A TRUE PROPERTY-OWNING DEMOCRACY

During the run-up to the General Election of 2015 the then leader of the Labour Party, Ed Milliband, tried to provide some theoretical grounding and a sense of narrative coherence to his policy proposals by invoking the idea of 'predistribution'. This was a term which had been brought to the attention of left-leaning academics in a 2011 article published by Yale political scientist Jacob Hacker, who argued that the socio-economic inequality which has been rising rapidly since the late 1970s should be tackled not primarily through redistribution – government taxes and transfers that take from some and give to others - but rather by focusing on 'market reforms that encourage a more equal distribution of economic power and rewards even before government collects taxes or pays out benefits'. In a speech at the London Stock Exchange in 2012 Miliband expressed his interest in this approach to progressive reform, stating that while centre-left governments of the past 'tried to make work pay better by spending more on transfer payments', centre-left governments of the future 'will also have to make work pay better by making work itself pay'.

Sadly for Labour and its supporters, Milliband's reference to predistribution was a strategic disaster. The term itself was widely ridiculed as being excessively dry and 'wonkish', and the policy proposals with which it was associated by Milliband were, in any case, insufficiently radical or individually justifiable to generate a high degree of interest and enthusiasm among even the section of the electorate typically sympathetic to Labour. The Conservatives won the election, and the term 'predistribution' was swiftly jettisoned. However, among left-leaning academic political thinkers the idea of predistribution has continued to attract a great deal of interest, with numerous journal articles and academic conferences, and even one or two books, devoted to analyzing its meaning and institutional implications. In this article I want to argue that the idea of predistribution is worth examining and might, if properly understood, form part of a radically progressive proposal for the reform of the socio-economic institutions of liberal societies like Britain - though not in anything like the way that most of its proponents, including Ed Miliband, would imagine.

PREDISTRIBUTION & THE PROPERTY-OWNING DEMOCRACY

In order fully to understand the idea of predistribution we need to consider another idea which has been attracting the attention of left-leaning academic political thinkers – that of the 'property-owning democracy'. Many will be familiar with the term 'property-owning democracy' (POD) from the 'right-to-buy' policy of the Conservative government of the 1980s, which gave the long-term tenants of council housing the right to purchase these houses at discount prices. But the idea of the POD is in fact much older than this, with roots going back to the rise of 'commercial republicanism' in the eighteenth century, perhaps most notably in the thought of Thomas Paine. The term itself, however, was coined in the 1920s by Scottish Conservative politician Noel Skelton, who argued that a broader distribution of private property would provide working class voters with a reason for rejecting the collectivism and state control of Socialism and Communism.

Skelton proposed the encouragement of profit-sharing and some form of co-partnership in industrial production, as well as the diffusion of landownership through the expansion of agricultural smallholdings. Skelton was much less clear about the practical implementation of his proposals, and he said nothing about how active a role the state might take in generating the broader distribution of property, which he endorsed. His ideas influenced the younger generation of Conservative politicians who came to prominence in the post-1945 'One Nation Conservatism' era, and who came to power in the Churchill, Eden, and Macmillan governments. However, it was not until the Thatcher government of the 1980s that any attempt was made to put Skelton's ideas into practice.

In the 1950s and 60s the idea of the POD was taken up and given a positively 'social democratic' twist by left-leaning economist James Meade, who identified a more radically egalitarian distribution of private property as a key feature of a socially just liberal society. Meade argued, among other things, that universal property ownership would radically enhance the bargaining power of workers who would otherwise be forced either to sell their labour for inadequate reward, or to rely too heavily on inflationary collective bargaining strategies. An unequal distribution of property, he suggested, 'means an unequal distribution of power and status even if it is prevented from causing too unequal a distribution of income'. He therefore called for the imposition of progressive taxation on large accumulations of wealth - particularly the aggressive taxation of inter-generational transfers of wealth - which would in his view provide an incentive for wealthy individuals to make a larger number of smaller bequests (the recipients of which would not be taxed) rather than one or two large bequests (the recipients of which would be taxed heavily), as well as generating revenue to be invested in a sovereign wealth fund.

Meade's interpretation of the POD, including his emphasis on the need for the taxation of large accumulations of wealth, was then endorsed by the hugely influential American political philosopher John Rawls, whose 1971 book *A Theory of Justice* is almost certainly the most cited and discussed academic text in the field of political theory of the twentieth century. Rawls argued that the basic socio-economic institutions of a just liberal society:

[...] must from the outset put in the hands of citizens generally, and not only of a few, the productive means to be fully cooperating members of society. The emphasis falls on the steady dispersal over time of the ownership of capital and resources by the laws of inheritance and bequest.

During the last ten years the Meade/Rawls social democratic conception of the POD has attracted a huge amount of attention from left-leaning liberal political thinkers. And at the core of this conception is the idea of progressive predistribution. Rather than relying, like the traditional social democratic welfare state, on the progressive redistributive taxation of the highly inequitable incomes which arise from a highly inequitable distribution of productive resources, the government of a POD would implement – principally through the aggressive taxation of intergenerational transfers of wealth - a progressive *pre*distribution of productive property in order to provide low-waged workers with a capital stake or a basic income.

Left-leaning property-owning democrats then argue that this core predistributive institution could be supplemented with a host of

other predistributive mechanisms, such as stronger trade unions, a high mandatory minimum wage, the enforcement of effective corporate governance rules, the effective regulation of financial markets, improved education and training for disadvantaged citizens, the capping of housing rents and rail prices, and so on. Their central argument is that the implementation of these predistributive mechanisms would enhance the bargaining power of low-waged workers by providing them with a guaranteed (non-wage) income, which would then raise wages and thereby reduce (though not eliminate) the need for the redistributive income taxation.

There are numerous problems with these conceptions of predistribution and the POD. For one thing, it is not at all clear that there is any meaningful distinction to be drawn between the traditional social democratic progressive taxation and redistribution of high incomes on the one hand, and the supposedly predistributive taxation of large accumulations of wealth on the other. More importantly, there are many considerations relating to economic freedom and efficiency which provide the basis for powerful arguments against implementing most of the supposedly 'predistributive' mechanisms which left-leaning property-owning democrats endorse, particularly the aggressive taxation of large accumulations of wealth. Moreover, these conceptions of predistribution and the POD also fail to take account of considerations, which provide the basis for powerful arguments in favour of *reducing* the burdens of taxation borne by productive economic actors in contemporary liberal societies.

It is no surprise, then, that Ed Milliband, unable to endorse the more radical 'predistributive' policies for reasons of both political feasibility and sound economic theory, was left with a bundle of gimmicks like his promises to cap rent rises and rail price increases, and to freeze energy prices for a couple of years. There is, however, an important and meaningful distinction to be drawn between progressive predistributive taxation and traditional social democratic redistributive taxation. In the remainder of this article I shall try to outline the basis of this distinction and to explain why I think it is interesting and important.

WHAT DOES 'PREDISTRIBUTION' REALLY MEAN?

Although the term predistribution was brought to the attention of left-leaning academics by Jacob Hacker, and is usually attributed to him, it was in fact first used in print by political activist James Robertson. In his 'Alternative Mansion House Speech' (2000), Robertson argued that institutional mechanisms which share 'the value of essential inputs to economic activity' fairly among the citizens of society are 'enabling' rather than 'dependency-reinforcing', since they address 'the underlying causes of economic injustice, inequality, and exclusion' by reversing 'the private "enclosure" of common resources on which so much conventional economic development has been based'. Robertson suggested that the fair sharing of the value of such 'common resources' – which he identified as the rental value of land and the value arising from the issuing of new money – should be regarded as predistribution.

I believe that the idea of predistribution as defined by Robertson is indeed an interesting an important idea, which can be fairly sharply distinguished from the more familiar idea of redistribution. I shall try to explain why I think this by focusing specifically on the idea of the rental value of land as a common resource, which should be shared fairly among the citizens of society. Perhaps we could go further than Robertson and say that it is land itself, and not just the value of land, which is a common resource, an essential input to economic activity. We would, however, have good reason not to go as far as calling for the 'fair sharing' of land itself, or for the reversal of the private 'enclosure' of land. This is not because common lands cannot be managed successfully and efficiently, but rather because the protection of rights to the exclusive use of land is arguably essential to the economic freedom of the citizens of a liberal society.

For Henry George it was a matter of natural law that '[a]s a man belongs to himself, so his labour when put in concrete form belongs to him'. And this natural right to the fruits of one's labour seemed clearly to incorporate a more specific right to create wealth by applying labour to land – the right to free use of the opportunities offered by nature. But George recognized that if the natural right to gain the full benefit of one's labour is to be effectively secured, then the rights of secure and exclusive use of land must also be protected, these rights being essential to the success of any long-term projects of wealth-creation. However, he also recognized that the protection of land users' specific rights of exclusive use and security of tenure could be reconciled with the protection of each person's general right to use the land. George argued that since the rental value of land 'expresses in exact and tangible form the right of the community in land held by an individual', it follows that 'if we concede to priority of possession the undisturbed use of land, confiscating rent for the benefit of the community, we reconcile the fixity of tenure which is necessary for improvement with a full and complete recognition of the equal rights of all to the use of land'.

Thus, by sharing the *rent* of land fairly among the citizens of society, the private ownership of land could be limited or conditioned and thereby made compatible with the natural right to the fruits of one's labour. There were a number of reasons why George thought that the institution of full private property in land – which included the right of landowners to appropriate the rental value of their sites - certainly could *not* be justified in this way. One reason was that full private property in land empowers and incentivises private landowners to withhold their sites from productive use, thereby reducing the amount of land available for productive economic activity and unjustifiably restricting citizens' natural rights to the free use of the opportunities offered by nature. By reducing the amount of land available for productive economic activity, private landowners can effectively force workers and capitalists to utilize land more intensively than they would otherwise choose to, so that the proportion of total output attributable to rent – the product of land – is higher than it would otherwise be, while the proportion of total output attributable to wages and interest – the product of labour and capital – is lower than it would otherwise be. In this way, workers and capitalists are prevented from raising the productivity of their labour and capital – and therefore the value of their wages and interest – with the result that rent rises as a proportion of total output while wages and interest fall.

Another way in which George thought that the institution of private property in land undermined the natural right to the product of labour was by eliminating rent as a source of public revenue, thereby generating the need for the taxation of production and employment, and further reducing wages and interest. There are a number of reasons why the elimination of rent as a source of public revenue might be said to be incompatible with the protection of the natural right to the product of labour. First, the private appropriation of rent means that landless citizens are forced to pay much more than their fair share towards the cost of public goods and services, since they must pay not only in the form of tax payments, lower wages, and higher consumption costs, but also in the form of payments of rent and mortgage interest made to landlords and mortgage providers. With rent privately appropriated, it is as if landless citizens have to pay a privately collected 'rent tax' in addition to the publicly collected tax that they bear in the form of lower wages and higher living costs.

Second, the effect of taxation imposed on productive economic activity is to distort and suppress the activity on which it is imposed, thus greatly diminishing the collective productivity of the providers of labour and capital, and further reducing their economic rewards. The broad-based taxation of production, employment, and consumption inhibits economic activity primarily by making labour too expensive to employ in locations at (or close to) the margin of production, and by failing to penalize the inefficient utilization of sites in both marginal and intra-marginal locations. The under-employment of labour and the inefficient utilization of land greatly reduce the collective productive potential of workers and capitalists: under-employed workers produce less than they would be capable of producing in the absence of conventional broad-based taxation; the long-term unemployed produce nothing. Finally, George recognized that since land is 'a fixed quantity, which human agency can neither increase nor diminish', the tendency of its price constantly to rise cannot be limited in the way in which the prices of commodities are limited – that is, by increasing supply to match high demand. Partly for this reason, when rent remains in private hands the demand for land as a rapidly appreciating 'asset' takes the place of the demand for land as a productive resource. The artificially high land values which result from excessive demand for land as a constantly appreciating asset lead to the widespread misallocation, mal-investment, and destruction of capital, and ultimately to an economic downturn as productive enterprises, starved of the credit which has been hoovered up by land speculators, and crippled by excessive rents, are forced out of business. The economic output of societies in which rent is privately appropriated is significantly reduced by the unemployment and destruction of capital that follow the bursting of the land-price bubbles generated by speculation in land values.

In these ways – by restricting total output, by restricting the proportion of output, which is produced by labour, and by reducing wages still further through the imposition of taxation – the private appropriation of rent violates citizens' natural rights to the fruits of their labour. George argued that a shift in the burden of taxation from productive economic activity on to the rental value of land would be both just and expedient, protecting citizens' equal rights to utilize the opportunities offered by nature, eliminating the distortions, inefficiencies, and deadweight losses generated by broad-based taxation, and greatly reducing the instability of the economic cycle.

PREDISTRIBUTIVE TAXATION

It is, of course, plausible to suggest that the socialization of rent is not in fact a form of *taxation*, but rather a kind of 'service charge' or user fee owed by landowners in return for the specific bundle of natural and social advantages which are attached to the sites that they own. However, even if we refer to the socialization of rent as a particular form of taxation – land value taxation (LVT) – it is clear that this is a form of taxation, which is entirely distinct from taxation, which is imposed on productive economic activity, including taxation imposed on large accumulations of wealth. Since land is an essential *input* to productive economic activity rather than an *output* of such activity, the distribution of rent is *prior* to the economic activity to which the land itself is an essential input. There is therefore a meaningful sense in which rent can be said to be either regressively or progressively *pre*distributed: if rent is privately appropriated then it is *regressively* predistributed; if it is socialized then it is *progressively* predistributed.

Since capital by definition is created by human labour, capital goods and the interest that they earn must be categorized as *outputs of economic activity*, rather than as essential inputs to economic activity. As outputs of productive economic activity, capital and interest are distributed subsequent rather than prior to the performance of this activity. There is therefore no meaningful sense in which the value of capital can be said to be regressively or progressively *pre*distributed. This is the case even with regard to ‘unearned’ capital, which is privately owned by a person who cannot be held in any way responsible for its creation – say, the beneficiary of a large bequest. Though such wealth might indeed be ‘unearned’, its distribution is nevertheless subsequent to the economic activity from which it was created, so that to transfer all or part of its value to another person would be to redistribute this value, and to violate (or at least restrict) the right of the person making the bequest to the fruits of their labour.

Unlike LVT, then, the progressive taxation of large accumulations of wealth (whether inherited or otherwise acquired) in order to generate the diffusion of privately owned productive resources that is the essential feature of the social democratic property-owning democracy is not a predistributive mechanism. It is also important to point out that the imposition of the broad-based proportional or flat-rate taxation which LVT would replace amounts essentially to what we might call *regressive redistributive taxation*. This is because such taxation transfers income and wealth systematically from landless producers to unproductive rent appropriators - principally landlords and mortgage providers, but also large landowning businesses and corporations, and even the outright owners of small residential sites. Rent can be privately appropriated only because wages and interest – the economic rewards for labour and capital – are unjustifiably socialized in order to generate the revenue with which public goods and services are funded. This socialization of wages and interest is therefore a subsidy which landless producers are forced to provide to private rent appropriators, who are in a position to collect the rent tax from the landless only because the latter are compelled by the state to contribute more than their fair share towards the cost of public goods and services.

One important effect of the shift in the burden of taxation called for by Henry George would therefore be to generate a fair predistribution of rent in order to eliminate the regressive redistributive transfer of income and wealth from landless producers to unproductive landowners. A fair predistribution of rent occurs when private landowners are required to compensate their fellow citizens in proportion to the rental value of the land to which they claim exclusive access. This fair predistribution of rent then prevents private landowners from exploiting the landless by reducing the amount of land available for productive utilization, and at the same time allows for the elimination of the regressive redistributive taxation that distorts and suppresses productive economic activity.

A TRUE ‘PROPERTY-OWNING DEMOCRACY’

The idea of the POD as originally formulated by Noel Skelton was vague and incomplete, and the only measures thus far taken to implement it – the council house sell-offs and privatizations carried out by the Conservative governments of the 1980s and 90s, and the more recent ‘help-to-buy’ schemes implemented after the election of the Coalition government in 2010 – have been entirely inadequate. Indeed, the more recent schemes serve only to increase the value of real estate ‘assets’, thereby boosting the advantages gained by landowners at the expense of the landless, and further increasing the destructiveness of the ‘wedge’ being driven through society. And with all or most of the existing stocks of council housing now sold off (much of it now in the hands of buy-to-let landlords), rates of owner-occupation in Britain have now started to decline. In this so-called ‘property-owning democracy’ taxation imposed on productive economic activity remains excessively high, so that rights of private property in the rewards of economic activity – wages and interest – are ineffectively protected, while many people own very little of such property in the first place.

However, the rival social democratic version of the POD as it has been developed in recent years by the followers of Meade and Rawls is no more defensible. The imposition of progressive taxation on large accumulations of wealth - whether in the form of taxes imposed on inter-generational transfers or in some other form – in addition to the already excessive burden of taxation borne by employers and consumers would be more likely to result in the destruction of capital and the further suppression of economic activity than in the empowerment of disadvantaged citizens through the diffusion of privately owned capital. Other so-called ‘predistributive’ measures like the raising of minimum wage rates or the strengthening of trade unions will not be any more successful.

By contrast, there are reasons to think that a radical shift in the burden of taxation from productive economic activity to the rental value of land would be likely indirectly to generate a much less highly concentrated distribution of privately owned property, as well as enhancing the protection of citizens’ rights to the fruits of their labour. What the proponents of the social democratic POD have failed to observe is that what appears to be a relation of the dominance of capital over labour is often in fact a relation of the dominance of *land* over labour *and* capital. This dominance arises because land neither depreciates (like capital) nor starves (like labour), and because access to land is essential to productive economic activity. Even when there is genuinely a conflict between capital and labour, this conflict is often one which is greatly exacerbated by the alliance of capital with land, since the power of capital is massively enhanced when landowners and capitalists are one and the same, and when taxation bears more heavily on labour than it does on both land and capital.

The dominance that landowning capitalists are able to exercise over landless labour and capital often results in the oligopolistic domination of industries by a small number of very large firms. Large supermarkets, for example, are able to make supernormal ‘profits’ as a result of their private appropriation of the rent attributable to the sites on which they are located. Since firms, which own the freeholds of their sites, receive rental income as well as revenues generated from their commercial activities, such firms can cut their prices and absorb the subsequent fall in receipts out of their rental income. As Brian Hodgkinson has put it in 2008, rent provides freeholder firms with “a shock-absorbing income enabling them to undercut all potential entrants, either because the latter will have to set a price yielding the rent payable to a landlord, or because the entrant has to purchase a freehold initially”.

This ‘shock-absorbing income’ constitutes a powerful barrier to entry into the industry, and turns large freeholder firms into oligopolists. Thus, the power of capital over labour is very much a function of the power of landowners over the landless, though the latter is often far less obvious and transparent than the former. It is not, as Meade claimed, an unequal distribution of *property* that leads to unacceptable inequalities of power and status, but rather the monopolization of rent by private landowners. A predistributive shift in the burden of taxation from productive economic activity to the rental value of land would remove many of the barriers to entry to a range of industries, and would go a long way towards leveling the playing field between capital and labour. It would also raise wages, stimulate productive economic activity, and make both residential and commercial land much more accessible to previously disadvantaged citizens by reducing or eliminating its capital value and penalizing its inefficient utilization. In short, the fair predistribution of the rental value of land would create a property-owning democracy by protecting citizens’ natural rights to make use of the opportunities provided by nature, and by protecting their rights to private property in the fruits of their labour. Thus, while ‘progressive predistribution’ is not a slogan for a successful general election campaign, it is an interesting idea which might help to clarify the sense in which radically progressive fiscal reform need not involve the imposition of interventionist redistributive taxation which distorts and suppresses productive economic activity.