

**POLL TAX**  
**The Tax that**  
**Sank a Government**

A study of the Poll Tax in the  
United Kingdom and its economic,  
political and philosophical implications

**Fernando Scornik Gerstein**  
Foreword by Fred Harrison

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To my Argentinian friends  
Dr. Victorino de la Riega and  
the late Agr. Eng. Mauricio Birabent  
with whom I learnt to recognize  
the beauty of economic justice.

# Foreword

by Fred Harrison

## On the choice of social systems

THE LIBERAL democratic state is built on an economic system that cannot be sustained. That it persistently breaks down is an uncontroversial matter of record. What economists cannot agree about is the way in which to change that system so that it can sustain itself through time without the benefit of artificial props, the costs of which themselves finally cause the system to collapse.

The history of the 20th century is the record of attempts to create alternatives to the market economy that emerged in western Europe in the late 18th century, but the 'cures' proved to be worse than the cause. In 1917 the Marxist state was born out of violence in St. Petersburg. The Nazi experiment in social engineering came into being when Hitler was appointed Chancellor of Germany in 1933. Both regimes were popularly supported by people who were frustrated with the failures of the prevailing socio-economic system which periodically consigned millions of people to the deprivation that follows the loss of employment. Each of these alternative ideologies was to cause the deaths of tens of millions of innocent people before they were destroyed. But the triumph of the liberal democratic state is marred by the fact that it has still not found the remedy for the social problems that provoked nazism and communism into being.

As Europe turned into the 20th century a third model was put to the test: the welfare state. Bismarck originated the concept in Germany by introducing laws to protect citizens from the ravages of unemployment. The Liberal government that included Lloyd George and Winston Churchill embraced the idea that Britain ought to provide protection for the old, the sick and the people who through no fault of their own could not find jobs. Their vision was humane, and

the Liberals identified the correct source of funding for these acts of compassion. In their view the revenue ought to come from the rent of land. Alas, the weight of history was against them. The People's Budget was passed in 1910, after a constitutional crisis, but the philosophy on which it was based was ill-fated.<sup>1</sup> The Conservative Party was to succeed in destroying the fiscal reforms proposed by the Liberals (and also similar proposals of the Socialist chancellor, Philip Snowden, in 1931) and to reaffirm a policy of taxation on the producers of wealth.

The heyday of the welfare state was in the early years after the Second World War. But if the economic system on which the liberal democratic state is built really is unsustainable, it could only be a matter of time before the welfare state suffered the same terminal fate as the systems inspired by Hitler and Marx. And sure enough, as we now turn into the new millennium we find that the welfare state is being consigned to history as a social system that is literally bankrupt. The state cannot continue to fund pensions for the aged or medicine for the sick in Europe and North America. The retreat from the welfare state was marked by law in August 1996 when President Bill Clinton signed the death knell for the safety net that had existed in the United States for 60 years.

Ought we to lament the passing of the welfare state? We should exercise caution at this juncture in history. The knee-jerk reaction (based on laudable sentiments of compassion) is that we *must* find the resources to sustain the universal provision of health, education and welfare services by government. But before trying to preserve the welfare state we ought to take a closer look at its record, as well as the alternatives.

Despite the 'safety net', poverty persisted in the welfare state at a level that was capable of causing the deaths of a frightening number of people. In the United States it is estimated that over 91,000 people were the victims of poverty attributable deaths in 1991.<sup>2</sup> If that number of people had died in one year as a result of a succession of crashes by jumbo jet airliners there would be riots in the streets as citizens demanded changes in the way those jumbo jets were either constructed or flown. The self-evident presumption would be that

there was either a fundamental flaw in the construction of the aircraft; or madmen were at the joysticks. What other explanations could there be for what has to be described as the *systematic* killing of 91,000 people in one year alone?

Politicians and social scientists rarely stop agonising about the persistence of poverty, but few of them dare to raise the possibility that there is something congenitally wrong in the foundations of our economic system. Public debate is now silent on the idea that, to remove the virus that causes poverty and unemployment, we need a paradigm shift in the way that we perceive the world. Could it be that we have to entertain the possibility of a radical adjustment in the laws, values and institutions of what now passes for the liberal democratic state? Could it be premature to celebrate 'the end of history'<sup>3</sup> — meaning the triumph of the liberal democratic state over its competitors? Could it be that a viable alternative has been lurking in the nether regions of our collective consciences, waiting for the day when enough people of courage and enlightenment can assert the right to choose the social system that they want rather than tolerate the one that has been foisted on them by a purely self-interested minority?

For the past 200 years there has not been any real doubt about the source of most economic problems. The warnings are to be discerned in Adam Smith's *The Wealth of Nations*, if we would but read his words carefully. The classical economists explained that, for the market economy to function properly, the public sector had to be financed out of the rent of land. That would leave it open to people to work and earn, save and invest, without the economic system being distorted by taxes levied on wages and profits. But Parliament would not listen. Why should it? It was dominated by landowners or their appointees from the rotten boroughs. Parliament in the 19th century was not about to reverse a 500-year trend in which the financial obligations of the state were systematically transferred away from the rent of land and onto the wages and profits of workers and the owners of capital. Against this background we see that the logic of history favoured Margaret Thatcher's abolition of the tax on real property (the 'Rates'), and her government's introduction of the Poll Tax. That Act of Parliament marked the end of an epoch that was

characterised by the determination to remove the rent of land as the uniquely appropriate source of public revenue.

But the end of one epoch also marks the dawn of a new era. What is in store for us? We cannot be sure, but of one thing I think we can be certain: the present social system *has* to restructure itself in a qualitatively significant way. Why do I think so? Because the former epoch's driving dynamic was based on self-destruction; this is an argument on which I cannot elaborate here, except to say that I am not relying on Marx's historicism. I am currently engaged in explaining the proposition at great length in a work in progress. Meanwhile, we all have to participate in a debate about new visions for the future.

Fernando Scornik Gerstein is convinced that the best future is to be found in the return to the incontrovertible truth about public finance. We have to untax people's earned incomes and cause government to rely for its financial needs on a direct charge on the rent of land. Could it happen? There are reasons for thinking that this is now possible.

One reason for thinking this is the popular expression of the will of the people. Like the peasants who revolted against the Poll Tax in 1379 (one of the dates that marked the beginning of the fiscal epoch that I believe has now come to an end) the urban proletariat of Britain rioted in the streets of London and Liverpool in protest against Mrs Thatcher's Poll Tax. The modern challenge to the law had more to do with emotionalism than the desire for the principled application of reason to good government. But if there is to be a paradigm shift in our thinking — leading to enlightened reforms based on the democratic will — we first need an informed public debate. There is reason to believe that, thanks in part to the activists who are concerned about the natural environment, such a debate will now take place. One illuminating indication in support of this optimism, ironically, was initiated by the man whom Margaret Thatcher favoured as her successor.

In 1994 Prime Minister John Major appointed a panel of experts to advise him on 'sustainable development'. The experts concluded that, for a start, the system of public finance would have to be reformed. In their first report they declared:



The Panel would support a gradual move away from taxes on labour, income, profits and capital towards taxes on pollution and the use of resources. Currently we tend to tax people on the value they add rather than the value they subtract.<sup>4</sup>

The government published a response in which it implicitly acknowledged the need for a new fiscal philosophy. It did so by accepting the need for reductions in "distortionary taxes" and the adoption of non-distortionary revenue raisers that would enable the government "to reduce the rate of employers' National Insurance Contributions and thereby encourage greater employment".<sup>5</sup>

This exchange of observations has the potential for marking a revolutionary shift in the structure of taxation. People would be invited to pay for what they received — no more, no less; this is an improvement on the current approach, which is a crude and arbitrary snatching away of people's earned incomes without making sure that they received benefits to the corresponding value. But the impact would be felt beyond the Inland Revenue. Citizens would notice a gradual but measurable transformation in the fabric of society. This would start and end with the land market. Land speculation, for example, would cease to be a national pastime. This would deal the single greatest blow against the business cycle.<sup>6</sup> Houses would become affordable for everyone who was willing to work. Stresses in the labour market would be eased, leading to a friendlier approach to industrial relations. The lowest wages would rise in real terms, as the distortionary taxes were progressively eliminated. There would be a transformation in the way that people and enterprises used the environment. They would show greater respect for nature if they had to pay rent for disposing of their waste products in the air, rivers and seas. The list of changes — in agriculture, transport, telecommunications (the flight paths of satellites in outer space is now so overcrowded with chunks of flying metal that rent ought to be charged for occupying that space!) — is a very long one indeed. All these changes are benign, directing us towards a new society in which people's lives would not be cut short<sup>7</sup> for the want of the freedom to earn decent wages and enjoy a humane style of life.

But if this fiscal philosophy *were* to be treated as a serious option,

we know from history that it would be vigorously challenged. Some people would imagine that they would lose if rational principles were applied to deliver good government. The aristocracy, jealously protecting their 'old money', would be joined by the pension funds and insurance companies (which are supposed to represent the interests of the citizenry!). They would cry 'foul!' And so, once again, it would be necessary to dust off those glorious speeches<sup>8</sup> that Winston Churchill delivered at the hustings in 1909: there would be no better way to expose the injustices that would be preserved if we do not recalibrate public finance on the principles that have the power to abolish poverty.

Even so, we do need to address the concerns of the groups that would automatically oppose a meaningful reform of the tenure and taxation of land. By engaging these interests in debate we would be stimulating the most fruitful analysis of the alternative social systems from which we can choose for the new millennium. Mr. Scornik Gerstein's essay is a contribution to that debate.

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# PART I

## 1. THE RISE OF CONSERVATISM

The last fifteen years have witnessed a significant rise in conservatism in the two leading Anglo-Saxon nations — the United States of America and the United Kingdom — which rapidly spread (especially after the collapse of the USSR) to other Western European, Asiatic and American countries.

It is not my intention to offer a comprehensive analysis of this process, but rather to identify some of its outstanding characteristics. The redefinition of the role of the state and the mistrust of all forms of government intervention in the economy, the strict control and reduction of public expenditure, the permanent war against inflation, the tendency to reduce as much as possible direct taxation on companies and individuals, the increase in indirect taxation and the affirmation of the values of free trade in international commercial relations and of the market economy, are all distinctive features of this conservative revival.

The origins of, and the reasons for, this process could be the object of an interesting debate centred on the ideological changes in many right-wing political forces. Forces that only 60 years ago advocated, if not the contrary, then policies very different to those they favour today, especially concerning state intervention and free trade. A strange metamorphosis, aided by their weak historical memory concerning political attitudes, seems to have taken place.

However, I shall merely identify some actual distinctive facts whilst leaving this necessary debate for historians and political analysts.

This conservative 'revolution' expressed itself in several concrete fiscal and economic measures. Some of these were successful, like those that referred to the liberalisation of international markets. Others were less successful and certainly less popular, for example

the anti-inflationary measures based on the manipulation of interest rates which created an artificial recession, and the increase of indirect taxation, especially VAT.

Nevertheless taxation reform was in most cases well received and broadly accepted. A party of low taxation could win an election,<sup>1</sup> a party of high taxation would almost certainly lose it.

There was a noteworthy exception: the introduction of the Community Charge — popularly known as the Poll Tax — in the United Kingdom. Not only was this massively resisted by the vast majority of the British people, but it also ended in a colossal failure for the government, submerging the Conservative Party in contradictions and turmoil to such an extent that it can well be said that it was the main factor causing the removal of Margaret Thatcher as party leader and Prime Minister.

The object of this essay is to study the case of the Poll Tax and to determine the reasons for its unexpected and surprising failure.

Even today the supporters of the tax argue that it was a 'fair tax' and grieve for the lost possibility of the substantial change in local taxation which its introduction would have caused.

Yet many of its *bona fide* supporters suffer from a lack of knowledge of its economic implications; the basic structures of society that it affected and the forces that it brought into action.

Hopefully, the analysis presented here will clarify this polemic and lead to an understanding of why and how a simple reform in local taxation was capable of defeating such a powerful leader as Margaret Thatcher.

## 2. THE INTRODUCTION AND ABOLITION OF THE POLL TAX IN THE UNITED KINGDOM. THE ARGUMENTS IN THE DEBATE

In order to understand the political and economic upheaval created by the introduction of the Poll Tax, which ended with its replacement by a new property-based tax, it is essential to consider some underlying theoretical issues which, although well established in economic theory, are seldom at the centre of public debate.

The defenders of the Poll Tax insist on viewing it as 'payment for the use of public services', and justify its replacement of the Rates with the assumption that those individuals who use a service should pay for it. Rates — the local taxation system which the Community Charge replaced — were, they argue, a tax on the rent of property. As such, people were not directly charged for the services they used.

Detractors of the Poll Tax, without denying that, in the final analysis, it concerns the payment for receiving the benefits of public services, have preferred to consider the matter from the point of view of 'ability to pay'. Therefore, whatever the use of services or participation in the social benefits provided by local authorities, there are some taxpayers who can pay more and some who can pay less and this fact should be reflected in the taxation system. In this way, some critics of the Poll Tax recommended a local income tax, whilst others considered that the 'rateable value' (based on the rental value) of each property is an approximate indication of the contributor's ability to pay. The assumption being that those who own more valuable properties are better off and can afford to pay a higher tax.

From the 'ability to pay' angle, it seems unfair that someone would pay the same as another person owning more valuable property. On the other hand, if we consider as the main criterion the sole concept of 'payment for the use of public services', personal income plays no role whatsoever. The weak point of the thesis is that it is always difficult to measure precisely to what level local authority services are being used or its social benefits received. Some services are measurable, others are not.

In order to appreciate the process that took place in the United Kingdom, to understand the impact of these reforms and the subsequent retreat of the Conservative government, and to evaluate its inevitable political consequences it is necessary to explore some underlying issues. We can summarise these in two deeply significant questions:

- What should be the basis for local taxation: rent of land, interest of capital or the wages of the workers?
- Who should be the subjects of taxation: landowners, capitalists and entrepreneurs or the workers?

It was odd that these questions were not exhaustively discussed by the media, nor put forward with precise definitions by the many politicians who were involved in the debate. Was the absence of such a debate due to the implications for those who feared they might lose out from discussion?

### 3. THE NATURE OF THE RATES

A starting point might be to establish the nature of the previous system, the Domestic Rates. The Rates basically consisted of a tax on an immovable property, calculated on its annual rental value — the 'rateable value'. The imperfections of the system and the unfairness of certain rateable values, eroded by inflation and estranged from market prices, did not detract from their final nature since the values reflected, albeit in an imperfect way, the rent of the property, the capitalised form of which is the selling price.

The fact that these revaluations had been neglected was the origin of much serious criticism of the system. However, the lack of reassessment of property values to keep pace with change had nothing to do with the system itself and this was something that could and should have been corrected. Taxes on annual rent have been used successfully for many years in other countries often not in substitution for, but rather as a complement to, those on the capital value of immovables.

Whether directly or indirectly, Rates are always, ultimately, a tax on the rent of an immovable property. This occurs directly when the person who pays them is the property's owner and indirectly when a lessee pays them because, in the latter case, the existence of the Rates prevents the owner from taking the whole market rent. The tenant, having to pay rates, cannot afford to pay so much rent. As the rent is always fixed at the maximum limit

which the market allows, if Rates are abolished rents can be (and ultimately are) increased by the amount previously paid for Rates. Thus, when paid by a lessee, Rates function in the form of what we could call (albeit not very technically) a 'second rent' which has to be paid to the local authority by way of tax. That is to say, Rates take away from the property owner part of the rent which he would receive if the tax did not exist, so constituting an indirect tax on his potential rent.

Much confusion derives from the fact that in the term 'rent' two different concepts are comprehended: payment for the use of land, and, frequently also, payment for the use of the capital bound up with the land, i.e. the building. The first concept is, in economic terms, the rent proper — that part of the product which the property owner receives by allowing the land to be used or occupied. The second meaning is not 'rent' in economic terms, but rather a payment for the use of capital invested in the construction. Basically this is interest on the capital and profit of the developer. The fact that it is paid jointly with the land rent and that both concepts are embraced in the term 'rent' does not change its economic character nor alter the differences which set them apart. The value of the site never decreases in the long run, rather it increases with time since the supply of land is fixed whilst the value of the construction on it depreciates. The site does not have to be improved whilst buildings periodically need refurbishment as any inhabitant of our modern cities knows through his own experience.

We may say then that Rates taxed the rent of land, the interest of capital invested in the construction and the profit of the entrepreneur since the object of taxation — the 'rateable value' — comprised the annual values of both land and building.

Thus, under the Rating system a significant part of the expenses of local authorities was financed by rent, interest and profit, which means that the taxpayers were landowners and entrepreneurs (even if both were, on occasions, the same person).

Normally a tax on pure land rent cannot be transferred to retail prices; it is not by itself inflationary. The essential fact to take into

account is that retail prices are fixed by the market and that the market is formed by *producers who are lessees and pay rent* and by producers who are *landowners and receive rent*. Some producers are in a similar position to landowners even if they are also lessees to the extent that they are

- lessees at a rental less than the full market, or
- owners of the freehold.

Nevertheless, if their property is mortgaged, then their mortgage interest is roughly the same as the rent and, again, they would be paying as lessees.

A tax on rent *affects the producers who receive rent but not those who pay it*. The tax cannot be transferred to retail prices for the simple reason that the market is also formed by entrepreneurs who must pay not only a 'tax' on their rent but the *whole of the rent* to their landowner as well. The main reason for this is that the rent of land is never — in economic terms — an element of cost, but rather that part of the product which the producer must pay to the landowner in order to be able to produce. Rent should not be considered as an element of cost but as that part of the benefit which is attributed to the owner of the land as consideration for his granting the right to use it. When the landowner and the producer are the same person the rent takes the form of a 'producer's surplus'; when they are separate, the payment of the rent reduces the profits of the entrepreneur.

What usually happens is that, for practical reasons, the individual entrepreneur calculates rent as a cost, though this does not alter its economic nature. This practice is understandable in entrepreneurs but is unforgivable in economists who are supposed to have studied at least Smith and Ricardo. (Not to mention Karl Marx and Henry George whom most western 'modern economists' either do not read or ignore.)

Nevertheless, it is important to underline the fact that Rates were not a tax on pure land rent, but on land and buildings together and so they influenced construction costs; a consequence which could be avoided by a tax levied purely on the unimproved



value of land, whether on the 'annual' or 'capital' forms of such value.

#### 4. THE TRUE NATURE OF THE POLL TAX

Turning to the system that was intended to replace the Rates — the Poll Tax — what first strikes one is that it was a personal tax. It did not tax property at all whether at rental value, assessed value or market value. It fell on individuals. What did this really mean? To understand this it is important to go back to a simple and well known analysis of our economic system.

The three factors of production are land, labour and capital. The fruits of production are divided between the landowner (rent), labour (wages) and the owners of capital (interest), with the profit being what is left to the entrepreneur after paying these factors.

It has been shown above that Rates exclusively taxed the rent of land, the interest of the capital bound up in the land, and the profit of the entrepreneur. In no way did they burden wages (except indirectly if we consider capital as formed by savings on salaries) because 'labour' as such was not subject to the tax. It is also evident that the Poll Tax did not have anything to do with immovable property but taxed individuals (although property owners, as individuals, also had to pay it). But if the Poll Tax did not tax the land rent, the capital interest or the profit, what did it tax? The answer to this question is obvious: the tax fell on the earnings of labour, that is to say, on wages.

That was the undeclared intention of the Poll Tax and the reason for its unpopularity: it shifted the burden of local taxation from the rent of land, the interest of capital and the profits of entrepreneurs to the pockets of the workers. It created millions of new taxpayers.<sup>2</sup> How could anyone ever think that this was going to be a popular tax? Yet Margaret Thatcher did and openly announced the fact in Parliament!

Taxing wages instead of rent, capital and profits was a drastic and fundamental change which had enormous economic consequences not only for the present but for future generations as well.

## 5. NECESSARY CONSEQUENCES OF THE POLL TAX

First and foremost, the Poll Tax meant an additional, unexpected cost — in some cases, a very high one — and this is what so infuriated the new contributors. But equally importantly, there were other consequences which its introduction held for the future.

The abolition of the Rates left an economic space which property owners did not hesitate to fill. As rent is always fixed at the maximum the market allows, when the Rates disappeared (remembering that they operated as a 'second rent' paid by the tenant to the local authority), property owners would very likely increase rents to include the amount which had formerly been charged for rates. Since the market value of a property is purely the capitalisation of its rent, this increase in rent would give rise, in the long term, to an increase in market values.

To tackle this possibility the government adopted a policy of 'goodwill', requesting owners not to increase rents. This was a very odd way for a market-oriented political party to address economic laws — by appealing to the better nature of the owners of one of the economic factors!

The fact that the property market was at that moment in a slump did not allow the public to see this clearly but it would have been an inevitable consequence had the Poll Tax survived.

To trace the economic effect of a tax on the value of land, let us consider two identical properties built on land that is initially of the same value. As a result of the new legislation one of these properties has to pay a tax of £2,000 and the other only £500. In both cases, the sale value of the sites would decline, but the market price of the second property would be higher than that of the first because, having a lower tax, the rent yield would be higher and so the capitalisation of this rent would result in a higher figure. The reverse process occurs when the tax is removed.

With the abolition of Rates in Britain the market prices of real estate would rise over the long term and this would have been clearly seen once the slump was over. In other words, in the long term property users would have had to pay exactly the same as they

paid under the Rates *but in the form of higher rents or higher market values of properties*. On top of this they would also have had to pay the Poll Tax thus being squeezed from both sides — a most peculiar way of bringing fairness and justice to taxation!

This would not affect those people who were already property owners but would cause problems for those people who wanted to buy in the future. In this sense the Poll Tax posed a strong equity issue: it discriminated between present and future property owners.

In addition, because the Poll Tax was a general charge, it represented a new cost to everyone and was therefore an inflationary tax. By affecting everyone who participated in the market for the formation of prices, it constituted a necessary part of cost. The inflationary effect was unavoidable, a consequence that did not necessarily occur with Rates which could only be partially transferred to building prices. Of course, inflationary pressure would not occur at all if, as Henry George had proposed as long ago as 1879 in *Progress and Poverty*, the tax had been placed exclusively on the value of land.

The fact that the Poll Tax was a sum of relative significance from the individual's point of view concealed from sight its overall impact. This consisted basically in a massive transfer of the burden of local taxation from rent and capital to wages (a charge which was to be repeated annually) which might have caused strong inflationary pressure.

Very little of all this was explored or discussed at the time, but the political upheaval created by the objections of millions of new taxpayers was sufficient to lead to the abandonment of the tax and the replacement of the 'Iron Lady' as Prime Minister.

## 6. 1993, THE ABOLITION OF THE POLL TAX .

### THE NATURE OF A 'MIXED SYSTEM'

The Poll Tax was abolished in March 1993 and was replaced by a new system — Council Tax — based on a property tax but with a weighting dependent on the number of people living in the premises.

The first steps taken by the Conservative government on the road to the final abolition of the Poll Tax were a rebate of £140 per individual Poll Tax payer and its replacement by a 2½% increase in Value Added Tax (VAT). VAT is also a tax on wages, with some cosmetic improvements, but paid ultimately by the consumer. The government took with one hand what it was giving with the other. Since then, and although the Poll Tax no longer exists, VAT has not only not been decreased, but has been extended to other services.

'The Rates taxed rent and capital, the Poll Tax taxed wages; a system that will tax partly rent and capital and partly wages is needed.' This is the way to read the 'mixed system' which the Tories implemented by increasing VAT and introducing personal elements in the new Council Tax.

The effectiveness of such a 'mixed system' will depend on the proportions in which rent and capital on one side and wages on the other are taxed. If the proportion is 50/50, the supporters of personal taxation would have succeeded in transferring 50% of the burden of local taxation onto wages!

If the proportion is more inclined towards taxing the individuals living in the property, it would be similar in its consequences to the Poll Tax. If the personal element is meaningless it would be similar to the Rates or to a straightforward property tax on capital values.

Westminster City Hall describes the new tax in the following way:

The Council Tax is a property based charge with only one bill for each household. The amount payable will depend on the value band that the property is placed into by the Listing Officer for the Valuation Office Agency of the Inland Revenue. Properties have been valued according to their open market capital value at 1 April 1991, subject to certain assumptions...

The charge is based on the assumption that two or more adults are resident in the property. However, where there is only one resident, a 25% discount applies and where no one is resident a 50% discount applies. Some people, e.g. students or elderly people receiving care,

are not counted when calculating the number of residents. Some properties, such as those left empty and largely unfurnished for up to six months will be exempted from the Council Tax.

The way that the new system was implemented reveals that part of the tax burden which previously, under the Rating system, fell on the rent of property, has now been transferred to wages via the increase in VAT. The 'personal elements' contained in the tax are important and pose interesting questions. The discount of 25% for the case in which there is one resident only is significant, but the discount of 50% when no one is resident, which can reach total exemption in the cases of properties left empty and unfurnished for up to six months, is offensive to the principles of good government. The discounts mean that the revenue needed to meet council expenditure will have to come from other sources, mainly VAT or other taxes on labour and capital, while the total exemption contradicts the accepted traditional theory of land taxation and constitutes a premium for speculators and absentee landlords.

Although the new system appears fairer than the Poll Tax, it disguises the partial transfer of burden onto wages. Since it was introduced there has been much public concern over the increase in VAT. Although one of the reasons for this increase was the abolition of the Rates, very few politicians seem to know or remember the origin of the problem.

#### 7. A WORKABLE SOLUTION

The considerations mentioned above demonstrate that the issue of property taxation is vital both for the nation and the individual.

The various systems proposed to finance local authorities, which differ on the taxable base — rent, interest and profit on one side and wages on the other — directly affect the distribution of wealth in society.

To consider the reform in the light of such concepts as 'accountability' or 'payment for use of services' minimizes the issue. In reality these criteria are totally wrong.

The consequences of each possible alternative should be carefully studied as they can affect everybody's future.

The local income tax proposed by the Liberal Democrats does not appear to be a positive solution. A local income tax would be as unworkable as the Poll Tax. Although it might be fairer it would, effectively, also be a tax on capital and labour and would only marginally fall on the rent of land.

One workable alternative would be to go back to the Rating system but with updated rateable values, which is the Labour Party's proposal. This would have been the simplest and most logical way of tackling the problem from the beginning. Unfortunately when it comes to taxation it is wrong to expect logical outcomes as too many interests are affected.

But there are undoubtedly better systems than the Rates and any government facing the problem of local taxation should look carefully to the Canadian, American and Australian experiences with land taxation. These countries have a long tradition of debating and implementing different systems of land taxation, many of them *excluding* the value of buildings from the tax base. But, foremost, officials and politicians should carefully study the ideas of Henry George, the American economist who more than 100 years ago proposed a radical reform based on the collection of land rent.

The first consideration should be the effect of the tax: as already explained, any tax on capital and wages is inflationary, so it is clear that the main tax ought to fall on the value of land. A tax on land rent cannot affect production, because rent is not a return to the producers but a tribute that the producers have to pay the landlord to be able to enter into any productive activity. The result is always a social product which increases with progress and demand without any effort by the landowner. As Adam Smith and David Ricardo pointed out so clearly, a tax on rent would leave the producers completely unaffected. Not only would it not be inflationary, it would be clearly deflationary. If the tax were to fall on land values, and not on individuals, this would bring more land

onto the market, act as a deterrent against speculation and ease the access of labour and capital to the primary factor of production.

Nevertheless, the fight against speculation is like a permanent war. As soon as the defences are lowered speculation starts again. This is because, in modern capitalist society, the private appropriation of land rent constitutes the basis for the appropriation of unearned values. It is, of course, not the sole source of economic injustice. There are others. But it is a large, extended and basic one from which many other injustices stem.

It is my thesis that the appropriation of land rent by individuals constitutes the basic tool with which human nature — based as it is on the hedonistic principle, the Greek idea that pleasure is the highest good — bends the benefits of progress into the hands of a few.

## PART II

### 8. PRIVATE APPROPRIATION OF LAND RENT IN CAPITALIST SYSTEMS

When we consider the subject of land taxation other problems have also to be taken into account. The institution of private appropriation of land rent — which is the essence of the concept of 'Roman' property in the Latin countries and, in practice, that of 'freeholds' in the United Kingdom — does not operate apart from other economic factors.<sup>3</sup> It is part — an essential part — of a social and economic structure: any radical reform that would confiscate the rent of land (the ground rent) for public use would involve the structural reform of capitalist society and should be viewed in that way. It would affect many and powerful interests, and reformers should be ready to fight a fierce battle for which they would need allies. It is hopeless to expect to win the battle by convincing landowners and their allies of the justice of the reform. Economic reforms do not operate in that way and attempts to approach them by this route have usually been defeated.

The defenders of privilege have immense power: the whole system of credit in modern capitalist society is based firmly on the value of real estate. This operates as a form of guarantee for any loan. At the heart of real estate values are land values which, unlike buildings, cannot be eroded by time.

In most countries banks and credit institutions rely on land privilege in all its forms. It is an ideological alliance which has survived the fact that many times in economic history banks have been severely damaged by the collapse of land prices. Credit institutions not only have power themselves; they also have vested interests in the media and so can influence public opinion. The public is forced to accept private appropriation of rent as a fact of nature when it is really only a fact assumed by men — one that entails unfairness and injustice for their fellow-men.



Scholars, especially those trained in economics or sociology, from whom we should expect clarification and solutions, very seldom offer them. Most times they look for twisted theories to explain economic crises but they are — with few exceptions — blind to the obvious: that a system based on the monopoly of the most essential of natural resources — land — cannot but lurch from crisis to crisis, from boom to recession. It is so glaringly obvious yet they will not see it! They end their ritual deliberations by recommending an increase or decrease in interest rates! The sole medicine the economist has for the crisis in modern economies is to manipulate the thermometer of interest rates instead of attacking the causes of the disease! What should be only a circumstantial remedy is prescribed as the sole and permanent medicine to the suffering patient.

## 9. THE IDEAS OF HENRY GEORGE

What Henry George wrote in 1892 is still valid today:

...that thought on social questions is so confused and perplexed, that the aspirations of great bodies of men, deeply though vaguely conscious of injustice, are in all civilized countries being diverted to futile and dangerous remedies, is largely due to the fact that those who assume and are credited with superior knowledge of social and economic laws have devoted their powers, not to showing where the injustice lies but to hiding it; not to clearing common thought but to confusing it.<sup>4</sup>

Only the corrupt teaching in our universities and the almost religious sanctity with which land ownership is held can explain the fact that an intelligent and open minded economist such as John Kenneth Galbraith, when writing about American reformers, gave more importance to Thorstein Veblen — a sociologist with some brilliant ideas — than to Henry George. We can now begin to see that George's vision of a new society and his predictions about the future of socialism are among the most fascinating landmarks in the history of economic thought. But to understand George you have to penetrate his vision of society, and for that you must to get

rid of prejudices and 'accepted' facts. Unfortunately, few do so. Many are confused by the formality of his idea of a 'single tax' (he proposed to replace all taxes by a single tax based on the rent of land) and they fail to see what lies behind it. It is not just the single tax or free trade — of which he was also an extraordinary advocate — that is significant. What is really important in George is that he proposes a different structure for society.

With due respect for his undisputed talent we must conclude that Professor Galbraith never really understood what George meant to say; he never really 'participated' in his vision of society and hence he sees him as a rather minor reformer.

To understand the role of private appropriation of rent in our society we can quote what Alfred North Whitehead said about slavery in the classical Mediterranean civilization:

Think of the differences between Pericles and Cleon, Plato and Alexander the Great, Marcus and Sulla, Cicero and Caesar. Yet they all agreed in one fundamental notion which lies at the base of all political theory. Throughout the Hellenic and Hellenistic Roman Civilization ... it was universally assumed that a large slave population was required to perform services which were unworthy to engage the activities of a fully civilized man ... This assumption that a complex urban civilization requires a base of slavery was so universal, both in practice and in implicit presuppositions, that we may assume it to be derived from some well-founded reason in the conditions permitting the formation of the earlier phases of civilized life.<sup>5</sup>

Professor Whitehead fails to identify this "well-founded reason", which is none other than the hedonistic principle operating in the most primitive way: to obtain the maximum profit whilst the work is done by the slaves.

He continues:

Slavery was the presupposition of political theorists then; freedom is the presupposition of political theorists now. In those days the penetrating mind found difficulty reconciling their doctrine of slavery to certain plain facts of moral feelings and sociological practice; and in these days our sociological speculations find a difficulty in reconciling our doctrine of freedom to another group of

plain facts, perplexing, irreconcilable, only to be conceived as a hateful brute necessity.<sup>6</sup>

In another passage of his book Professor Whitehead says that we should try to identify that translucent and pervading "form of the forms of thought" and those factors which appear "so seemingly necessary" in our society, but cause that feeling of unrest, unfairness and inequality.

The monopoly of land, hammered into the heart of an economic structure which considers freedom as the supreme good, is one of the fundamental causes of those "plain facts, perplexing, irreconcilable". It is always wise to remember the words of Winston Churchill in his famous speech in Edinburgh:

Land, which is a necessity of human existence, which is the original source of all wealth, which is strictly limited in extent, which is fixed in geographical position ... land, I say, differs from all other forms of property in these primary and fundamental conditions.

Any existing monopoly, whether absolute or not — and rent appropriation is one of them — in the hands of a few individuals necessarily means deprivation for others and it is the abolition of this monopoly that constitutes the aim of Henry George's proposals.

#### **10. KARL MARX**

The challenge to private appropriation of land rent in the 20th century came mainly from the Marxist ideology. The deep and very accurate analysis of capitalist society by Karl Marx, which was rooted in a wrong philosophical conception, ended with the imposition on people of a 'theory' which was exactly the opposite of what Marx intended; a 'theory' designated by bureaucrats for the benefit of bureaucrats, which was pretentious enough to announce the creation of a 'new man', as if the basic instincts which are bound to human nature could be suppressed by the decision of government.

As Henry George said:

It is this body economic, or body industrial, which grows up in the

co-operation of men to supply their wants and satisfy their desires, that is the real thing constituting what we call civilization.<sup>7</sup>

And in a more direct reference to socialism:

The ideal of Socialism is grand and noble; and it is, I am convinced, possible of realization; but such a state of society cannot be manufactured — it must grow. Society is an organism, not a machine. It can only live by the individual life of its parts. And in the free and natural development of all the parts will be secured the harmony of the whole.<sup>8</sup>

A complete critique of Marxist philosophical ideas would not be possible in this essay, which is too short to analyse such a complex and often contradictory philosophy. We must nevertheless outline some key points:

1. Marx's understanding of Hegel's dialectic 'turned right side up' and used to describe the material reality of society, was an inaccurate instrument to explain the complex process of history. His idea of a thesis, antithesis and synthesis, operating in every society as the working mechanism of the system seemed too narrow to explain the outcomes of many economic and historic events. The synthesis, which should supersede and comprehend the positive aspects of both thesis and antithesis did not always behave like that in historical experience. As Bertrand Russell said in *Freedom and Organization*: "The barbarian invasion of Rome did not give rise to more developed economic forms, nor did the expulsions of the Moors from Spain, nor the destruction of the Albigenses in the South of France".
2. Although marxism is not completely determinist and Marx's theory of knowledge is nearer to pragmatism than to pure materialism, Marx was not always faithful to some of his original philosophical ideas and most marxists who followed him adopted a more deterministic point of view. Hence,

although Marx emphasized the creative and active participation of human conscience in society in his economic works he tended towards a more pronounced determinism which led to the announcement of the imminent birth of the 'new social order'. In fact, history has proved that determinism in social and economic matters can only be valid for very short historical periods. Society, economic relations and, as a consequence, history itself, is subject to continuous technical and practical changes, the product of human consciousness. To a large extent, history is unpredictable.

3. Marx was a materialist but his materialism was distinct from the pure materialism of the 18th century which he criticised. As Engels said:

This conflict between productive forces and modes of production (for marxists the basic contradiction in capitalist society) is not a conflict engendered in the mind of man, like that between original sin and divine justice. It exists, in fact, objectively outside us, independently of the will and actions even of the men that have brought it on.

Nevertheless Marx accepted that man in a way created his own history, but not out of conditions chosen by himself. As C.E.M. Joad, whose ideas have been followed in this analysis, explains:

Economic forces (in Marx's view) make society what it is and men what they are and, although the institutions of society and the minds of men then proceed to generate a vitality of their own in virtue of which they enjoy power to modify economic forces, this influence is only a secondary and derivative cause of historical events... Thus the economic structure of society which is the result of the way in which men satisfy their material needs is, in the long run, the factor which determines all the others.<sup>9</sup>

As Joad points out, this peculiar form of activist materialism...

according to which changes in the physical world are in some sense a product of the activity of mind's knowledge of the world is more akin to Pragmatism than to Materialism, as Materialism is commonly understood today. Marx is not consistent in his application of this doctrine, and in his writings frequently assumes that a proposition can be true in a sense other than a pragmatic one of changing reality in such a way to serve our purposes.<sup>10</sup>

## 11. THE DECLINE OF MATERIALISM AND THE PHILOSOPHICAL ERRORS OF MARXISM

But if the present century has seen the decline of materialism and determinism in science as a result of the new notions introduced by the theory of relativity and by quantum mechanics — and especially the Uncertainty Principle discovered by Heisenberg in 1927 — there is little ground left for philosophical materialism, even for such a complex one as that of Marx.

Even if quantum mechanics is not a 'complete' theory as Einstein maintained in his lifelong polemic with Nils Bohr; even if it is not 'the-end-of-the-road' in the analysis of the material world, as the Copenhagen Interpretation pretended, and new 'hidden variables' are discovered, it is evident that it is incompatible with the traditional determinism of Newtonian physics. This fact is accepted even by philosophers such as Karl Popper who have strongly opposed the Copenhagen Interpretation and its subjective assumptions by defending the 'objective' character of the quantum theory.<sup>11</sup>

It seems clearer now that the role of human consciousness in constituting reality, including social reality, must be considered as more important and decisive than Marx thought it was, and — as we shall explain below — it can be said that there is also an 'Uncertainty Principle' in human history.

The whole marxist outline of historic events and social evolution is based on philosophical assumptions with only relative value. Marx's conception of the necessity of a revolutionary and violent change to give birth to the 'new order' is just an outcome of his

philosophical misconception, of his improper application of dialectic to society. With Joad we may say

...that the rigorous application of logic to life is apt to result in an interpretation of events which is too final, too sharply cut and too clearly defined. What actually happens in history is determined not only by the working out of fundamental principles and discernible underlying trends, but by a thousand and one irrelevant and disturbing factors whose genesis escapes detection and whose operations evade analysis.<sup>12</sup>

It is true that we cannot attribute to Marx all the mistakes and misconceptions of his followers, including Engels. He was a refined thinker of depth and sensibility and such an important part of his works as the third volume of *Das Kapital* was only published after his death. But in philosophy one mistake is enough to undermine a whole system. He made at least two major errors. First, he did not attribute to the human mind the decisive role it plays in historical events, along with the basic instincts that form part of it, mainly the hedonistic principle; secondly, he tried to force reality to adapt itself to his conception of dialectical materialism instead of accepting the bare and evident facts of historical change.

## 12. THE COMMUNISTS IN POWER

It was the marxist concept of historical divisions that led to the erroneous belief that a new and completely different economic system should be created to replace capitalism. But with communists in power and even with the decline or suppression of capitalism this 'new system' did not 'appear' as the 'natural' development (with the communists giving a helping hand to ease the birth) which Marx thought it would. Finally, the marxists — maybe Marx himself would not have made such a mistake — opted to invent a new system, destroying all the previously existing economic relations and replacing them with an unnatural and illogical organization based on the absolute ignorance of the hedonistic principle and the suppression of private initiative.

The communists did the only possible thing they could do,

which was to apply the ideas of human mind to society, because the basic marxist concept that society itself would give birth to a 'new order' proved so completely mistaken.

The problem was that instead of cautiously interchanging ideas with reality, they imposed a preconception of an economic order in a radical way, destroying the pre-existing relations which, whatever their wrongs — and there were many — nevertheless contained many positive elements, the result of centuries of economic development.

Karl Kautsky was one of the marxists who not only remained a devoted democrat, but also insisted on preserving the existing means of production:

There is no cliché more senseless than that everything that exists must be destroyed so that the social edifice can be rebuilt completely anew. Such a destruction of the old does not mean anything other than the elimination of the indispensable preconditions of the new, it does not make room for the latter but forces us to begin once again with the old. It does not carry us forward but backward...<sup>13</sup>

He always emphasized the absolute necessity for communists to be extremely careful in any modification of existing productive relations. He was a severe critic of the totalitarian methods of the Russian revolution. Sentenced to intellectual death by Lenin in his book *The Proletarian Revolution and the Renegade Kautsky*, he was outlawed by communist orthodoxy but lived long enough to see some of his prophecies come true (he died in 1938). His writings remain a solid basis for considering marxist philosophy from a more rational point of view.

But apart from Kautsky and a few others, the interpretation of Marx's ideas remained in the hands of Lenin and his followers, for which interpretation, in any case, there was also sufficient ground in Marx's writings.

In this way, obscured by what may be considered a philosophical misconception, many of the positive ideas contained in *Das Kapital* were forgotten or disregarded. The era of communist rule was destined to end in colossal failure.



Marx undoubtedly had a structural vision of the function of private appropriation of rent in capitalist society. In this he was absolutely correct. But, following Ricardo, he only made a comprehensive analysis of agrarian rent — in some senses deeper and more accurate than that of Ricardo — and he failed to consider in detail the problems of urban ground rent. He failed to develop a detailed study of land rent as a general category of capitalist society, although he recognized it as such a category. He mentioned buildings and urban sites, but in a rather unsystematic way, which is strange for such a systematic thinker. Nevertheless he was quite clear on the fact that, without private appropriation of rent, what he calls 'primitive capitalist accumulation', would have been impossible, and that the 'territorial monopoly' is a constant of capitalism.

The precise study of land rent as a general category in capitalist society remains largely the achievement of Henry George whose contribution proved to be the culmination of the work of the physiocrats and his other classical predecessors, Adam Smith and David Ricardo. George endowed political economy with the clarity and precise definitions of concepts which previously did not exist.

### 13. THE PHILOSOPHICAL BASIS AND THE PRACTICAL PROPOSALS OF HENRY GEORGE

George was not a trained philosopher, but he had the invaluable gift of intelligent common sense which can assess the validity of philosophical ideas. He was essentially a believer. He said:

It is not in this power of "thinking things out" of "seeing the way through" — the power of tracing causal relations — that we find the essence of what we call reason, the possession of which constitutes the unmistakable difference, not in degree but in kind, between man and the brutes, and enables him, though their fellow on the plane of material existence, to assume mastery and lordship over them all?

Here is the true Promethean spark, the endowment to which the

Hebrew Scriptures refer when they say that God created man in His own image, and the means by which we, of all animals, become the only progressive animal. Here is the germ of civilization.<sup>14</sup>

These words give an insight to his basic conception: a deistic and rational approach to the role of human beings in nature and society. He believed, as he wrote in *Progress and Poverty*, that

Mental power is the motor of progress, and men tend to advance in proportion to the mental power expended in progression — the mental power which is devoted to the extension of knowledge, the improvement of methods, and the betterment of social conditions.<sup>15</sup>

He was convinced that the law of progress was the moral law and the function of human reason was to search for those laws in social and economic life which would produce a moral order.

In some respects he was the opposite of Marx. In his book, *Social Problems*, Henry George wrote:

Social reform is not to be secured by noise and shouting; by complaints and denunciations; by the formation of parties, or the making of revolutions; but by the awakening of thought and the progress of ideas.<sup>16</sup>

Maybe his mistake was to trust too much in the sole power of ideas, which — as we shall see — have to coalesce with the forces originating in the physical world in order to be successful. Many may not agree with his Christian beliefs, but few could say — in the light of the achievements of 20th century physics — that his concept of the fundamental role of the mental process was mistaken. In this special sense, history has rejected some of Marx's philosophical ideas and endowed George's with new vigour and relevance.

He expected less in the short run than Marx and Engels did. He believed in evolution and not in revolution; and his proposals, whenever taken into practice — although always in a fragmentary way — provided empirical proof of the theory.

Although lacking in a sense a structural vision — the view of the many inter-relationships that connect private property with almost all categories of capitalist society — his uniqueness in the

consideration of land rent, both urban and agrarian, and its direct connection with the unjust distribution of wealth and the existence of poverty in the midst of progress and abundance, together with the explanation of the reasons for the recurrent fallacy of protectionism, entitles him to an undisputed place among the great economic thinkers.

Curiously, Henry George, who dedicated many pages to urban rent and land speculation in the cities, is seen by many scholars as an *agrarian* reformer! In reality his ideas had little or nothing to do with the agrarian 'reforms' proposed in the 20th century — and put into effect in some countries — which were based on the pure division of land holdings, though without tackling what he considered was the main issue: the private appropriation of rent.

In the same way as it is a mistake to consider George as an agrarian reformer it is also inaccurate to regard him as a tax reformer. Henry George was a *social* reformer. He proposed the abolition of the industrial and commercial monopolies through competition and free trade — live issues in contemporary Europe and America — and the facilitation of access by capital and labour to land by socializing the private appropriation of land rent; the 'mother of all monopolies' as Winston Churchill called it. The 'single tax' was a practical and political proposal to this latter end. The fact that this proposal was broadly rejected by the establishment is not surprising. It was to be expected. It does not affect at all the validity of Henry George's basic and essential ideas which remain unrefuted.

The fact that the main challenge to private appropriation of land rent came in this century from marxism does not help those who now wish to introduce changes in the structure of capitalist society. It makes their task more difficult and allows some politicians to appear as champions of freedom by introducing — or at least proposing — reforms such as the Poll Tax. A good economist should recognise that, when we consider the use of land, correct taxation is the base for freedom and its lack the consecration of monopoly.

The Establishment in modern developed societies either ignores the land problem or relegates it to a matter of secondary importance. As Fred Harrison wrote:

We are invited to believe that land, which is fixed in supply, is neutral in the process of production. For example in his quantitative analysis of growth of real national income in the western economies, Edward Denison of the Brookings Institutions assigns 0.000% value to the land as an input.<sup>17</sup>

In his book, *The Power in the Land*, Fred Harrison proves beyond any reasonable doubt, not only that land is not neutral in the process of production, a thesis shared by both Marx and George, but "...that land speculation disrupts the industrial economy by distorting the distribution of income and contracting the supply of land available for homes and factories, shops and offices and farms".<sup>18</sup>

Once we accept the importance of land in the economy it is easier to understand why, having started with local taxation reform in the United Kingdom, we have had to consider Karl Marx's ideology and, finally, Henry George's proposals.

## PART III

### 14. LESSONS EMERGING FROM THE UK EXPERIENCE

Perhaps one lesson should be learnt by everyone from what happened in the UK: the land question in modern western societies is not only an agrarian problem but an urban one as well and, more accurately, a problem related to the socio-economic structure of society. Therefore the attempt to alter the land system by taxation or other regulation is a major economic and political issue. The sectors defending land privilege in the UK failed to impose the Poll Tax and are now faced with the Uniform Business Rate (UBR), a system that affects substantially the rent of commercial property. Nevertheless they succeeded in reducing the tax on residential property and transferred its burden to wages via the personal elements contained in the new Council Tax and the increase in VAT. We could say the battle ended in a draw. But those who champion economic justice, those who really want to improve the existing economic system, should carefully study the experience and prepare themselves for future confrontations which will certainly come. The sectors defending land privilege are not going to accept easily the consequences of the UBR levied on business premises and reforms are already in the pipeline.

One of the failures of the Poll Tax debate in the UK was the lack of clear economic information.

The lack of hard data to support the English empirical approach and the absence of theoretical analysis which would have been favoured on continental Europe, enabled politicians who should have spoken more openly to remain silent. Many political leaders knew the problems but lacked the strength, the will or the means to publicize their opinions.

Plenty of statistics were presented by both sides, but few of the public discussions indicated any deeply rooted knowledge of economic theory.

The UK, with its very peculiar land tenure system — so different from the continental countries — and with a strong democratic tradition, will continue to be fertile ground for future debate and reforms, though hopefully they will be more ideologically fruitful than the ones that took place over the Poll Tax.

The forces that really want to improve existing conditions, to bring more justice to economic relations and those who share in some way George's vision of a better society should be prepared for these debates. The way to be prepared is, first of all, to accept the fact that great economic changes are always the result of the coalescence of forces that originate in both the physical world and in human conscience. Nevertheless, the prevalence would eventually be for that conception, created by human minds and based on past experience and actual facts, which more properly adapts itself to external reality as the constitutive framework.

Another essential is the acceptance that it is always better to tolerate existing evils than to harm society with brutal or untested theories. The example of the Soviet Union and other former communist countries is too near and too dramatic to be forgotten. But to be careful is not to be passive and in that sense political work, ideological clarification and discussion should be on the everyday agenda.

The desire to change a socio-economic structure brings us to a complicated and difficult subject. George's ideas in their full and comprehensive formulation imply the modification of the existing capitalist society, retaining the grandeur of its achievements — Marx would concur in this — but superseding its errors and injustices within the limited possibilities of human nature. This is the task in which Soviet communism failed so completely. The fact that the 'single tax' (the solution proposed by George in the 19th century) is difficult to implement in the complex society of our day should not restrain but rather enhance our determination to find new solutions within the framework of his unrefuted arguments. In this search for new solutions and ideas for the process of change some basic principles should be considered.

## 15. THE HEDONISTIC PRINCIPLE

For the purpose of understanding social institutions a threefold division of human nature is required:

INSTINCT, INTELLIGENCE, WISDOM.

As Professor Whitehead propounded

Our consciousness does not initiate our modes of functioning. We awake to find ourselves engaged in processes, immersed in satisfactions and dissatisfactions, and actively modifying, either by intensification or by attenuation, or by the introduction of novel purposes. This primary procedure which is presupposed in consciousness, I will term Instinct. It is the mode of experience directly arising out of the urge of inheritance, individual and environmental. Also, after Instinct and intellectual ferment have done their work, there is a decision which determines the mode of coalescence of Instinct with Intelligence. I will term this factor Wisdom. It is the function of Wisdom to act as a modifying agency on the intellectual ferment so as to produce a self-determined issue from the given conditions... The intellectual operations consist in the co-ordination of notions derived from the primary facts of instinctive experience into a logically coherent system.<sup>19</sup>

The logical outcome of Professor Whitehead's ideas is that no civilization or historical process can be properly understood without considering the methods of expression within them of the basic instincts of the human being, of which the principle of self-preservation and its primary manifestation, the hedonistic principle, constitutes the essential nucleus.

Human beings unite themselves in social groups because life in common proves to be more beneficial for survival than isolation, but they cannot form society without their basic instincts and these basic instincts immediately shape a peculiar social organization and a related form of thinking.

It may be argued that the hedonistic principle — that human beings seek to gratify their desires with the least possible exertion — is not only essential in order to establish the economic laws which govern the internal relations of a society, but also a prerequisite of our understanding of institutions and categories in society even if they

appear to be the natural outcome of the development of civilization, wherein they are blessed with religious sanctity or solemnly declared as pillars without which the whole structure would fall.

Adam Smith considered the principle as the impulse driving individuals within society, each seeking his own advantage, ultimately — with the guidance of what he describes as an invisible hand — resulting in common benefit.

Henry George defines it in *Progress and Poverty* as “the law that is to political economy what the law of gravitation is to physics”, and makes its functioning a pivotal instrument of his economic and social analysis. For him it was an ever present condition in human associations and, considering its necessity, he proposed to change those other areas in society — especially the appropriation of land rent — which made the product of labour rebound to the benefit of a few.

Marx did not use the principle as an instrument of analysis, but it cannot be said that he ignored it. More accurately we could say — with Kautsky — that it is presupposed in his description of the functioning of capitalist society. But in departing from the existing human condition and the prevailing economic relations, he undoubtedly rejects the hedonistic principle too. It seems clear that there is little room for it in the ‘new order’, the synthesis that would supersede the contradictions of capitalism. Marx seems to believe that in these new economic conditions a new man would develop. Certainly the communist systems ignored it completely, an omission that proved fatal.

## 16. THE TRUE ROLE OF THE PRINCIPLE.

### THE NECESSITY OF SOCIAL CONTROL

The hedonistic principle *moulds* social institutions, but always according to the existing economic possibilities. In this way slavery came to be the undisputed base in the ancient economic order and private appropriation of rent a part of capitalist society.

In the communist system the principle moulded a structure based on the power of bureaucracy. It provided the access to



political power, the unavoidable condition necessary to enter the selected circle of the happy few.

If we turn to the process of the abolition of slavery, we may see that in 1808 the British Parliament abolished slave trading and, in 1833, the purchase of slaves in British Dominions. The slaves were granted their freedom. In this way the slow ethical evolution of human thinking began to take shape. The British Empire — the dominant economic power — abolished slavery. Nevertheless, as the ethical conscience was not addressed to the instinct which underpinned the institution but only to its historical manifestation — slavery — the hedonistic principle continued to manifest itself, though in new and different patterns. New forms of social injustice and exploitation appeared which, even with some substantial modifications, are the same ones we are facing today.

All this leads to an obvious conclusion: the permanent control of the effects of the hedonistic principle in society should be the central issue in any programme of economic reform.

The Ethical Conscience — 'Wisdom' in Whitehead's terminology or Practical Reason in Kant's — and the careful analysis of social life are the only means by which we can travel down a difficult road towards a more just social order, in which the limit to the instinctive life of each individual is defined by the equal rights of his fellow-citizens.

It is true, as Marx pointed out, that when the strength of the oppressed assumes the form of class struggle it can be an instrument for positive social evolution. But this strength without the correct ideas on what to do and how to do it would be completely useless as Henry George pointed out so clearly.<sup>20</sup>

## 17. THE PRINCIPLE OF SOCIAL UNCERTAINTY THE PRINCIPLE OF ADAPTABILITY

The role of human conscience in social evolution has to be considered both as a constituent of what we know as 'reality' and as a force capable of modifying this reality in a rather unpredictable way. Conscience is capable of invention, creation and transformation

which, when incorporated into economic life, modifies not only material facts, but also, as a consequence, certain economic and social relations.

Some of these inventions, technological improvements or discoveries can be based on previous ones and so can be predicted. But there will always be a factor of unpredictability in social evolution which we will call the Principle of Social Uncertainty.

The other role of conscience in social evolution is to elaborate a concept of the adequate social order for each historical period. We can call this the Principle of Adaptability.

As the Principle of Social Uncertainty is present in every social and economic process, this second role of human conscience has to be of a constant adaptation, by means of a permanent comparison between ideas and reality. As Karl Popper has shown, knowledge increased by the conscious adoption of the Critical Method which enables us to test hypotheses and cancel errors.<sup>21</sup>

In this second but essential step it is always necessary to bear in mind that although human reason can be unpredictable, its instinctive tendencies are predictable and, as a consequence, the Ethical Conscience should address these tendencies directly and continuously. It is that coalescence between Instinct and Intelligence which Whitehead called Wisdom that enables us to organize human life in society.

The Principle of Social Uncertainty does not operate in a vacuum. It functions by transforming the pre-existent social and economic relations which cannot be destroyed without the risk of damaging civilization.

The aim of destroying the totality of the existing system was another fatal mistake of marxism, an error almost impossible to make good. That is why communism could not evolve or transform itself. It had to fall to pieces, because it had destroyed the natural basis of society.

#### **18. THE FUTURE OF REFORM**

The true social and economic transformation should be based on the conjunction of the following operations: adapting, analysing,

conserving, modifying, suppressing and controlling, guided by the light of Ethical Conscience.

This task, though of great difficulty, alone offers a solid basis for progress with the least social and economic destruction.

When Marx and Engels wrote "...that communism is not a condition to be imposed, an ideal to which reality should be subjected. We call communism the real movement that annuls and supersedes that actual state of things"<sup>22</sup> they were recognizing this evolutionary character of society. Unfortunately neither they, nor the subsequent marxists, nor the communists in power were consistent with this ideal.

The crushing strength of human instinct and the hard obstinacy of reality hindered the dream of creating a 'new order' with a 'new man'. The lesson is there to be learnt: the existing social and economic order is a result of evolution and it should not be destroyed but rather transformed by looking for the sources of unfairness and injustice and matching our ideas of reform with the forces of reality, always controlling the display of human instinct in possibilities of experience.

The fall of the communist idol has opened once more in history the opportunity for humanity to participate in the eternal ideas of Truth, Good and Justice; to participate rather than to conform since this is not in the realm of what it is possible for finite minds to achieve. Yet it remains only a possibility, not a certainty. In moral issues there is always a choice. Whether we fail or succeed will depend on the political and economic programme of progressive political forces in the coming years.

There is a certain danger in the tendency of popular and responsible political forces to surrender in the face of the necessity to adopt strategies or tactics believed — many times wrongly — to bring more votes and so facilitate access to power. The outcome of such compromises is that, when in government, they become hostages of those tactics and fail to adopt the essential policies even if they know them to be the correct ones.

These tactics can relate to different aspects of economic life. In

connection with land policies there are concrete examples: the Spanish socialists in office abandoned — because of ‘public pressure’ — the reassessment of property valuations. They ignored the fact that in tax reform you need to explain things fully and *look for vital support within society*.

Taxation reform when referred to land is linked with the other main social and economic problems and to treat it as a separate issue leads to confusion. For those who believe in the possibility of a better world, and who also believe that some of the historical contributions of Henry George are of extraordinary value for future social organization, there is a formidable task ahead.

In Britain, the Labour Party, engaged in a fierce, daily battle to win power, should propose what the country really needs: a return to a duly modified, up-to-date rating system or the increase of the existing property tax, with the corrections necessary to exclude the value of buildings and cancel its ‘personal’ elements. This would be a feasible way to lessen the impact of VAT and other taxes on consumption without creating inflationary pressures. They should also consider using both tools jointly, taxing annual values and, in addition, taxing the capital value of unimproved land. The goal should be to collect for public use one hundred per cent of land rent.

The party should strongly defend — with the necessary corrections — the existing Uniform Business Rate, a true milestone in the history of property taxation in Britain. As has been explained, this would be the easiest way to reduce VAT and other taxes.

However, if anything is evident after the Poll Tax experience, it is that those who bear the taxes on land rent are a minority — though an important and influential one — before the large majority that suffers indirect taxation. Politicians should carefully consider this fact. For popular forces there are many ways of gaining political power in a democracy, but there is only one way to retain it: to conceive, advocate and achieve the structural reforms capable of bringing economic justice to those who live by their daily effort and who are always the overwhelming majority in society.

## References

1. Of course, parties of 'low taxation' were not always so in reality: on many occasions they simply cut some tax burden by imposing others or reducing essential social services.
2. In September 1990 the number of householders (i.e. ratepayers) in the UK was 18,000,000, while the number eligible to pay the Community Charge (Poll Tax) was 36,200,000. Source: Department of the Environment.
3. Although in English legal practice a 'freehold' is a tenancy, in practice it is similar to ownership in the Roman sense as the market rent profits for the freeholder.
4. Henry George, *A Perplexed Philosopher*, USA: Robert Shalkenbach Foundation, 1988, p. 272.
5. Alfred North Whitehead, *Adventures of Ideas*, USA: First Free Press P, Edition, 1967, pp.12-13.
6. *Ibid.* p. 13.
7. Henry George, *The Science of Political Economy*, New York: Robert Schalkenbach Foundation, 1981, p.27.
8. Henry George, *Progress and Poverty*, USA: Robert Shalkenbach Foundation, 1979, p. 321.
9. C.E.M. Joad, *Guide to Philosophy*, New York: Dover Publications, 1957, p. 478.
10. *Ibid.* pp. 493-494.
11. Karl R. Popper, *Teoria cuántica y el cisma en Física*, Madrid: Ed. Tecnos, 1992. See especially the "1982 Foreword", the "Introduction" and especially the "Metaphysical Epilogue".
12. C.E.M. Joad, *op. cit.*, p.489.
13. Karl Kautsky, *The Materialist Conception of History*, edited by John H Kautsky, Yale: Yale University Press, 1988, p. 55.
14. Henry George, *The Science of Political Economy*, *op. cit.*, pp 33-34.
15. Henry George, *Progress and Poverty*, *op. cit.*, p.507.
16. Henry George, *Social Problems*, USA: Robert Shalkenbach Foundation, 1981, p. 242.
17. Quoted by Fred Harrison *The Power in the Land*, London: Shephard-Walwyn, 1983, p. 13, citing E. F. Denison "Economic Growth" in *Britain Economics Prospects*, by R. E. Caves and Associates, Washington DC Brookings Institution, 1968, p. 236.
18. *Ibid.*, p. 12.
19. Alfred North Whitehead, *op. cit.*, pp. 47-48.

20. Henry George, *Protection or Free Trade*, New York: Robert Schalkenbach Foundation, 1988, pp. 1-2.
21. Karl R. Popper, *Busqueda sin término*, Madrid: Ed Tecnos, 1993, p. 154.
22. Mark Engels Werke, *The German Ideology*, Berlin: Institut for Marxismus-Leninismus, 1969, Vol. VII, p. 37.