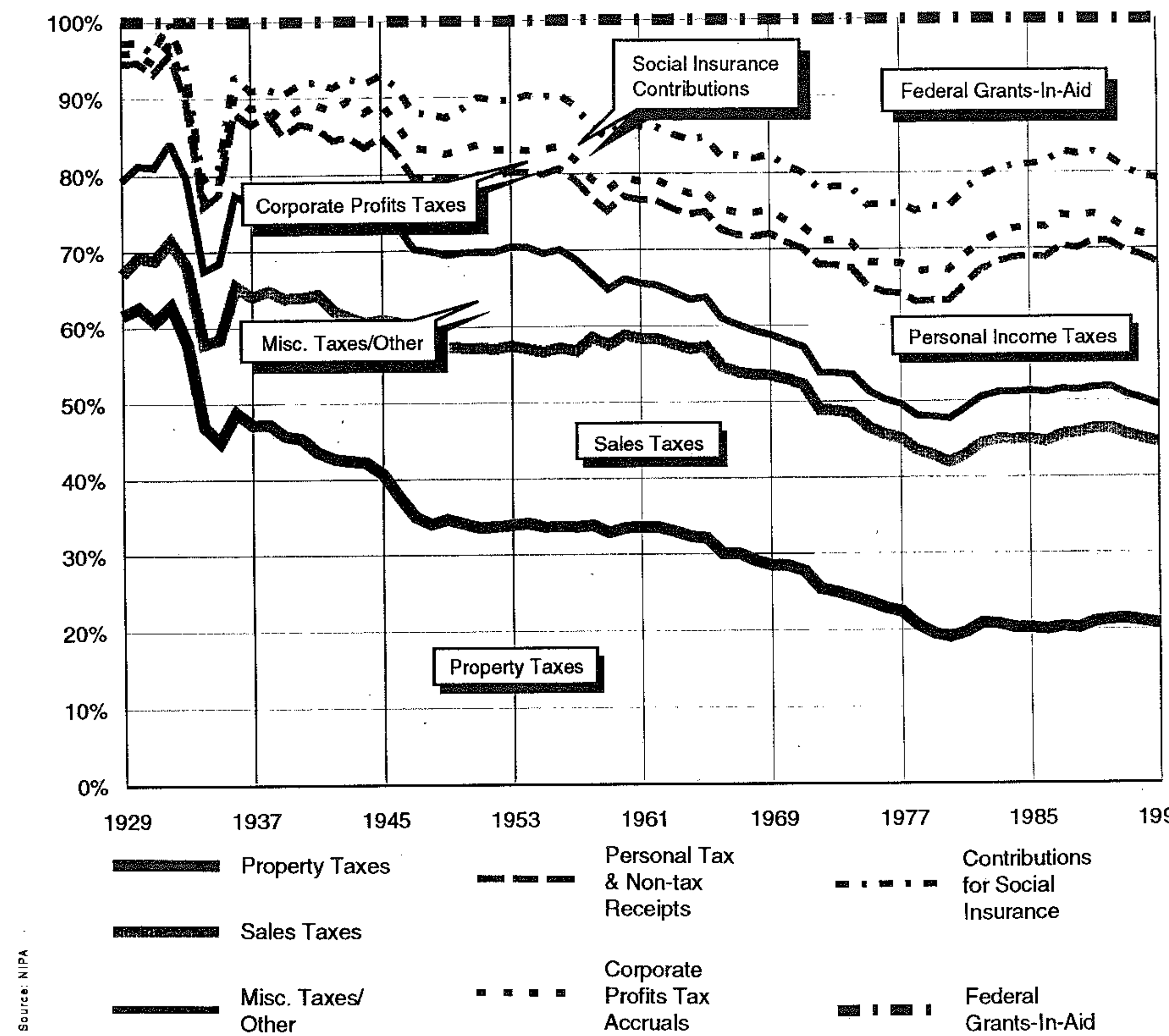
The important point is that a switch to two-rate taxation would not add significantly to the revenue of owners of buildings, except to the fraction of a percentage point of the property's value representing that portion of community-wide taxes that can be shifted to underutilized land such as parking lots or vacant lots. The tax obligations of statistically "normal" real estate would be unaffected. All that occurs is a reclassification of the nominal tax from one category to another. Heavily built-up sites would benefit slightly, but as long as the total real estate tax rate is only a few percentage points of the property's actual value - and most land is not underutilized - the effect is more symbolic than real. The two-rate tax certainly does not capture anywhere near the land's full rental value, and hence the gains in land-value.

THE MAJOR objectives of real estate investors are to secure capital (that is, site-value) gains; to minimize (and defer) taxes on this gain; and to cover the holding cost (or hoarding charge) by borrowing from banks, S&Ls, insurance companies, pension funds or other lenders. So little of the land's rising value has been collected by government that mortgage interest is now of much greater concern to the real estate industry than are property taxes. (Meanwhile, the income tax barely touches real estate at all!)

Real estate developers typically are willing to turn over all their net operating income to the banks as mortgage interest, in the hope of "cashing out" at the end and selling their property for a mark-up - not a "profit" as such, but a return in the form of the more lowly-taxed capital gain.

These gains are almost entirely land-

State and Local Government Receipts — Percentage Composition



value gains, as buildings themselves do indeed depreciate. Rising land values are so large that their recipients have been able to gain control of the political process to shift federal taxes onto labour and industry, via sales taxes and income taxes on wages and other earned income. In effect, government is manipulating the tax system to subsidize unearned income.

The effect is to warp the economy. What has been welcomed as "post-industrial" growth turns out to be merely a gentrification process. The major way to get rich today remains the same as it was in industrial and pre-industrial economies: to reap land-value gains. Yet Georgist institutions have not made this seeming anomaly an issue of national debate. Indeed, no one seems to know about it, except landlords and their bankers!

The public is left to imagine that stock-market gains reflect the financing of new industrial investment (initial public offerings, or IPOs), whereas in fact they reflect the recycling of land rent into new real estate lending, which puffs up land prices. Until the public recognizes how savings are recycled to inflate the land bubble, little will be done to close the loopholes that divert income away from industrial investment to real estate speculation.

Only when people realize that industrial investment and consumption are being taxed (or public services cut back) mainly to free more income for land speculators will the anti-tax movement achieve a meaningful focus.

THE two-rate tax movement had some logic early in the century, when real estate taxes made up the bulk of state and local budgets. But today, property taxes make up only about 21%. Thus, the allocation of this tax as between land and buildings is nowhere near as important as it once was. This is especially important in states such as Pennsylvania, where real estate is taxed at slightly over 1 percent of the property's assessed value.

Today's two-rate tax movement aims at shifting the existing real estate tax from buildings and other capital improvements to the land. This is to be done without raising the overall level of revenue. "At the margin" it raises taxes for land without buildings: parking lots, used-car dealerships, and other underbuilt property. And by the same token, it would lower taxes on the community's largest buildings, electric power utilities and other expensive structures.

Advocates of the two-rate tax system want to promise that property taxes for most residents will decline. But if the existing real estate tax captures only a portion of the land's rental and sales value, this means that the two-rate tax will still leave a major part of "total returns" in the hands of private holders.

This is a far cry from what Henry George advocated. Indeed, the two-raters have sought to win votes for their program by trying to find communities where they can appeal to most property holders that their real estate taxes will be *reduced*. This can occur only in communities that have substantial underdeveloped land, with no major buildings - in other words, rather poor communities.

To be sure, this reduction in most peoples' property tax rates probably was not how the two-tax movement began. No doubt its early proponents were searching for some kind of "real world" victory, some way of putting before the public - and enacting into law - the economic distinction between land and capital improvements. But in attempting to attract voters, appeals were made to their narrow self-interest: their own property taxes could be reduced by shifting the burden marginally onto underutilized land (as long as an even higher tax yield of large commercial buildings would be shifted onto residential homeowners, that is!).

THE BASIC theme of Georgism is society-wide economic interest. This theme is lost in the two-rate campaigns. Even worse, two-raters have sought to direct as much of the movement's resources as possible into their campaign, leaving advocates of the larger economic picture out in the cold. Academic efforts and serious research efforts have even been discouraged on the ground that they distract attention from their own local efforts.

If communities have some major, highly expensive structures - a public utility, or a few very large buildings - shifting the existing property tax onto the land will free these large capital developments from taxation, and distribute former tax levy among the remaining landholders. Obviously, this is not a vote-catching idea.

Why are voters (and for that matter, most Georgists, as the Plotch Report [*Open Forum, Land & Liberty*, Winter 1996] has shown) so cool to the two-rate tax? The answer is simple: there is little to get excited about. It is a very marginal tax, symbolic almost only to Georgists. Most people have grown tired of voting for symbolic gestures.

Indeed, the two-rate tax shift is so marginal that the voters of Amsterdam elected to return to the prior system. Voters in Harrisburg, Pennsylvania - one of the first cities to try out the two-rate system - likewise are now swinging against the two-rate system. As used-car dealers found the tax bills on their unbuilt lots rising, they combined with parking lot owners and real estate hoarders who had built "taxpayers" (that is, one-story structures rented out at a nominal fee to cover their local tax costs and mortgage payments to their bankers), while waiting for land prices to escalate.

If the two-raters have been unable to convince voters of the justice of taxing unearned income in the face of such seemingly obvious special-interest pleading, is it not time to renew the discussion at the national level? And while doing so, isn't it time to begin a serious annual report on the real estate industry's special loopholes, and how these loopholes are becoming increasingly parasitic in character? Such quantification would enable the cost of the real estate industry's special pleading to be measured, and land-value returns could be compared to industrial and commercial profitability.

Would not voters be more excited to be shown the extent to which the U.S. economy - an economy which most people imagine to be powered mainly by industrial innovation - is really a *rentier* economy based on gentrification to inflate the real-estate bubble and the privatization of hitherto public natural monopolies?

With all the news about buying political influence, is there not good publicity to be made of the fact that the largest political contributors at the federal, state and local level are real estate developers? Their payoffs are made in local property-tax variances and public subsidies for favoured contributors, and nationally in the form of the loopholes that have virtually freed the real estate industry from income tax liability. Property taxes also are being reduced relative to other taxes.

IN ONE state after another, legislatures have limited the property tax to represent less and less of state and local revenues. In 1978, California passed the infamous Proposition 13, limiting to 2% the rate at which property taxes could be raised each year. The upshot was that while land values doubled and redoubled in the 1980s, property taxes did not keep pace.

Iowa limited its annual property tax increase to 4% in 1979, while Arizona imposed a 10% limit. In 1981, New York City limited the property tax increase on residential apartments to 8% (30% in five years), while a 6% limit (or 20% in five years) was imposed on residential property taxes in the city and neighbouring Nassau County. Land values soared so far ahead of tax rates that a real estate bubble ensued during 1985-91.

Other states are jumping on the band-wagon to replace property taxes with sales and payroll taxes. In 1994, Florida limited the annual increase in residential homestead property taxes to 3%. Michigan chose the lower rate of either 3% or the consumer price index percentage increase. In 1996, Oregon limited the tax increase on individual property to 2%, while Oklahoma limited the annual rise in the real property taxes to 5%.

Without reducing the nominal tax rate, states have thus found ways to limit the increase in real estate taxes. Under these conditions, shifting the property tax from buildings to land would capture a shrinking part of the land value gains. The speculators, greed-mongers and the politicians representing their interests are way ahead of Georgists in finding ways to shift these local taxes from their land onto labour and capital.

THE BEST counter-strategy would be to inform voters of how the economy is warped by taxes on new direct investment and employment, while land speculation is encouraged. At the end of this path, businessmen will make their money off the land bubble rather than from entrepreneurial ventures.

To focus attention on battles fought in the past, voters (and many Georgists themselves) lose sight of the big picture. Georgism becomes marginalized: the two-raters are arguing about a real estate tax that is shrinking.

The irony is that property owners accept jumps in mortgage interest rates as long as their land values and rents are being inflated at an even higher rate. To increase their returns (they cannot do much about the mortgage rate) speculators have mobilized homeowners to fight against the much less burdensome increases in property tax rates.

In the end, peoples' behaviour reflects their overall world-view. The contribution of Henry George was to demonstrate the dominant importance of land in the broad economic picture. Voters and lawmakers became vigilant. Reawakening today's voters to land's importance requires the presentation of statistics at national and local levels. Armed with such a data bank, calculations would show the real-world consequences of deciding what kinds of economic activity to tax: active investment gains by capital, labour and its living standards, or the passive "unearned increment" of land appreciation.

Such an educational initiative costs money. By having lost the public's attention (not to speak of land's shrinking role in academic economics), Georgism has allowed its intellectual capital to become depleted in recent decades even as the endowments of some Georgist institutions have grown!

Rather than fighting yesterday's two-rate battle, we need to invest to help people put their economic frustrations in the context of an overall economic philosophy. The property tax has become America's least popular tax. It represents a shrinking proportion of personal income - just 3.5 percent today, down from 3.8 percent in 1992, and 4.3 percent in 1978. It seems that voters would rather tax labour and capital than land!

Only an overall philosophy will enable people to make sense of the chaos in the economy. Once people gain this broader sense of proportion, their fiscal perspective will follow. A logical first step would be to prepare an annual chartbook and economic atlas. This would illustrate a body of theory that may excite people today as much as *Progress and Poverty* excited them a century ago and explain why our epoch has failed to provide prosperity for many outside the upper *rentier* layer.

Land & Liberty invites its readers to express views on the case for and against the two-rate tax strategy. Is it sufficient that the two-rate tax draws attention to the distinction between land values and capital improvements? Or is the tax reform movement disadvantaged by the significant proportion of resources being devoted to this strategy at the expense of other initiatives?