

SAVING US FROM OURSELVES: WHAT WE MUST DO

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We have run out of time. The current economic cycle has peaked and a crash is coming. The only unknown is just how deep the crash will take us and how long the crash will last. What we do know is that the tools and policies employed by our governments, whether local, state or federal, are insufficient and often counter-productive.

This would not be the case if the means by which government raises revenue and creates the money serving as our medium of exchange were based on sound economic analysis rather than what has been taught to generations of students in our colleges and universities since the last decade of the nineteenth century. The details are found in the 1994 book titled "*The Corruption of Economics*," co-authored by three economists – Fred Harrison, Mason Gaffney and Kris Feder – who found guidance and insight from the analysis presented by Henry George in the books he wrote during the twilight of the age of the political economist.

Henry George spearheaded the first international movement of people committed to securing and preserving individual liberty within a cooperative societal framework. The method of achieving this outcome was to change the way governments would raise the revenue to pay for public goods and services. Instead of imposing taxes on commerce, instead of taxing income earned producing goods and providing needed services, instead of taxing the depreciated value of tangible capital goods such as buildings and machinery and technologies, governments would publicly capture the value of locations in towns and cities, of land blessed by natural resources, and of other natural assets with an inelastic supply, such as frequencies of the broadcast spectrum and take-off and landing slots at airports. Also included is the value of competition-limiting licenses issued by government to operate taxi services or sell alcoholic beverages.

Despite organized efforts in many countries to introduce Henry George's systemic reforms, the political chaos of the twentieth century brought about the movement's attrition and diminished influence. Some successes occurred. Some have endured. New efforts are underway today, although almost all are concentrated at the level of state and local government and how real estate is taxed. State law and in some instances state constitutions require amendment to allow local taxing bodies to lift the burden of taxation from property improvements and begin to capture more and more of the potential annual rental value (that is, the economic rent) of locations, of land. Chapters of the member organization Common Ground, U.S.A. work around the country to get the states to approve enabling legislation, then with local leaders to adopt the tax shift.

While this effort is ongoing and cries out for broad public support, there are other systemic reforms some of us in the Henry George community urge, as did Henry George himself a century and a half ago.

For almost all of modern history, societies have struggled to create a just system of money issuance and the regulation of the banks that arose as intermediaries between

savers and borrowers. Thanks to the heavy political influence of J.P. Morgan and the nation's other leading bankers early in the twentieth century, the Federal Reserve System was created, ostensibly to serve as a lender of last resort to banks experiencing temporary liquidity problems, to keep inflation in check and mitigate the boom-to-bust character of the U.S. economy. Some of us, critics of the system, argue for the return of money issuance to the U.S. Treasury, to be spent directly into the economy without the creation of interest-bearing government debt. Holders of existing federal debt could gradually be paid off with the new Treasury currency as government bonds mature.

An equally important reform of the nation's financial system is to return to banks the limited role of intermediaries between savers and borrowers. Banks should be required to actually have the cash on hand with which to make loans to borrowers. The banks can raise needed cash by attracting new deposits, by issuing and selling shares of stock, by issuing and selling bonds, or otherwise borrowing short term in the credit markets.

Some of us are convinced that as necessary as these monetary and banking reforms are, they will not reign in inflation or the repeating economic cycles we experience so long as economic rents continue to be privately appropriated and counter-productive taxation exists of the goods and activities we need to encourage. One mitigating proposal put forward by the long-time professor of economics at the University of California, Mason Gaffney, is to prohibit banks from accepting the value of land as collateral for borrowing. Bank loans would be limited to the value of whatever building or buildings existed or was to be constructed. Buyers of land would be required to pay cash or seek financing from other financial entities.

Next to last on my own list of reforms is the individual income tax, which over the decades has acquired the dual problems of regressivity and becoming too complicated for compliance without having to utilize a tax accountant or service such as H&R Block. What I propose is simple. Exempt all individual incomes up to some significant amount, say, whatever is the national median income the previous year. Assume this is \$75,000. Eliminate all other exemptions and deductions. Above the basic exempt amount, impose an increasing rate of taxation on higher ranges of income. Thus, one of every two persons with income from whatever source would pay no federal income tax. As rates of taxation increase, a higher portion of that income (which includes income from all sources) which is almost all derived from speculation and other rent-obtaining privileges under law. It is worth noting here that by the definition of capital as used by Henry George, gains on the sale of financial instruments and land do not meet the definition of a capital gain, as actual capital goods depreciate over time.

Lastly, we should replace the business profits tax with a low but graduated tax on gross revenue, exempting some level of revenue consistent with that taken in by most small businesses. This systemic change rewards efficient businesses and removes the tax benefits associated with huge salaries and bonuses to executives. A form of the gross revenue tax is currently in effect in six states.

