THE VALUE OF A WHOLE LIFE

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An appraisal of Life Chances in the UK
commissioned by the Rev Paul Nicolson
of Taxpayers Against Poverty
to inform the debate on the Life Chances Act 2010

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What value does the UK Parliament place on a person's life? There is no single answer. People are not treated as equals. Public policy, notably in relation to the differential impact of taxation on the population, divides the population into two classes. Parliament accords priority treatment to owners of rent-generating assets, discriminating against those who are asset-poor. This is illustrated by housing policy, which favours long-life citizens who occupy locations that are rich in tax-funded infrastructure and cultural assets. This tradition (the economics of apartheid) creates a dilemma for Parliament, which is now being invited to enact Life Chances legislation. Can all citizens enjoy equal life chances under a fiscal system that was designed to favour rent-seekers?

Contents

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Beyond Austerity: Parliament's Historic Opportunity

Taxpayers Against Poverty propose amendments to a forthcoming Bill in Parliament which are a necessary first step in setting a national goal: improving people's life chances by introducing policies on minimum incomes to reduce the 12-year gap in the expectation of life between rich and poor, and to measure the effectiveness of government policies.

To correctly assess life chances, three yardsticks are needed

(i) A measure of the best life chances that are *currently* achieved. This is the standard against which to compare what is yet to be attained by those who are deprived of the "whole life" experience.

(ii) A measure (or measures) of the *optimum life chances* that *could* be achieved by the whole population, *if all restraining barriers to free action were removed by the introduction of a public charge on the rental income of land.*

(iii) Measures of the minimum incomes needed for healthy living by men, women and children throughout their lives.

This Bulletin will explain that the desired improvements will remain unattainable without the adoption of policies that provide adequate housing for all families. That goal, however, cannot be attained under current fiscal policies. Therefore, in the forthcoming parliamentary debates on how to enhance the quality of life of the British people, law-makers will need to reflect on the unintended consequences of their acts and omissions.

Fortunately, the Cameron Government's proposal to enact a Life Chances law presents Parliament with a historic opportunity. Once again, after two previous failures, it can begin the process of erasing the systemic cause(s) which, for the past 500 years, have segregated people into two distinct streams of social development.

Public policy has, at its heart, an organising principle which may be called the economics of apartheid. As compensation for the economic outcasts, Parliament has spent the past century trying to put a floor on the living standards of those whose life chances were prejudiced by circumstances beyond their control. But despite 70 years of Welfare State legislation, some children born today suffer a mortal fate that is sealed at birth. They will, on average, die 12 years earlier than others who were born on the same day, in similar NHS hospitals, and drawn from the same gene pool, but who were conceived and raised in locations that are endowed with high-value rent-generating assets.

The "excess deaths" (as statisticians classify them) are not random; and they are not, ultimately, the result of idiosyncratic characteristics acquired over the course of a foreshortened lifetime. Their fate is pre-determined by an institutionalised process that dooms them to premature death because they are born in places like Blackpool and in Drumchapel (Glasgow), and locations with similar mortality prospects.

This presents the Cameron government with a dilemma. According to its paymaster general (Matt Hancock MP), cash benefits extended to young unemployed people will, in future, be conditional. Changes are being made to unemployment benefits with the aim of ensuring that "*nobody is defined by birth and everyone can achieve their potential*" (Pickard 2015). At present, people's life chances *are* defined by birth, and more or less everyone in the UK is prevented from achieving his and her potential by a fiscal regime that imposes enormous "deadweight losses" on the nation (§3 below).

If the fiscal-sponsored cause of premature deaths is not erased, the conclusion to be drawn by the electorate is that Parliament wishes to preserve laws that facilitate the unequal treatment of Her Majesty's subjects, even unto their deaths. Hitherto, those deaths are by Acts of Parliament. Will Parliament now seize the opportunity to remove the causes of those deaths?

(1) Fiscal Failure

The scale of tax-funded expenditure on health and welfare is enormous, and the intention was to provide a minimum quality of life for people. Governments of all political hues have sought to enhance people's wellbeing, but something was fundamentally wrong. The stated objectives – of erasing poverty, providing decent housing, ensuring employment – could not be achieved. The failure, ultimately, lay with governance, not with the medical, educational or social service provisions.

In essence, the Welfare State is like a wrestler whose right arm was tied behind his back. The problem is with the method for funding the wellbeing of the population. The original architects of social welfare understood that, for public spending to be effective, it had to be based on a revenue system that was fair and efficient – or, in terms that are popular with today's lawmakers, "sustainable". That system was proposed. It was promulgated. But it was not implemented.

- The foundation legislation, intended to secure the wellbeing of the aged and unemployed, was instituted by a Liberal government in its 1909 Budget. MPs like Winston Churchill understood that the financial structure had to be reshaped. The People's Budget aimed to raise the revenue from the economic rents generated by the whole population. The House of Lords would not allow the law to be implemented.

- Post-1945, successive Labour and Conservative administrations refined the housing, health and social service provisions. Originally, these were also to be funded out of revenue generated by the land and tax reforms instituted by Labour governments. Those policies, however, were framed in ways that could not be synchronised with a market economy; so the laws on land-and-tax reform, between 1947 and 1976, were repeatedly deleted from the statute book (Blundell 1994). As a consequence, the Welfare State was forced to employ taxes that damaged the capacity of the nation to produce sufficient revenue to meet all the demands that were placed on it.

Budget deficits, consequently, became a systemic feature of government finance. And the need to support disadvantaged sections of society became an open-ended liability on the budget.

(2) Competing Fiscal Doctrines

The Cameron Government now obliges Parliament to revisit the fiscal philosophy of the Welfare State. The basis for this is the government's "fiscal responsibility" charter. Parliament is obliged to consider the terms on which it authorises the government's Budget. In particular, consideration must be given to

(i) **<u>the consequences of existing taxes</u>**. The deadweight imposed by the current fiscal regime runs to many billions of pounds in lost wealth and welfare, every year. Those losses, if converted into gains, would be more than sufficient to fund the provision of decent living standards for everyone. This can be achieved, if Parliament mandates

(ii) **<u>the alternative revenue policy</u>**. Episodically, throughout the 20th century, with Finance Bills enacted but not implemented (1909, 1931 and post-1945), Parliament has acknowledged that there is a way to fund public services that is both fair and efficient. Previous Liberal and Labour governments, originally inspired by an initiative of Glasgow City Council, sought to reform the property tax to encourage the

A. creation of new jobs that drew everyone into the workforce;

B. production of housing: vacant and under-used land with planning permission would be used rather than land banked;

C. cash hoarded by corporations would be invested to create new enterprises.

Box 1 summarises some of the empirical evidence that demonstrates the administrative feasibility of collecting economic rent for the public purse.

The current fiscal paradigm imposes permanent austerity on society, by repressing people's ability to provide for all their personal and social needs. The anti-austerity policy is grounded in a rent-based revenue system. The cumulative impact would be

A. higher wages as involuntary unemployment was eliminated;

B. reduced rents as a revived construction industry expanded the output of dwellings; and

C. a more competitive UK economy, as deadweight taxes that drive up product prices are eliminated.

Box 1
The Treatment of Rent as Public Revenue

Direct charges on the rents of land, for fiscal purposes, were tried-and-tested in the 20th century.

- Denmark, responding largely to small farmers, introduced the charge in the 1920s. For a survey of the history leading to the fiscal transformation, see the YouTube video – https://www.youtube.com/watch?v=J5_I6noG0ps
- Australia and New Zealand funded their infrastructure on land value taxation. For the current practice, see the way in which home owners in New South Wales can look up the land value assessments on a road-by-road basis on the Value-General's website: http://www.valuergeneral.nsw.gov.au/land_values/accessing_land_values
- South Africa employed the site-value local property tax until the ANC government chose to abolish it in 2004, in favour of taxing the value of people's dwellings.
- Britain introduced the leasehold system of tenure in Hong Kong in the 1840s, and funded public services out of rents; which continues to be the major reason why deadweight taxes are extremely low, and *per capita* incomes are extremely high.

In the UK, the rent-as-revenue policy was resurrected in 1931 by Chancellor of the Exchequer Philip Snowden. His Land Value Tax Bill was enacted into law; but not implemented, because of the political opposition that prevailed at the time. The terms of the Act were so well framed that they provide a model for a Parliamentary initiative today. For one of the debates on the Bill, between Snowden and his opponent, Sir Austen Chamberlain, see **LAND VALUES TAX.** HC Deb 04 May 1931 vol 252 cc47-169 which appears at

http://hansard.millbanksystems.com/commons/1931/may/04/land-values-tax-1#S5CV0252P0_19310504_HOC_308

The terms of the 1931 Act are here:

http://www.c4ej.com/acts-of-parliament/1931-finance-act

(3) Mandate for Change

The May 2015 Conservative Manifesto committed a Conservative Government to "work to eliminate child poverty and introduce better measures to *drive real change in children's lives*, by recognising the *root causes of poverty*: entrenched unemployment, family breakdown, indebtedness, and the relief from stress provided by refuge in drug and alcohol dependency".[2] To this end, the Conservative government has developed the concept of "life chances". This doctrine obliges the government to identify the *root causes* of unequal outcomes, a project that reaches beyond the mere cataloguing of the *symptoms* that describe the constraints on life chances. A robust appraisal of *causes* is required, if Parliament is to avoid the promulgation of policies that *further degrade* the life chances of future generations. Bad policies would

[2] http://www.publications.parliament.uk/pa/bills/cbill/2015-2016/0051/en/16051en03.htm Emphasis added.

a. waste public money, and

b. deepen the social and personal stresses which provoke people into seeking comfort in coping strategies such as drugs and alcohol.

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Parliament and government need a robust understanding of what it would take to empower the people of Britain to achieve their full potential.

At present, the concept of "potential" is defined by the artificial ceiling that is imposed on the economy and society by deadweight taxes. The scale of the potential that is realistically open to the nation can be visualised by computing the gains that can be achieved by reforming the structure of the public's finances. We may cite two examples:

❖ *The Blair years*. Using HM Treasury's serious under-estimate of the "excess burden" caused by its taxes (Harrison 2015:112), we find that, during the 10-year administration of Tony Blair, Britain lost wealth and welfare of about £1 trillion (Harrison 2006:155). This loss exceeded the funds required to provide all the *additional* public services the nation needed in that decade.

This counterfactual narrative explains why and how fiscal austerity is a self-imposed limitation, sanctioned by Parliament. *By shifting the flow of revenue away from wages, and onto economic rents, it becomes increasingly possible to meet all the needs of those who, through no fault of their own, are prevented from enjoying the standard of life that ought to be available to everyone*.

❖ *Abolishing Scotland's Income Tax*

The gains from incremental reforms are staggering. Take, for example, what could happen in Scotland, if the Holyrood Parliament exercised its powers over Income Tax and the Property Tax. What would happen if it zero-rated the Income Tax, and replaced the revenue with a reformed property tax (exempting the value of buildings, and recovering the revenue from location rents)? The impact is suggested in Table 1 below.

Table 1 Scotland's Finances: Competing Scenarios (£ billions)						
2013–14	*2014-15*	*2015-16*	*2016–17*	*2017–18*	*2018-19*	*2019-20*
Net Fiscal Balance, 2013–14 (outturn), 2014-15 to 2019-20 (IFS Projections)[1]						
-3.8	-5.9	-7.6	-8.2	-8.5	-8.9	-9.7
Net Gain from Zero-rating Scotland's Income Tax						
11.5	11.5	11.5	11.7	11.9	12.2	12.4

[1] David Phillips, "Full fiscal autonomy delayed? The SNP's plans for further devolution to Scotland", London: IFS, 21 April 2015. http://www.ifs.org.uk/publications/7722

Source: Sandilands and Harrison 2015: 12.

The net gains are shown in the bottom row. By eliminating the deadweight losses, and assuming a realistic rate of economic growth in GDP, the people of Scotland would be better off, *each year,* by more than £11bn. That is the additional sum, in wealth and welfare, for distribution between the public and private sectors. This contrasts with the estimates by the Institute for Fiscal Studies. It calculated what would happen under the current fiscal regime if Holyrood received "full fiscal autonomy": budget shortfalls would range from £4bn up to nearly £10bn by 2020.

These outcomes of a reformed fiscal policy suggest that there are huge gains to be made if the doctrine of life chances is employed creatively, in the public interest. To achieve these results, however, it would be necessary for an all-party consensus to emerge in Parliament, one that came to terms with the harsh reality of the doctrine that has ruled to date: the doctrine of Just Deserts. This differentiates people into two classes:

- people who are rent-seekers; and
- people who do not own rent-generating assets.

Historically, the allocation of tax-funded benefits to land owners established the class of Haves; while those who could not share in the tax-funded capital gains from land became the Have-not citizens. The difference between these two classes is simply portrayed in the Parable of the Silly-Sods & the Supermarket (Appendix 1).

(4) Draft of Proposed Amendment

The draft amendments to the Life Chances Bill that are proposed by Rev. Paul Nicolson are given in Appendix 2. A further sub-clause might be included, to illuminate one aspect of the current fiscal regime's negative impact on the whole population: the way in which *location* prejudices people's life chances. To elicit this information and dramatise the nation-wide scale of the problem, Parliament should require information on

- *the locational concentration of people with lowest average life expectancy at birth: with an annual report submitted to Parliament on the determinants of the causes of low life expectancy in those locations.*

This sub-clause draws attention to the personal and social impact of fiscal policy; encourages government to develop remedial policies that would be applied nationwide to all low-income families; and it concentrates attention on the spatial aspects of fiscal policies of the kind that are associated with life chances.

(5) Capital Gains & the Housing Market

To illuminate one aspect of the economics of apartheid (separate development), we now consider how current "progressive" taxes discriminate against one section of society: the families who occupy homes as rent-paying tenants.

Table 2: Life Chances of Income Earners		
	Bottom 20%	*Top 20%*
Total Lifetime Tax Payments: Average[1]	£271,445	£1,488,275
Average Annual Income	£12,916	£83,750
Years to pay Lifetime Tax	22	18
Average Life Expectancy at birth[2]	69 (Blackpool; Drumchapel [Glasgow])	81 (Westminster: Kensington & Chelsea)
Average house price[3]	Glasgow City: £171,658	Westminster: £956,907
Years required to claw back tax payments via capital gains from residential property	Rent-paying tenants do not receive capital gains: they do not claw back their lifetime tax outlays	Westminster home owners claw back all their lifetime taxes in 14 years[4]

[1] Taxpayers' Alliance: *Total Lifetime Tax*, Press Notice, 31 July 2015.

[2] Fred Harrison (2006:166).

[3] Nationwide *House Price Index*, Q2 2015: www.nationwide.co.uk/hpi

[4] Westminster house prices more than doubled (117%) in the 10 years to 2015. Over the 18-year business cycle, house prices conform to a 14-year cycle (Fred Harrison [2005], *Boom Bust: House Prices, Banking and the Depression of 2010*, London: Shepheard-Walwyn).

The Taxpayers' Alliance has calculated the number of years of earnings required to cover the lifetime cost of tax liabilities (direct and indirect). At 2015 tax rates, the bottom 20% of income earners (who, on average, live shorter lives) have to work longer than the top 20% income earners (22 years compared to 18 years), to meet their fiscal liabilities. The results are shown in Table 2. Furthermore, the tax burden for the bottom 20% earners *increased* by 4.1%, compared to the previous year, while for the top 20% earners it *decreased* (by 2.2%).

The Taxpayers' Alliance bases its estimates on the assumption of a working lifetime of 40 years and 15 years of retirement. This is a realistic profile for the high income earner. But for people born in the UK's "kill zones" (Harrison 2015: Ch.6), like Blackpool or the Drumchapel suburb of Glasgow, the average number of years of retirement are far fewer. According to the estimate of the late Prof. George Miller, about 50,000 UK citizens *per annum* suffered foreshortened lives that must ultimately be traced to the differential quality of life imposed by the fiscal regime (Miller 2003:1). The victims of fiscal mortality rates are deprived of the prospect of enjoying the state-funded pensions which are claimed by high-income earners.

The current cycle in house prices restarted in 2012. It will terminate in 2026. Over that period, the price of dwellings located in Westminster will rise by *more than* 150% (with annual increases in the final years running at 15% and even hitting 20% per annum). Thus, someone buying a house in Westminster in 2015 will claw back a lifetime's taxes within this one property cycle. This means they will live tax-free for the remainder of their working lives, and pocket a huge tax-free/unearned capital gain at the point of retirement. Their children, who will inherit those capital gains, will live an average of 15 years longer than babies born in Blackpool or Drumchapel, during which they will enjoy their state pension plus their tax-funded capital gains.

Appendix 1

Parable of the Silly-Sod & the Supermarket

Two people visit the supermarket.

Mr Have tours the isles, filling his trolley with the products that he wishes to consume…maybe two bottles of milk, tins of sardines and baked beans, a loaf of bread, a cut of salmon, cleaning materials, whatever is needed to restock the kitchen for the coming week. He proceeds to the check-out desk, and is invited to proceed without paying for his selection of goods. He is invited to the Manager's Office, where he is handed a brown envelope stashed with cash. This he places in his back pocket, without so much as a by-your-leave. He expects the windfall gain! He has been taught to treat that cash as his reward.

Mr Have-Not also loads his trolley with the goods he wishes to consume. But when he arrives at the check-out desk, every item is costed. He is then required to pay for the products he wishes to consume. And there is no brown envelope stashed with cash waiting for him at the manager's desk.

Furthermore, when Mr Have-Not arrives home, he finds that the postman has delivered a demand from HM Revenue and Customs. Under the current fiscal regime, Parliament treats Mr Have-Not as a Silly-Sod. It is taken for granted that he will contribute towards the cost of the goodies being consumed by Mr Have. After all, explains the taxman, *someone* has to pay for those goods if the budget is to be balanced. That privilege is bestowed on Mr Have-Not.

An unfair form of financial governance? But it is the doctrine that has prevailed for the best part of half a millennium. The time-honoured arrangement is now celebrated in the tabloid Press on a daily basis.

- **Mr Have** is eulogised as the "hard-working middle-class homeowner". The windfall gain which he receives is the bonus for the shrewdness he demonstrated in "getting on the property ladder".
- **Mr Have-Not** receives his just deserts. Taxes on his earnings and consumption cannot be defrayed, because he is a tenant. He pays rent to his landlord, who pockets the tax-funded capital gains that are funnelled into the property market by government. And the income and consumption taxes which he pays, over his lifetime, contributes towards the costs of the services enjoyed by Mr Have.

The differential life chances that stem from this unequal treatment explain the whole difference in the whole-life differences between Mr Have and Mr Have-Not.

Appendix 2

"The Child Poverty Act 2010" becomes the "Life Chances Act 2010"

Our draft amendment sets out to embed in the Bill a duty on UK governments to improve life chances of men, women and children by the introduction of policies that will

(a) reduce the 12 year gap in the expectation of life between rich and poor

(b) reduce the risk of poor maternal nutrition and low birth weight in low income families.

That would require an annual report of progress showing

1. trends in the key indicators of health such a malnutrition, obesity, life expectancy at birth, low birthweight, infant mortality, debt, overcrowding, mental health derived from official statistics and
2. trends in the real value of the national minimum wage and key benefit incomes as measured by the retail prices index after housing costs derived from official statistics annually for the previous ten years.

The Department of Work and Pensions has never considered the impact of it policies on the health and well-being of the poorest UK citizens and the Department of Health never considers the cost of poverty and debt related ill-health.

Other suggested amendments

- *Benefit levels and the minimum wage, and uprating of these, will, at a minimum, be enough to cover the minimum cost of healthy living.*

- *DWP will publish data annually on the number of households with children not receiving sufficient income to cover the minimum cost of healthy living.*

(More information on the minimum cost of healthy living is in the Marmot Review)

- *DWP will publish data on the modelled economic costs and benefits of current benefit levels in 2016 and on future changes to policies as part of consultation processes. This modelling should include the costs and benefits to DWP and to other government departments over the life course of an individual.*

(DWP/HMT short termism could cost other departments dearly in the long run, and future governments dearly in the long run – ie reduced benefits lead to higher health costs)

- *DWP will publish a health equity assessment for all welfare and benefit changes. This assessment will consider the impact of policies on: the ability to afford a minimum income for healthy living for households with and without children, and on the impact the policies will have on inequalities in life expectancy and healthy life expectancy.*

(this introduces a requirement to look at health, and some of the health measures suggested above – it will encourage cross departmental working)

- *Life chances will be met through reductions in socio-economic inequalities in life expectancy and healthy life expectancy. Targets will be set, in collaboration with the Department of Health, to achieve this goal.*

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