

## Is a Georgist Land Value Tax Possible in Chile?

**By: Nicolaus Gonzalez**

Chile is undergoing its biggest political change in the last 40 years, and for the first time its people will draft a Constitution by participatory and democratic means. A Constituent Assembly of 155 democratically elected members, half of them women, will be chosen in an election on April 11, 2021 and will have up to a year to draft a constitution that will then be plebiscite for the people. The constituents will be elected under the same electoral rules that govern the election of congress members, which favors political parties and big coalitions.

Chile was colonized by Spain in a process that set up a caste society with European conquistadors at the top and black slaves at the bottom, with mestizos and natives in between. White conquistadors were granted huge landed estates that entitled them to free labor from the indigenous inhabitants, which lost the free access to their commons. This later evolved into the Haciendas system, but all through its colonial and early republican history, Chile shared Latin America's characteristic of huge tracts of land owned by a tiny number of wealthy families, who conformed the country's social and political elite. Unlike Europe, Chile never developed an industrial capitalist class that could displace the landed elites. Until the 1960s, Chile was still controlled by a small number of proprietor families, and the vast majority of Chilean peasants were landless and had to live in the Haciendas working in a quasi-feudal system.

Growing pressure from worker and peasant's movements, from the Catholic Church and the left-wing parties forced an agrarian reform process that turned violent as elections brought increasingly left-wing governments to power, culminating with Salvador Allende and the Popular Unity government, which ended tragically with the coup of 1973. After this, there was a counter-reform, which did not return the land to its former, quasi-feudal state, but fueled by the then triumphant Chicago school economic thought. Land was sold to speculators, agrobusiness and huge forestry companies, which somewhat alleviated the previous levels of concentration of ownership and improved the land productivity, but created other problems such as environmental degradation, impoverishment of whole districts that were converted from agricultural life to labor-saving forestry industry, among others.

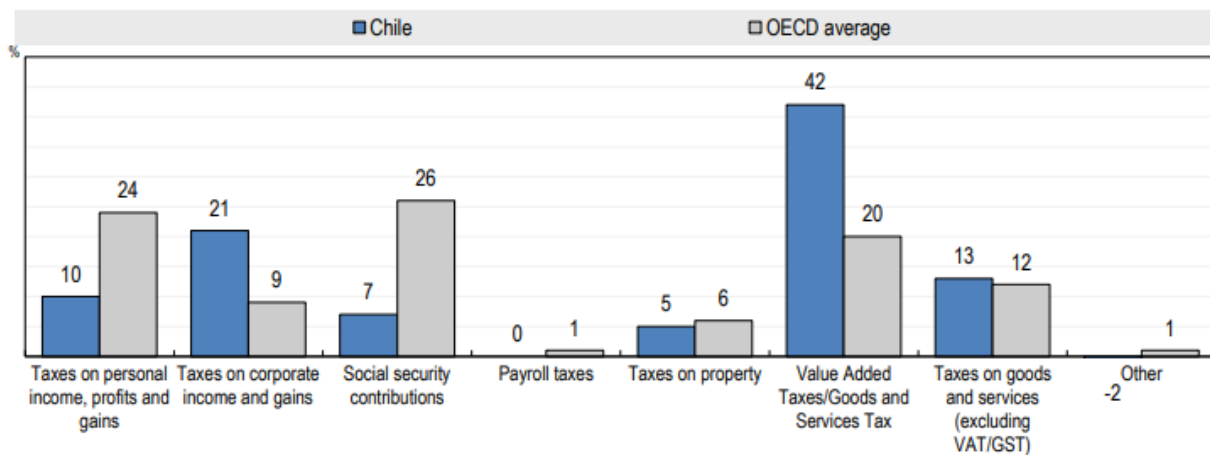
Georgist ideas were never as big in Chile as they were in other Latin American countries such as Argentina, although there is at least one precedent of similar ideas: In the early XIX century, as the country was fighting for its independence, a prominent liberal figure, José Miguel Infante was proposing replacing all taxes with an estate tax, probably influenced by Thomas Paine's or the Physiocrats' writings. But he failed to transform this into policies.

The referendum was the main concession politicians made last November as they tried to pacify protesters with an "agreement for peace." The left argue that the 1980 constitution, written under rightwing dictator Augusto Pinochet, is implicitly designed to protect Chile's model: minimizing the role of the state, limiting voters' political choices and making it harder for Chilean governments to expand social welfare or interfere with businesses. It became a major target of protests, which began with teenagers jumping subway turnstiles to protest a small subway fare hike but quickly morphed into a so-called "social explosion"—an all-out rejection of the neoliberal economic model that has made Chile one of the region's richest countries, but also created spiraling inequality.

After the protests and uprising last year, the ideas and philosophies of Henry George have failed to gain the public's attention and are unlikely to get into the new constitution so far. Georgism is virtually nonexistent in Chile because other issues, mainly pensions, have taken absolute predominance over the public discourse. Land, when it is talked about, is under a populist leftist lens, very anti-development.

Rewriting the constitution won't solve all of the country's problems, but it's the best chance of turning the "social explosion" into meaningful change after a year of unrest. Even a few prominent figures from the right have backed the rewrite. But political analysts say that's where the consensus ends. Some see the referendum as a symbolic opportunity to move on from the dictatorship or tinker with the existing model. Others want a total transformation.

As a country, Chile relies heavily on VAT, levied at 19% of MOST products and services. It makes up 42% of all tax revenue compared to the average 20% of the OECD.



Property taxes exist, but they are minor and mix land and buildings. There is no property tax to be paid up to a certain amount, and from there up there's a 1.2% tax on residential property up to another threshold and then a 1.4% tax. Rural land gets taxed 1% and isn't charged up to a certain amount. Agricultural improvements are subtracted from the assessment.

Chile has a large homeownership rate, although it has been steadily declining from almost 70% in 2002 to around 53% in 2017. Most renters are younger people, so homeowners are mostly "boomers" who are also poor or lower-middle class. This means that many property owners **do not pay property tax**, because the value of their property is inside the exempt tranche. Most people also don't pay any income tax, because wages are very low. This presents another difficulty for Georgist ideas: For most people it would mean a new tax they didn't pay before, and reductions in income tax would not matter to them because they do not pay any. The only tax they pay is VAT, but that is an "invisible tax" so the idea could be hard to sell. The existence of property tax allows for some Georgist shifts - from levying it on the whole property to levying it only on the land value.

Most organizations that deal with the "Land Question" in Chile are grassroots groups that consist of home debtors and people who live in slums in irregular occupied terrain. These groups, such as UKAMAU or ANDHA have been successful in raising awareness and public attention. But the absence of Georgist thought in Chile, and the indifference of mainstream liberalism towards it, have caused them to

be appropriated by hardline leftist ideologies, and many proposed solutions call for expropriation or price controls. There are other organizations, urbanist ONGs, that also deal with the housing crisis and land use, but none that proclaims the "georgist solution". Other groups, worried about development destroying traditional neighborhoods in high-value grounds in the cities, have taken an anti-development perspective. These groups oppose densification and often call for rent control as a solution for the housing crisis, and it is these groups that have caught the attention of the few congressmen and women who have taken an interest on the issue.

I believe, if we band together, we can make a Georgist shift in Chilean policies. The referendum to the Constitution is a start.