

A FLAWED GEORGIST STRATEGY, AND A 100 YEAR PLAN

By Gary Flomenhoft, Brisbane, Australia

The beauty and simplicity of Henry George's remedy for poverty caused by privatization of land rent is unquestionable: Leave existing institutions in place, and merely make landowners pay the annual rent of land, the single tax. What could be more simple or elegant?...except in practice. Nowhere has this reform ever succeeded for more than a few years or more than partially. Singapore and Hong Kong lease land and collect some land rent, but there is no prohibition on capitalizing land leases into the price of homes, so prices are exorbitant, and speculation is rampant. Hong Kong has the highest real estate prices in the world. Canberra, Australia leased all land for a while, but reversed it later. Georgist colonies like Fairhope and Arden planned to collect full land rent, but were stymied by residents who wanted the unearned increment! The Danish Justice Party got land taxes into law for a few years, but they were thrown out and the reforms were reversed. I'm sure there are other examples I don't know about. Is anyone getting the message here? It's not enough to be right. You also have to be effective.

Georgists think that because we are right, that truth will win out in the end. That may be so, but how long are we willing to wait? We've been at this since the 1880's and haven't succeeded yet. That's about 130 years. Do we want to be just as unsuccessful in 2146 as we are today? I think the problem is a profound misunderstanding about the nature of political power and how reform comes about.

Citizens form into interests groups and lobbies which wield political power. Citizens alone do not. My experience with legislators is the following: You can bring good ideas to them and their answer is always the same: "Great idea, where is your constituency?" Basically the question is, "You and whose army?" In the case of land taxes, the constituency is mostly against us.

The property lobby is an enormous machine feeding on unearned income from land that controls most local governments in capitalist countries. I have already detailed in a previous article how homeowners, realtors, developers, builders, banks, and city councils all profit from high and rising land values, and low land taxes. Two thirds of people own their own homes. Homes are people's only hedge against inflation, and often serve as an asset for retirement. They want land values going up and as fast as possible. Councils often decry the lack of affordable housing and homelessness, but then wring their hands, as if there is nothing they can do, bounded by the constraints of allowable thinking.

The first problem is that Georgists come along to homeowners and say, we're going to raise your land tax and take away your capital gain from real estate, and give all the money to government, but society will get better, we promise! Not very convincing. Local or state property taxes are often the only tax people can influence through political activity, as they have no

influence at the national level, so they can't rebel against income taxes. Most tax revolts are focused at the local level because people can influence their city councils, so they rebel against the property tax. In states with an initiative process, state laws can also be changed with enough money and public support: Witness the 1978 Jarvis tax revolt of "Prop 13" in California. This ballot initiative has destroyed local revenue and education for a generation so far, by limiting the increase in property assessments to 2% per year, regardless of actual market value. California went from number one in primary and secondary education to number forty-nine. As Churchill once said, "The best argument against democracy is a five minute conversation with the average voter."

The second problem is the dynamic of asking the powerful to give up their power. We go to city council hat in hand and beg for alms from the power brokers, asking them to give up their most crucial and important power, the ability to profit from land. Most of these politicians would be out on their backside if they betrayed the property lobby. As Frederick Douglass rightly pointed out, the powerful never give up their power willingly. Economic power leads to political power, as writers back to Aristotle have recognized. Where is our economic power and our constituency? We don't have any, just a few modest charitable foundations allocating grants to some Georgist groups, barely keeping them on life support. It's a miracle the success we have had so far on with such limited resources. Yet Georgists continue lobbying politicians for change, because eventually people will see the truth of the idea, right? Well, no. You need a constituency of zealots to pass legislation, either driven by money, religion, or some other motivation.

On the internet or in discussions with Georgists, there is often a desire to redefine the terminology of "economic rent" or "land value taxation" to some other terminology. The belief is that the terminology is confusing, and if only we could make the concept simple enough, people would understand it and want it. We can endlessly redefine the terms or try different lobbying methods, but the fact remains that massive political power is aligned against us. Some Georgists take that as a mark of virtue to continue tilting at windmills, and fighting the good fight against long odds, because that is a sign of integrity when everyone is against you. Well that may be so, but is it effective?

I might compare the effort for land taxes to the efforts to get carbon taxes on carbon pollution. We know it's the right thing to do, because 97% of climate scientists tell us that catastrophic climate change will result if we don't reduce carbon dioxide levels in the atmosphere. But an enormous industry that profits from carbon pollution exists; the fossil fuel lobby, also sometimes called the "carbon club". In the case of carbon, cause and effect is (continued on page 14)

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much more obvious: Increase carbon taxes and you make carbon pollution more expensive and you reduce global warming and climate change. In the case of property taxes: increase land taxes, and reduce the price of land. Huh? Not so obvious, and 97% of scientists aren't telling people it's true. Many economists argue against it.

The fossil fuel lobby has enormous economic power and has managed to defy reality for decades by creating phony astroturf think-tanks, phony research, and bribing politicians with "campaign contributions" to oppose carbon taxes and other climate change reforms by lying to the public. Small carbon taxes or cap and trade systems sometimes get through but they are small, ineffective, and often reversed, just like land taxes. Case in point: Australia had a small carbon tax under the Labor government, which was immediately reversed by the incoming Liberal (read conservative) Party. In the case of climate change, we know that eventually reality will force a carbon tax on the public. But in the case of the land market, to quote Henry George, "Who will drive men to freedom?" What equivalent catastrophe will force land taxes on the public? Approximately every 18 years there is a land bubble and collapse, witness the 2008 GFC. You might compare it to a climate crisis. Did people suddenly realize that we need land taxes to prevent land speculation and boom-bust land cycles? NO, just the opposite! The banking system and Congress bailed out the bad loans of the banks, and issued more credit to the banking system to make sure banks remained solvent, and re-inflated the housing market to get prices rising again.

Just before the Antarctic ozone hole was photographed by NASA satellites, the head of Dupont said, "...the ozone depletion theory is "a science fiction tale...a load of rubbish...utter nonsense." Likewise, people such as Senator Imhofe of Oklahoma, in the pocket of the fossil fuel lobby, says, "global warming is the greatest hoax ever perpetrated on the American people". Regarding land reform, you have bankers and realtors saying that Georgist land taxes don't work, and in fact they have in the past when the reform was more popular. Now they don't even bother because a huge property lobby is on their side since 2/3 of people are now homeowners. Reports by government Treasuries, think tanks, and some economists all say that higher land taxes are the best tax, but it makes no difference, the lobby is too strong.

So, what to do? Using the same approach of appealing to politicians to pass legislation to reform the tax system is a losing proposition. Isn't that the definition of insanity, doing the same thing over and over again and expecting a different result? Isn't 130 years long enough? Do we want to be in the same position 130 years from now? I don't think so. Nothing is going to "drive men to freedom", because it is not obvious, and a huge property lobby is against us. The boom-bust land cycle from a "rent enclosed society", as Phil Anderson calls it, has been going on since at least 1800. That is 217 years so far. Nothing is going to stop it from going on another 217 years unless we change our strategy.

There are several elements to include:

1. Identify a constituency
2. Empower a constituency for change
3. Gain economic power
4. Gain political power
5. Change legislation or create separate legislative districts

Two thirds of people are homeowners. One third are not and are renters. Homeowners want land values as high as possible. Renters and future homeowners want land values as low as possible. Some existing homeowners might see the advantage of land taxes, while some renters might like the existing system because they can see profiting once they become homeowners. Let's assume for sake of argument that enlightened homeowners and greedy renters offset each other. So that leaves 1/3 of the population as a possible constituency. Have Georgists ever done anything to try to appeal to this group and get them on our side? Not that I know of.

There are many organizations representing tenants, tenant rights, and homeless people. Tenants are not necessarily powerless as they have obtained reforms like rent-control and other reforms in places like New York City. We should work with renter organizations to get them on our side. Here are some possibilities:

Income tax deduction for tenant rent

The first US income tax passed in the late 1800's had a deduction for mortgage interest as it does now, but it also had a deduction for rent paid by housing tenants! That deduction was eliminated. That is a reform we could work for that would be very popular and gain the tenant constituency.

Sharing land rent through "Equal Protection under the Law"

Another approach could be through the 14th amendment equal protection clause. It has been demonstrated by Joseph Stiglitz and others that the "Henry George Theorem" holds: Investments by local government into infrastructure and local services translates directly into higher land prices. "Value-capture" policies for financing of public transit is based on this understanding. Therefore, all local government spending directly benefits homeowners, but not tenant renters. Under the 14th amendment, government policy is not allowed to benefit one group of citizens but not another group, or at their expense. Two-thirds of citizens get an annual dividend in increasing land values from local government investment, while tenant renters do not. A lawsuit under the 14th amendment could challenge this and require that tenant renters also receive an annual share of land rent.

Another example is the giveaway of broadcast spectrum to media companies instead of charging rent for the public who own it. A class action suit on behalf of the public owners of the airwaves, and demand for dividends from spectrum could also be popular.

Get On Board Basic Income and "Commons" Movements

Basic (Guaranteed) Income is becoming very popular recently in policy circles due to the threat of automation and AI replacing human labor. The (continued on page 15)

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Georgist approach of financing basic income from land rent is gaining traction recently with some major figures in the BI movement adopting our financing strategy. This is great progress. Guy Standing, a leading figure in the Worldwide Basic Income movement, recently wrote a book called, "The Corruption of Capitalism", subtly or unintentionally paying tribute to Gaffney and Harrison's book "The Corruption of Economics". It essentially advocates the collection of economic rent on assets for financing basic income. The commons and peer-to-peer movement is taking hold and recognizes the nature of land as a commons. We need to get on board these trains. The P2P Foundation, Commons Strategies Groups, and BIEN are loci for these activities.

Running for Political Office

Georgists often lobby government as citizens, but would have much more influence if they ran for office and became legislators themselves.

These are all short term efforts that could succeed, but there is also a long term strategy; a 100 year plan.

Long Term Strategy

How does the property lobby hold power? The Bank of England recently admitted that 97% of all new money comes into the economy through private bank loans. Only 3% of the money supply is government bills or coins. New money comes into being when banks issue loans to borrowers, what people often call "debt-based" money. Contrary to popular belief, this is not money from savers that is then loaned to borrowers. Under fractional reserves, banks only need to keep 10%, or often less, on hand to service withdrawals demanded on a daily basis. Therefore a deposit listed in your account is also loaned out to a borrower at the same time. Since money can't be two places at one time, there is a new deposit written into the borrower's account, and new money is created. If you or I did this it would be called counterfeiting, but banks can do it under fractional reserves. Then banks collect interest on this money that they didn't have in the first place. Nice work if you can get it. Those are the basics of creating money from thin air, or "money for nothin' and chicks for free". Each bank can nearly double the money on deposit, and the banking system as a whole can create 1/reserve rate of new money. Modern Monetary Theorists say there is actually no limit to money creation. If the reserve rate is 5%, then the banking system can create 1/.05 or 20 times as much money as on deposit. 20 times leverage is enough without it being unlimited. Banks collect interest on 95% of the money they didn't have in the first place. That is a lot of economic power.

Furthermore 75-80% of bank loans are for residential or commercial mortgages. Now you see how the land and money markets work together to create a huge and unstoppable property lobby. Every member of the property lobby benefits from higher land prices and lower land taxes, until the land bubble collapses, and then they reinflate the bubble and do it again. Hyman Minsky called it the Financial Instability Hypothesis, and talked about asset bubbles. I don't know if he identified land bubbles specifically, but he recognized the boom-bust cycle of asset bubbles.

Now that we understand how the banking/land cycle works we can devise a strategy to combat it. Essentially Polanyi was right that land and money cannot be allowed to be commodities. Land taxes are a weak reform. We could take them out of markets and put them into trusts. That would be one approach. William Black has another approach. He wrote a book called, "The Best Way To Rob A Bank Is To Own One". We should all become bankers.

Banks have been given a huge privilege by government of creating the money supply and collecting interest on it. They have been doing it for 400 years and are not going to give it up easily. There are many efforts in recent years to overcome the money monopoly of fiat money, "legal tender" authorized by national governments and controlled by central and private banks. There is mutual credit, local currencies, LETS computerized trading systems, time banks, Bitcoin and other cryptocurrencies, blockchain, etc. These efforts may eventually break the monopoly of private banks and national currencies, but I don't see it happening soon. Even if it does, there will still be the profit motive driving the increase in land values and against land taxes whatever currency is in use at the time. Land can simply not be allowed to be a market commodity or people will try to profit from it. Land has to be de-commodified either by municipalization, by collecting all the land rent on it, recapturing the increased value upon sale, or by putting it into trust. The case of Hong Kong, Singapore, and Canberra raises questions about municipalization, and the history of tax reform raises caution about the tax reform approach. Only the land trust approach has been successful in the long run, by preventing the retention of land rent through legal contracts, covenants, and deeds.

Local public banks are one way to take power back from the banking system. Even private community banks could be used as a vehicle to implement community land trusts, if their mission statement called for it. Creating community land trust banks to finance community land trust housing, that does not allow private retention of rent, could create a parallel bank and real estate system in 100 years to challenge the power of the banks and property lobby. Community land trusts are spreading rapidly in the US and UK. We are just getting started in Australia. Community land trusts avoid the boom-bust cycle of real estate and banking as demonstrated by studies after the GFC in the US. Starting with the one-third of people who are tenant renters, the constituency could be built up over time. Providing the public service of housing gains public support, and getting control of community land trust banks and land gains economic power. This economic power could then be used to gain political power over a period of 100 years. Or we could continue on bended knee to petition politicians to implement land taxes for another 130 years.

(Gary Flomenhoft may be emailed at gary.flo@uvm.edu) <<