A new Enlightenment is the prize if Parliament vanquished taxes that damage wealth and health

DEBT DEATH & DEADWEIGHT

The Acts of Parliament

Fred Harrison
EDITOR

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& DEADWEIGHT
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"With or without a price crash,
thinking about real estate must change"

Financial Times
July 15, 2017

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Towards an authentically humane society

Fred Harrison

BRITAIN is faced with an historic opportunity. The break-up of the formal relationship with the European Union obliges both the public and politicians to consider what the future of the United Kingdom could and should look like. By a small majority, people created the political space for Parliament to redesign those aspects of the social model which cause havoc in the lives of just about everybody.

That a new constitutional settlement is needed is driven home by the repetitive nature of the crises that confront all four nations of the UK. The inability of Parliament to once-and-for-all erase these crises emphasises that there is something fundamentally wrong with one or more of the pillars that prop up the social structure.

The costs of the malfunctioning system were painfully exposed by the inferno that consumed the lives of more than 80 people in Grenfell Tower in July 2017. In the midst of the wealthiest borough in the country, vulnerable families were decimated because a premium was placed on cost-saving at the expense of people who needed social housing. Images of the inferno are now indelibly inscribed on our minds, a horrific vision that rammed home the need to interrogate the cultural forces that permitted that terrible deed. But the odds are stacked against a comprehensive examination of the conditions that led to that crime against humanity. Time and again, when scandals are exposed in the media, officials declare that "the lessons will be learnt and action will be taken so that it never happens again". Those scandals do happen again, with shocking regularity, and almost always at the expense of people on the lowest incomes.

The major obstacle to change is buried deep in the collective consciousness. A prejudice steers us away from the ultimate source of most of the socially significant crises that afflict Britain today. That source is the system of taxation. But before indicting governments for the reckless way in which they raise the public's revenue, we need to locate the problem in its historical context.

Tax policy, as it is administered today, is one of the instruments invented by those who committed a terrible crime in the distant past. That crime triggered ripple effects across time and space. The common rights of the people, beginning in England, were abused by the aristocracy and the emerging class of gentry. They enclosed the commons of England. The peasants were dispossessed of their traditional rights of access to land.

Peasant communities were savaged, whole villages demolished, families consigned to the highways as vagabonds. This was the foundation for the class structure which blighted Britain, and little has been changed to alter that fundamental reality, not the Welfare State nor the conventions on human rights. That historic process explains why the victims of the Grenfell Tower inferno, in their interviews on TV, protested in bewilderment that they were being treated as second-class citizens. They are among the present-day victims of an economic reality that was not corrected either by the doctrine of equality or by universal suffrage.

When we penetrate the realities behind the political myths, we discover the ugly truth: ours remains a society constructed on a hierarchy of rights which prejudices the lives of millions of people. That structure will not be altered until we realign rights with responsibilities, especially as these relate to the administration of the public purse.

The restoration of rights

Class society was constructed on an egregious injustice. People's traditional right of access to land, on which the household economy depended, was erased. The evil effects were transmitted through the generations, and they remain with us to this day. But action to correct that injustice does not entail a restoration of land rights back to the customs and practices that existed in medieval times. The practical solution is to recraft the philosophy of taxation. No-one who is willing to work, to save and to invest would be disadvantaged by the ensuing reform.

The key insight, which needs to inform political action today, is this.

After the commons of England were privatised, the financial privileges of the new class of rent-seekers had to be legitimised. The land grabs that were graced with the term "enclosures" had to be enshrined in law. Parliament was made to accommodate this injustice, by enacting a complementary system of taxation. Taxes had to be invented to steer the revenue system away from the authentically efficient and fair system of collecting funds to pay for public services. That source, affirmed by tradition, was the rent of land. But if rents were to be channelled into private pockets, alternative fiscal instruments had to be invented which would fall on the wages and proceeds of people's enterprises.

- The people of England, Wales and Ireland, followed by the people of Scotland, were systematically gutted of their rents.
- The reciprocal action followed: Parliament systematically imposed arbitrary taxes on people's wages and the profits of their enterprises.

The economic costs of this process are discussed in Chapter 2. Converting the losses into gains through tax reform would deliver a bonanza in productivity of the order of £500bn. *That implies about £175bn extra to be spent on public services, and £325bn to be shared between wages and profits. Every year!*

But statistics cannot provide an adequate portrait of the human costs of the status quo. The Welfare State was intended as a safety net for the most vulnerable sections of society. It has become a mechanism for abusing low-income families. In 2010, when David Cameron's government introduced financial sanctions against the unemployed, Parliament removed the last vestiges of dignity to which the people on the lowest incomes could cling. As *The Guardian* put it:

> **'The workhouse aside, there's never been a social security programme that delivered as much pain for so little gain as the 'great sanctions campaign' imposed on unemployed people over the first half of this decade.'** (Butler 2017)

That assessment is attributed to David Webster, a research fellow at the University of Glasgow.[1] An account of the human costs of the sanctions against families is provided by the Rev Paul Nicolson in Chapter 1. On a daily basis, he works at the coalface of the human tragedy that blights the reputation of the United Kingdom.

Ultimately, however, responsibility for reforming the tax regime does not lie with parliamentarians. The peoples of the four nations of the British Isles must shoulder the responsibility for the way they are taxed. Their mandate is needed, if politicians are to revise the way the state funds the services required by the people. But authorisation for the change cannot come without an informed national conversation. Parliament has a crucial role to play in framing that conversation. It must provide the information people need, so that they can exercise their collective judgement. Politicians need to engage with their constituents in a debate on what it would take to incorporate civility in the financial system. That informed conversation cannot take place without first understanding the difference between policies that are pure palliatives, and the policies that would recast the status of the public's finances. The difference is between maintaining the status quo, or empowering people to realise their full potential, as measured by both the wealth and the welfare of the United Kingdom.

1 David Webster's research papers on financial sanctions are available at http://www.gla.ac.uk/schools/socialpolitical/research/urbanstudies/projects/ukbenefitdisallowanes/

Palliatives versus holistic reform

Palliative policies are needed to mitigate short-term problems. These include the challenges of being out of work, of growing old, or of falling sick. This was the doctrine that drove the Liberal Government to propose fiscal reform in 1909. In the budget of that year, the welfare needs of the population were to be funded out of the nation's rents. Landlords in the House of Lords subverted the tax reform, but permitted Parliament to enact the laws on welfare.

Since then, Parliament has remained wedded to palliative policies. After World War 2, attempts were made by Labour governments to redesign the land-and-tax system. They failed because Labour's policies were not harmonised with the mechanics of an efficient economy (Blundell 1994). The Welfare State was shoe-horned into a financial system which systematically abused the private and the social rights of the populations of the four nations. The consequences have been disastrous, most painfully in terms of the sacrifice of tens of thousands of people whose lives continue to be terminated prematurely.

Real estate is at the heart of the social malaise. The cycles in house prices inflict periodic recessions which retard growth. Unaffordable housing displaces families from the centres of employment, expanding the geographical dispersal that gives spatial expression to the class structure. And yet, if the experts are to be believed, there is little that we can do about this. We are told, for example, that the restoration of a rent-based revenue system is not practical. Why? Property professionals, apparently, cannot value land separately from buildings. And yet, as the chapters on Australia, Denmark and the US in this volume demonstrate, land is routinely valued separately from buildings for fiscal purposes.

Many myths shroud tax policy. They must be dispelled before the public's finances can be rebased on ethically sound and economically efficient foundations. These myths are responsible for the crisis in political philosophy. Policy paralysis is most evidently on display in Washington, but it is also a feature of UK and European governance. The rise of "populism" is one response to the failures in mainstream politics.

Tax reform is the tool for breaking out of the impasse. In reading the chapter by Edward Dodson, for example, reflect on how the rust belt towns would enjoy an immediate benefit for municipal tax reform - without having to wait for action from President Donald Trump. The graduated transformation of the property tax in favour of raising more revenue from the rent of land would begin to create jobs on the back of the construction of affordable homes. This policy could evolve into a nation-wide reform of taxation, as Ted Gwartney explains, creating a Great America without having to engage in dog-in-a-manger trade practices with other countries.

The gains in social solidarity are not hypothetical. Lasse Anderson's chapter testifies to the role play by public finance in the strengthening of community bonds in Denmark. And the history of Australia leaves no doubt that the reforms explored in the Portcullis Papers are consistent with the Anglo tradition.

A new Enlightenment?

The idea of a new Enlightenment is within the practical grasp of politics in Scotland. As Ian Kirkwood explains in Chapter 3, the popular will and the financial tools are now at the disposal of Holyrood. The devolution of fiscal power to Edinburgh created the opportunity to replicate the Scottish Enlightenment of the 18th century. The instruments for initiating the renewal of intellectual and moral vitality are in the hands of the people. The reason why we should be optimistic is that the great tax reform movement at the beginning of the 20th century, which led to the People's Budget of 1909, was crystallised into political action with a resolution passed by the council in Glasgow in 1905. They did it then; there is no reason why the people of Scotland cannot do it again, not least because of these facts:

- ► Due diligence in support of a restructured revenue system has been undertaken by successful social reformers in the United States, Denmark and Australia.
- ► Nobel prize economists have endorsed the reform (including Franco Modigliani, Robert Solow, William Vickrey and James Tobin [Noyes 1991: 225-230]), among others, and most recently Joseph Stiglitz (2013).
- ► Professors of economics in America, Scotland and Germany continue to analyse and prescribe the policy as being in the public interest.

Curiously, lawmakers (with a very few honourable exceptions) maintain a studious silence on the subject. What will it take to make them understand that they have the power to lead their peoples to a new Enlightenment on the back of the huge material and cultural gains that would flow from the simple device of fiscal reform?

The peoples of the British Isles have earned the right to live in an authentically humane society. The traumas which they and their ancestors endured over the past three centuries can be redeemed by restoring ancient forms of social solidarity in a modern guise. Quite how impoverished the present "normal" is, compared to what might have been achieved if the peasants of the commons had not been victimised by the enclosures, is difficult to say. But we must try to grapple with that vision. It is that narrative which just might inspire the peoples of the British Isles to engage in the conversation that can authorise the removal of the greatest barrier to people's aspirations.

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Debt Death and Deadweight

CHAPTER 1

Land grabbing, income inequality and state-sanctioned debt

Paul Nicolson

STATE-sponsored intimidation of low-income families is now a routine practise. Local authorities intimidate people who default on their council tax payments with threats of prison. The threat of sending round the bailiff wastes the time of council officials, wastes taxpayers' money, and worst of all it damages the health of vulnerable people. This is a crisis in our communities whose cause must be traced back to the inequality in income which blights the lives of millions of people in the UK. That crisis is inextricably linked to pressures arising from unaffordable housing, which in turn can be traced to the failure of the state to administer the nation's land bank on behalf of the welfare of everyone.

It is unlikely to be a coincidence that about one third of households in England are renters (7m households) while, and at the same time, about a third of the UK population, or 20m people, live in poverty and rely on benefits granted by the state. Those benefits are not administered in a humane way. When low-income people fall into arrears, their treatment by the debt collection system evokes memories of the 19th century Dickensian debtor's prison.

For many families, state benefits are a lifeline. But these benefits have been shredded by national government since 2010 and taxed by local government since 2013. The inadequacy of the Jobseeker's Allowance can be traced back to 1979 and the onset of the Thatcher era.

It was not supposed to be like this. Unemployment benefit was created by a Liberal Government which intended to raise the finance out of the land tax proposals contained in the People's Budget (1909). The benefit came into operation in 1912 at 7 shillings a week – about 22% of average male earnings in manufacturing. By 1979 the benefit rate was still about 21% of average earnings (Bradshaw and Lynes 2009). By 2008, however, the renamed Jobseeker's Allowance had been halved to an all-time low of 10.5% of average earnings. This was the result of tying benefits to the price index while real earnings increased. Understanding the forces that created the crisis should lead to a more human resolution for the nation's low-income and vulnerable families.

Homes into financial assets

Infrastructure improvements, often paid for by the State, increase the value of property, most of which goes to home owners. Ask those who live near the Jubilee Line or Crossrail in London. National and international speculators buy British land as an investment and pocket this increase in value for personal gain. In the highest echelons of personal wealth they park the profits in overseas tax-free banks. This is an affront to morality, but there has been little or no moral leadership from Church or State about the possession and use of land.

The inequality that exists between home owners and renters festers due to a tax regime which is biased towards owners. Families who own homes can pass them on from one generation to another free of capital gains tax and inheritance tax. Home owners become wealthy not just because land is in limited supply, but also because of the privileged treatment accorded to owners by a Parliament composed of home owners and buy-to-let landlords. The 1979 Thatcher government deregulated lending, abolished rent controls and allowed the free flow of money in and out of the UK. This created a bonanza for land owners and an ever increasing inequality of wealth and income.

To the humanist, land is a gift of nature. To the Christian faith, land is a gift of a generous and loving God. To both it exists to provide shelter, food, fuel and clothes for all. The Church Commissioners, I am sad to note, administer their land portfolio as a commercial enterprise with little regard to the impact on the poorest British tenants or for the Christian preferential option for the poor. This tragedy has been long in the making. I have seen it at work at close quarters when I worked as a pastor in the English countryside (see Box 1). I am now confronted with a similar state of affairs in its urban context.

I live in the London Borough of Haringey, whose council is teaming up with an international property developer to regenerate up to 15,000 council tenancies and 508 small businesses on council land. Yet again, acres of public land, which have been bought and paid for by council tenants, will move into the market to the detriment of the tenants. This is a colossal policy failure. 100% of those acres ought to be reserved for truly affordable housing.

Life as a landless tenant

For the UK's 7m landless tenants, the housing crisis is worsening. They possess no equity to fall back on. No escape from council tax, income tax or VAT. Since April 2013 council tax has been charged at 8.5% to 30% against state benefit incomes by 264 councils out of 326 in England. And they add court costs and bailiffs fees to the arrears which cannot be paid out of a single adult unemployment benefit of £73.10 a week. Since April 2013, rent also has to be paid out of that £73.10: that was when government started to cut housing benefit. A cut in housing benefit is an increase in rent for the tenant on top of the ever rising rents due to the chaotic UK housing market.

That £73.10 remains the wobbly bottom building brick of the Universal Credit paid to 4m people. It is below the Joseph Rowntree minimum income standard for food, fuel, clothes, transport of £91.80 per week (Joseph Rowntree Foundation 2017). It is insufficient to cover rent and council tax. Before April 2013, the £73.10 was supported by 100% housing and council tax benefits.

Box 1

The Privatisation of Sacred Acres

The rich and powerful began their land grabbing after the Magna Carta. The land which once belonged to the King was common land on which the people of Britain survived. The enclosures by the barons took that land from them. The Church and State were not slow to catch on, as I discovered when I served as Parish Priest in the Hambleden Valley Group of Churches in the beautiful Chiltern Hills.

Much of the land was once owned by the monks at St Albans Abbey. It was often used for the common good as well as the survival of the monks. Henry Burgersh, the grandson of a baron became Bishop of Lincoln; he claimed authority over the Abbot of St Albans Abbey. In March 1130 the Abbot made over to the Bishop the manor of Fingest (co. Bucks) in return for a renunciation of all episcopal rights over the monastery. The Bishop promptly enclosed 300 acres of common land on which 60 families depended for survival; it is recorded that they starved.

Then in the 1980s the sale of council houses in the Chiltern villages to the tenants for £25,000 led to them being sold into the market for £250,000; now they sell on for £600,000 plus. The poorest tenants are being priced out of the Chiltern Hills.

Too often employment is inhibited by the inability to find a job near an affordable home. When people are driven to outlying areas in search of homes at lower rents, they discover that the cost of traveling to work becomes yet another burden on low incomes.

The value of that £73.10 per week has not been increased since April 2015. It is the income the disabled are left with if they fail the Work Capability Assessment. It is removed by a benefit sanction for one month, three months or three years, leaving no money to pay for essentials or outstanding debts, the enforcement of which continues. This Jobcentre administered procedure inflicts punishment greater that a fine for theft. At least the thief is left with enough money by magistrates to buy food and other essentials or he will be fed in prison. The policy of starving people into work hits a scandalous depth of injustice not seen since the 1920s. It is impossible not to speculate whether the impact on the well-being of tenants of increasingly unaffordable rents and of uneconomic state benefits have not contributed to the steady rise in the cost of mental illness to the economy, now estimated at an annual £113bn.

An Act of Civil Disobedience

The state-sanctioned intimidation of vulnerable people undoubtedly affects their health, which prejudices their ability to find employment. The evidence that low income and debt affects health is undeniable but ignored by local and national government. This then becomes a transmission mechanism for conveying poverty through the generations. Research by Prof Michael Crawford, the Director of the Institute of Brain Chemistry and Human Nutrition, confirms that poor maternal nutrition affects foetal growth, and low birthweight is the strongest predictor of poor learning ability, school performance, behavioural disorders and crime (Cunnane and Crawford 2014). The last thing that vulnerable people need is to be hounded through the courts by debt collectors.

To expose this unconscionable system of intimidation, I have refused to pay council tax. I will publicly report on each stage of Haringey Council's enforcement of the council tax against me to highlight the intimidation that is directed against our poorest fellow citizens, whose benefits should never have been taxed. Many of them are in arrears with their rent, and they rely on visits to food banks.

Highbury Corner Magistrates granted Haringey Council a liability order against me on Tuesday 13 July, 2017, adding £115 costs. The magistrate signed a computer print-out granting another 510 liability orders, with no idea of the personal circumstances of the Haringey residents, while also adding £115 costs to each of them.

The number of summonses issued by Haringey magistrates in 2016/17 was 21,881. They sent out the bailiffs 11,000 times. This onslaught against low-income families is expected to intensify. Local authorities in England and Wales obtained approximately 3.5 million Liability Orders for council tax and non-domestic rate arrears in 2015/16, and because of changes to the benefits system in the pipeline “it is anticipated that this figure is set to increase significantly” (Bailiff Advice Line).

This system is inhuman. Haringey Council has told the High Court that high fees encourage people to pay. This is a pointless argument against debtors who are struggling to survive. Imagine the state of a lone parent who relies on state benefits, one of 450,000, who has just visited a food bank to feed three children. She gets home with the children, having walked several miles because she has no money for the bus, to find a letter from the bailiffs. She is informed that £115 court costs have been added to her council tax arrears, as well as their fee of £75. They demand full payment within a week or they will visit and add another £235 to the bill. If they come to collect goods for sale to pay off the debt they add a further £110.

The same terrible dilemmas face over 900,000 single adults working for agencies on zero hour’s contracts. Some may not have had work for a month. The letter from the bailiffs has the same terrible impact. The same quandary faces people whom the jobcentre has moved on to Universal Credit and then failed to pay out any money for six weeks.

How does someone who is already paying £200 rent a month from the benefit income, which has been capped at £384.62 a week outside London and £442.31 a week in London, manage to pay for food, water, fuel, clothes, transport and other necessities? How do they survive when their housing benefits are cut?

About 1.8m people have had their job seekers allowance stopped (they call it ‘sanctioned’) for one month, three months or three years. Council tax, rent arrears or other debts like utilities pile up and become unmanageable when the sanction ends. How are these people motivated to pay by high court and bailiff fees?

These are some of the human costs of the vicious laws and regulations administered by three powerful government departments, the Department of Work and Pensions, the Ministry of Justice and the Department for Communities and Local Government, pitched against the most vulnerable households. All that to enforce a civil debt against our fellow citizens.

Radical action is needed

There were 3.3m homeless single adults in England in 2015, a rise of 40% since 2008 (Crisis Homeless Monitor). The Ministry of Justice reports that 42,728 households were evicted from rental accommodation in 2015, a rise of 53% in England and Wales since 2008. Landlords of all tenures evict the tenants when their incomes are too low to pay the rent.

Not everyone is a loser in this game of real-life Monopoly, however. In London's 33 boroughs, 56,715 properties are held vacant while their owners clock the rise in the value of their assets. When more dwellings are built they are snapped up by national and international speculators and many are left empty. There are an estimated 610,000 empty homes in England. Radical action is needed to correct the evil nexus of low-value benefits and rising rents.

Rent controls on all tenancies and a land value tax on all unused land and empty housing are needed immediately. Hong Kong, Denmark and several cities in the USA demonstrate that Land Value Tax, or Annual Ground Rent, is compatible with capitalist economics. That can be discovered by a visit to the Harrisburg, Pennsylvania Website "Land Value Tax – the Harrisburg Experience". These solutions are at hand. A Bill ought to be passed rapidly through Parliament before any more damage is done to the health of millions of landless tenants in the UK.

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CHAPTER 2

Death and deadweight taxes

Fred Harrison

BACK in the 1960s, as a teenager, I heard stories of how people were unwilling to work overtime on Saturday mornings. The problem was not with the overtime rates of pay, but with what was left in their pay packets after tax had been deducted. They chose leisure rather than work. That was not an entirely free choice. Some people would have preferred the extra money, but the intervention of the taxman deterred them. The net result was that both workers, and UK plc, were losers. Income that would have been produced on those Saturday mornings was lost forever.

It was to be many years later that I learnt that this effect is known as the "excess burden" of taxation. The poignant term is "deadweight loss". Many years later still, I learnt that the concept had to be taken literally. For one statistic captures the true extent of the loss that is endured by Britain because of the tax system: the number of people who die needlessly. I shall explain that those deaths are ultimately the responsibility of Parliament, which is failing in its duty of care over the wealth and welfare of the nation.

The number of premature deaths is horrendously large, but they are not spread equally across the nation. The discrimination is at its most acute in certain localities, most of which are concentrated in the north of England. In 2017, a team of researchers added up the numbers. For young adults, it concluded that

> **'We have identified an alarming growth in England's North-South divide in mortality for the population aged 25–44, amid a persistent inequality accounting for 1.2 million northern excess deaths under age 75 over five decades.'**

Political solutions remain elusive. The researchers, unable to shed light on the root causes that victimise tens of thousands of people every year, confine themselves to stating the obvious.

> **'Effective policies…may require substantial social and economic changes, including a rebalancing of the economy between North and South England that is proportionate to the scale of the problem.'**
>
> (Buchan *et al* 2017: 935)

People who live in the locations of deprivation are systematically deprived of up to 20 years of life on earth. The deaths can be predicted with precision, because they conform to an economic process that has divided the nation for centuries (Harrison 2006a, 2015).

If the populations of the four nations of the United Kingdom understood the scale of the damage inflicted on them by their governments, might they mandate the financial reforms that would deliver a fair and efficient way of being governed? If so, those reforms would erase the causes of the premature deaths that mock the notion of "equality before the law".

The problem of "excess deaths" pre-existed the onset of democracy in the 20th century, and it has persisted throughout the era of the Welfare State. If this mortal streak, a deadly blot on the British landscape, is to be erased, reforms will have to be authorised by a mandate from the electorate. Before that can happen, however, Parliament must provide the information which would make governments accountable to the people. A rare glimpse of the nature of that information, and the damage that is caused, surfaced in a document published for the US Government in 2001. The analysis was provided by the Congressional Budget Office (CBO) in a report called Budget Options. Buried on page 381, well away from prying eyes, was this statement:

> **'Typical estimates of the economic cost of a dollar of tax revenue range from 20 cents to 60 cents over and above the revenue raised.'**
> (CBO 2001)

No attempt was made to translate what this meant for taxpayers who were not tutored in the arcane theories of economics. A British economist, David B. Smith, explained the implications for the UK. Writing in 2006, he calculated that if the US proportions applied to the UK budget, Britain was losing, every year, a value that ranged from £90bn to £270bn. That loss was attributable to the way government chose to raise the public's revenue by favouring one set of tax instruments (which damage the wealth and welfare of the nation) rather than another set of tools (which do not damage the wealth and welfare of the nation).

Using more realistic assumptions, I have calculated that the "deadweight loss" to the UK is now running at the annual rate of about £500bn every year. (Harrison 2016:11)

We need to pause and reflect on this financial phenomenon. We are told, on a daily basis, that government cannot fund certain essential services because they would cost government a few extra hundred million pounds. An essential project has to be deferred, because it would cost one or two billion pounds – money the government doesn't have. Nurses cannot be employed to care for the sick, because the NHS budget is in deficit. Schools are deprived of the teachers they need to educate our children, because resources have to be redirected to more urgent tasks.

Meanwhile, production running at the rate of hundreds of billions of pounds a year goes begging. That is the additional value that would be created if Parliament, through its Acts, did not impose an artificial ceiling on the nation's productivity.

The absence of information about the losses induced by the public's finances is carefully cultivated. Again, statements in Budget Options are revealing. The economists who prepared this document for the US Congress explained that the criteria for assessing taxes were threefold: efficiency, fairness, and the costs of complying with, and implementing, the revenue system. According to the CBO, those three criteria "are often in conflict [so] Congress faces inevitable trade-offs in its decisions on tax policy". That statement was calculated to deceive. *It only applies to those taxes that do, indeed, impose losses on the nation. The CBO remained silent about the existence of the one set of revenue instruments which passes all of its tests, and therefore create no trade-off dilemmas for government*.

On Fairness with efficiency

All taxes are inefficient, according to the CBO. In one way or another they distort people's economic behaviour. There was, apparently, a single exception. Curiously, it chose the Poll Tax as its example of a revenue raiser that did not distort economic activity.

> **'Because liability under such a tax does not depend at all on behaviour, the only distortion comes from the revenue collection itself.'** (CBO 2001: 381)

At the time that statement was written, the "head tax" translated into a charge of $7,000 on every American. This was pronounced to be "inherently unfair". And so "the country faces trade-offs between doing what is best for the economy and what is fair".

Sounds reasonable, doesn't it? If the Poll Tax was unfair, government had no choice but to make the best of the bad taxes!

What the CBO failed to explain to Congress, or to the taxpayers of the United States, was that government had the choice of raising its revenue by using tools that met the tests of both fairness and efficiency, with minimal costs for compliance. The absence of that information is a persistent feature of treatises on taxation by economists such as David Smith. In his account of the damage caused by taxes, for example, he asserts that "all taxes expropriate the fruits of capital, labour or enterprise, and transfer real resources from the people who created the wealth to those who did not". He is emphatic: *all taxes distort people's economic incentives and destroy their property rights*.

> **'In particular, taxes and inappropriate regulation expropriate either people's capital or the return on their capital, including the human capital built up by education, training and a willingness to accept the social discipline of the workplace. Arguably this represents a form of legally enforced extortion, which is why moral governments should always feel inhibited about the imposts that they impose on their citizens.'** (Smith 2006: 88)

Information to counter this false account is not provided to the people of the UK. Her Majesty's Treasury declines to publish assessments of (1) the damage it imposes by its choice of taxes, and (2) the availability of revenue raising tools that do not inflict such costs in the form of diminished wealth and welfare. When I applied for disclosure of such assessments, under the Freedom of Information Act, I was informed by HM Treasury that it held no documentation on such matters (Harrison 2006b: 43-44).

The US Congress and its budget advisory bodies also camouflage the reality of taxation. An example of the censorship of public documents appears in what purported to be an examination of a 10% cut in the income tax rates. The document contained many observations on trends (upwards and downwards) resulting from such a cut. Nowhere to be found was a dollars-and-cents analysis that would arouse the curiosity of the people who pay tax on their incomes (Congressional Budget Office 2005b). If the analysis had offered an estimate of the dollars-and-cents damage that the revised income tax would inflict on taxpayers, might American voters wish to hold their elected representatives to account?

Central bankers are equally derelict in their duty to meet the standards of transparency and accountability. The European Central Bank, for example, frames its observations in generalities and technical language that cannot be decoded by untutored citizens. An example was offered by the reference to the taxation of property, which declares that "The loss of utility increases with the square of the tax" (Afonso and Gaspar 2006: 8). Again, readers are not alerted to the possibility of raising revenue without "loss of utility" to anyone.

Measuring the deadweight losses

What are the best ways of raising revenue? Mason Gaffney is one of the world's foremost authorities on the way taxes impose negative effects on the individual, on communities and on the natural environment. He grades taxes according to their variable impact on a nation's wealth and welfare (Table 1). At the top

Table 1

Taxes ranked according to their positive effects on production and equity (fairness)

1. **Best:** Land Value Tax aka Annual Ground Rent
   a. at national level
   b. at state or provincial level
   c. at local levels
2. Pigovian taxes
3. Severance taxes (on mineral extraction, etc.)
4. General Property Tax
5. Corporation Income Tax
6. Personal Income tax
7. Payroll Tax
8. Excise taxes
9. Value Added Tax

of the list, because they do not damage the economy or society, are the tools which raise revenue from what economists technically call *economic rent*.

Revenue raising instruments that are both fair and efficient are those that fall directly on the rents of locations where people choose to live and work; on the rents of natural resources, and on the rents which a society creates through the provision of public services. An exhaustive list of those benign, rent-generating services has been compiled by Gaffney, an emeritus professor of economics at the University of California (Gaffney 1998). Correctly framed, charges on rents are not, strictly speaking, neutral. In the words of one professor, such charges are 'better than neutral' in their effect, because they encourage people to make better use of assets such as urban land (Tideman 1999; similar insights are offered in Feldstein 1977).

The scale of the losses inflicted by taxes that feature at the lower end of Gaffney's rankings is illustrated by the regressive Value Added Tax. VAT falls more heavily on low-income people than on the top income earners. That much, economists will acknowledge. What they do not record, however, is estimates of the ceiling imposed on GDP as a result of employing that tax. Gaffney reviewed the way in which VAT operated across Europe. His cautious calculation concluded that the loss to the 28 members of the European Union was of the order of €1 trillion, *every year* (Gaffney 2016). This estimate was based on the average losses arising from distortions to the way people work, save and invest.

Gaffney advocates that, for the purpose of discussion, an estimate of losses should be based on an average ratio of 1:1. This is higher than the ratio quoted by the CBO, which (as we saw above) had an upper estimate of 60 cents on the dollar raised by taxes, or 0.6:1. Gaffney acknowledges that the actual losses are more in the range of 2:1. That is, for every $1 raised by using the 'bad' taxes, productivity is reduced by $2. But he insists on being cautious, because of the difficulty of estimating the upper bounds of the losses which flow from conventional taxes. *Even with the conservative estimates, however, the scale of the loss is horrendous. Taxation imposes an artificial ceiling on people's capacity to produce the resources they need to pay for the services they want from their government.*

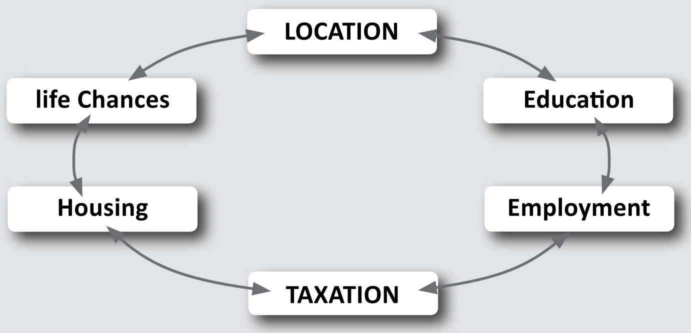
But what about the other taxes, such as those on corporate profits and employee incomes? David B. Smith tars all taxes with the same brush. In fact, some of the tools that are currently used by government do not inflict grievous losses. The least damaging taxes are those on property. The way they are levied in the UK (and elsewhere) is regressive. Nonetheless, I exclude them from my calculation of the deadweight losses of taxes, along with other taxes and public charges that fall primarily on rental income.

Coincidence or causation?

The losses attributable to tax policies are huge, but how can we be sure that the many problems that beset our society must ultimately be attributed to Acts of Parliament? Those problems range from the housing crisis to the ecological crisis, and from the widening gap in incomes to the erosion of social solidarity. If there is a connection, could this be coincidence, rather

Figure 1

UK feedback stress loops compressing economy and society



than causation at work?

Figure 1 is a stylised representation of complex life in modern society. It connects some of the major stress points. Few would disagree that there is a problem with the housing market: many people cannot afford the shelter they need. One of the collateral consequences is that many young people are forced to postpone marriage and defer having children, adding to the demographic crisis (an aging population). Similarly with employment opportunities: these are deteriorating, and prospects in the jobs market are linked to the quality of available education. But why lay the major responsibility on fiscal policy?

Figure 1 highlights the complex feedback loops that cluster around the interaction between two converging forces, whose cumulative effects compress the economy and society.

- ► **Location** exerts downward pressures on life chances. House prices segregate people according to incomes. This triggers postcode effects on, for example, access to quality education and access to the kinds of social networks that lead to high-income employment opportunities. People's capacity to borrow against the value of housing assets, and to invest in cultural pursuits, also elevates the longevity of their lives.

- ► **Taxation** exerts upward pressures on prices. Whether it is through over-pricing the wages of marginal workers, or regressively discriminating against the products purchased by low-income families, taxes distort the structure of prices in the labour, capital and consumer markets. One result: the substitution of farm workers with combine harvesters, and car mechanics with robots.

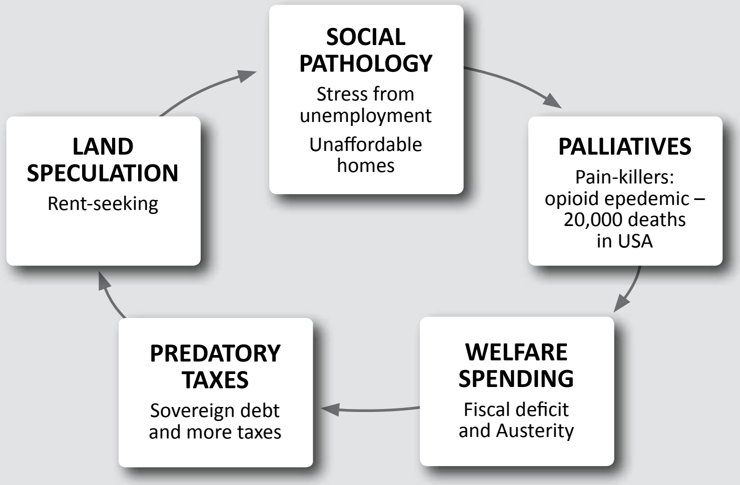
These two pathological forces make it impossible for society to achieve a healthy long-term balance (equilibrium, as it would be called in economics). The symptoms manifest themselves in a wide variety of forms. They include self-harming strategies (ranging from obesity to opioid addiction) and marital breakdown (including the neglect of child rearing practises, which can affect a baby's life chances from birth).

This account of life in a modern urban society does not tell us whether or not there is an overriding driving mechanism at work, of the kind that requires priority attention from policymakers. Getting at the ultimate cause – if it exists – is necessary, if policy-makers are to escape from the perpetual pursuit of palliatives. Figure 2 identifies some of the bewildering forces at work. Are the arrows – implying the direction of influence – misleading?

Social problems generate humanitarian responses that crystallise in the form of palliative action (such as cash benefits distributed to low-income families). But the persistent failure to remove the causes of low incomes drives up the cost of welfare policies. This, in turn, provokes the need for more

Figure 2

Pathological forces at work



taxes to cover budget deficits. Meanwhile, those who can just afford to climb onto the 'property ladder' are compensated with the silent accumulation of publicly-funded capital gains. This, in turn, reinforces the culture of rent-seeking. Macro-economic effects surface in various forms. One is the bias against capital formation (on which we depend for the creation of jobs and increases in productivity and wages), as investors favour rent-generating assets (witness the popularity of the property-to-let market in recent years).

At what point in this circular flow of influences should Parliament intervene to realign the socio-economic system to achieve balanced growth, healthy communities and happy families? Distinguishing systemic flaw from private frailty is vital, if public policies are to move beyond palliatives to erase the pathologies that disrupt people's lives. This issue, of stress caused by phenomena like involuntary unemployment and unaffordable housing, is related to life-or-death outcomes.[1] Is the tax regime and that confluence of interests subsumed under the popular advocacy of Location, Location, Location the product of an organising ideology? The answer emerges when we locate the problem in its historical context.

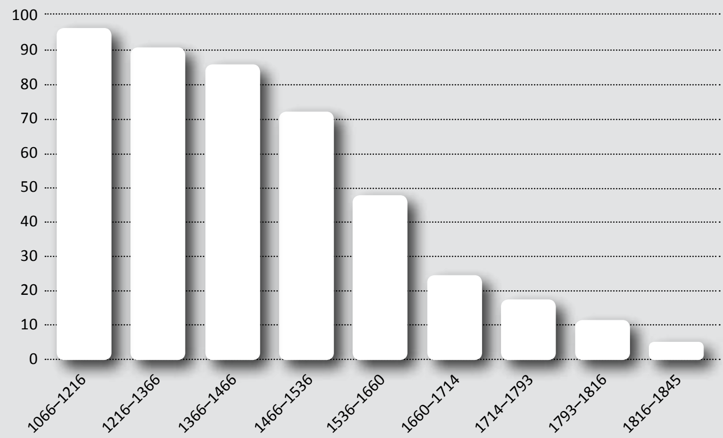
1. In the US, the opioid epidemic claims about 20,000 lives every year. In England and Wales (according to the Office of National Statistics) there were 3,744 drug poisoning deaths involving both legal and illegal drugs in 2016.
https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsrelatedtodrugpoisoninginenglandandwales/2016registrations
http://www.bbc.co.uk/northyorkshire/content/articles/2008/07/10/ripon_hornblower_history_feature.shtml

The culture of Rent-seeking

The historical trend, revealing the share of rent in government revenue, was summarised in a speech in the House of Commons in 1842 by Richard Cobden, the anti-Corn Law MP. The sum had declined from 100% to 4% by the 1840s (Figure 3). Why was this significant? The statistics tell us that *Parliament was determined to reduce the revenue collected directly from rents*. This

Figure 3

Land Rent as % of national revenue



Source: Cobden (1842: Vol 61 cc519-81).

meant revenue had to be collected from other sources. Did those alternative sources of revenue damage the kingdom; and if so, could Parliament have understood the implications of what it was doing?

England learnt long ago that taxes affect people's behaviour. Perhaps the oldest empirical evidence was provided by the citizens of Ripon. Back in the time of King Alfred – that is 1,100 years ago – the decision was made to raise revenue by charging 4d a year for doors located at the front of dwellings, and 1d for doors located at the side or rear of people's homes. The reasoning was that properties that fronted onto the town square were occupied by relatively well-off citizens, whereas those with doors at the side or back were occupied by low-income families. According to George Pickles, the current Ripon hornblower,

'It is still evident today that homes built after this tax was introduced were designed in a way that the position of the door brought them into the lower tax bracket. They were built with a very narrow frontage and most had a ginnell [passageway] down the side leading to the door. There is still evidence if you look at the oldest properties in the city.'[2]

This tax would not have affected the psycho-social welfare of the citizens of Ripon, but it demonstrated, over the course of many centuries, the lengths to which people would go to try to avoid a tax: they reconfigured their homes!

A responsible form of governance would take into account the behavioural implications of taxation. But by the 17th century, Parliament had begun to systematically detach statecraft from good governance. This had a visibly damaging effect on people's health.

- **The Hearth Tax** (1662). Imposed by Charles II, it continued until 1689, and was levied according to the number of hearths in a dwelling. To avoid the tax, fireplaces were bricked up. The deadweight impact surfaced among low-income families who endured the illnesses that came with cold and damp homes.
- **The Window Tax** (1696). In 1747, a house with ten to 14 windows was liable to a tax of 6d per window, increasing to 9d for more windows. People bricked up their windows to avoid the tax, which was repealed in 1851. Doctors chronicled how stagnant air contributed to ill health.
- **The Candle Tax** (1709). To dodge this levy, peasants replaced candles with rushes dipped in animal fat, which was left to harden. The candle substitute was lit at both ends, but the light lasted for a short time. Dwellings were filled with acrid smoke. Tax-relief came at a price: bronchial infections.

Simultaneously, taxes also reconfigured the economy. The new taxes, invented by Parliament to reduce its dependency on rent, curtailed the production of goods and services. This, in turn, prejudiced people's employment prospects.

- **The Salt Tax** (1702). The English salt industry suffered when prices were driven up by the tax on this essential ingredient in people's food. Ireland benefitted, because it was exempt: it became a major producer and exporter of salt.
- **The Beer Tax** (1724). A duty of 6d a barrel in Scotland triggered a riot in Glasgow in 1725. Brewers resolved to discontinue brewing the ale on which peasants relied as the alternative to drinking polluted

2. http://www.bbc.co.uk/northyorkshire/content/articles/2008/07/10/ripon_hornblower_history_feature.shtml

water. The aristocracy brewed beer on their estates, so they avoided the tax.

- **The Glass Tax** (1745). Glass was sold by weight. Manufacturers switched to producing glass with hollow stems to make them lighter. This reduced the tax burden. Ireland, where production was tax-free, increased its output. The production of high quality, thick stemmed glass gravitated away from England's manufacturers.

The impact of these 'excess burden' taxes was understood by parliamentarians. They saw how taxes provoke behavioural reactions which diminish the efficient allocation of labour and capital. Those non-rent taxes also distorted the goods and services provided to consumers. The one source of revenue that was (and remains) free of these effects was rent, if revenue was collected directly in the form of what Adam Smith called the annual ground rent (AGR) in *The Wealth of Nations* (1776).

Parliament had enacted the Land Tax in 1692. It had no choice. The gentry, having executed regicide and prosecuted a civil war against the monarchy, had installed a tame king in its so-called 'Glorious Revolution'. They now needed money – in a hurry. Despite the introduction of the Land Tax, however, Parliament – whose seats were now filled with land-owning gentry – did not abandon the mission of the feudal aristocracy. The nation's political *zeitgeist* was defined by the privatisation of the flow of rents.

As Parliament widened its fiscal net, moving towards what is today rationalized as a 'broad-based tax system', so the ceiling on productivity in the economy and life chances in ancient communities came crashing down. Three examples championed by George Osborne when he was Chancellor of the Exchequer bring us up to date with the devastating logic of fiscal policy.

- **The Apprenticeship Levy**: this payroll tax reduces wages, and therefore shrinks consumption, which in turn reduces the incentive to invest in capital formation, as noted by Stephen Nickell of the Office of Budget Responsibility.

- **Subsidised starter homes**: this was the Treasury's reverse tax: £2.3bn was allocated so that homes could be sold at 20% discount. This contributed to the upward drive in house prices, adding further stress on families that could not afford market rents.

- **Stamp duty**: the increase in rates on expensive dwellings reduced the rate at which people moved home by 27%, according to the London School of Economics, further constipating the malfunctioning property market.

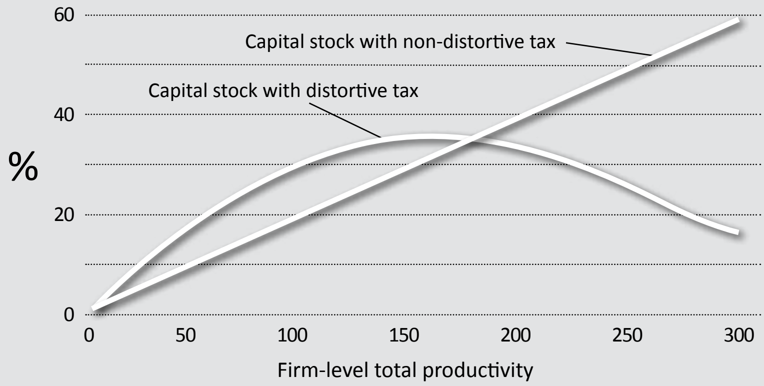
Thus was The Great Clamp-down on the aspirations of the people of England protracted from the early days of the gentrified Parliament to the present-day gentrification of towns and cities across the kingdom.

Towards responsible taxation

Governments that decline to publish audited accounts of the losses they inflict are not encouraged to do so by the international financial institutions. And yet, these institutions are acutely aware of the damage caused by the taxes which they urge on governments. An example is the IMF's account of how distortionary taxes disturb the formation of capital equipment (Figure 4). A revenue system based on tools that did not distort the economy would result in the steady rise in capital formation (illustrated by the straight line). Taxes that distort incentives cause an initial over-investment in capital (= waste of resources) followed by a phase of under-investment (= slump in productivity, rise in unemployment and drop in incomes = waste of resources). Everyone

Figure 4

Capital allocation with distortive taxes



Source: IMF

loses – employees, investors and society – through the under-production of income and the sub-optimal flow of revenue into the public purse.

The impact of deadweight taxation is transmitted through millions of routes, taking many forms – economic, sociological and psychological. In terms of policy priorities, the aim should be to reduce the tax burden on the most vulnerable sectors of society. The impact would be immediate. If Parliament ordained reform to draw more revenue from urban rents, housebuilders would no longer squat on 600,000 plots of land at a time when the UK was suffering from a desperate shortage of affordable homes (Ruddick 2015). The switch to the annual ground rent would encourage

Box 1

How to waste public money (*and get away with it*)

The problem with the honest auditing of the costs and benefits of government spending is that it might reveal how some expenditure of taxpayers' money fails the test of efficiency. According to the authors of one study:

> **'if a public project must be financed by distortionary taxes, the additional excess burden of these taxes should be taken into account. If this deadweight loss is as large as we suggest, it is possible that many projects accepted in recent years on the basis of favourable cost-benefit ratios should not have been undertaken.'**
> (Ballard *et al* 1985:136)

Would the absence of those public projects diminish welfare? Not if the taxpayers' money was returned to the public to be spent according to the preferences of the people who created that value.

the construction industry to increase its supply of dwellings (levelling off rents and sale prices) while helping to fund the costs of the infrastructure on which it depends for profits. Nor would the world's richest kleptocrats use London's property market as the means to cleanse their illicit gains. The flow of oil rents from Nigeria, which ought to be invested in that country's social infrastructure, helped to drive West End property prices to astronomic heights (*Financial Times* 2017).

Such outcomes, which corrupt people's lives, are sanctioned by Acts of Parliament which purport to enhance the fabric of their communities. On a daily basis, lives are routinely damaged without people realising what is being done in their names. If we wish to shift the Westminster form of governance further towards an authentic form of democracy, measures of the deadweight losses need to be published, for two reasons.

First, consider the issue from the perspective of demands on government to take action to alleviate a social problem. The expansion of an existing service, or the creation of a new service, entails the commitment of resources. Money has to come from taxpayers. If the benefits accruing to society are less than the associated deadweight losses (= no net gain), might this lead responsible citizens to withdraw the demand on government? We cannot know, if the relevant information is not made available.

The second reason refers back to Table 1. The performance of governments would be enhanced if (say) VAT was abolished in favour of collecting the revenue from (say) an increase in the rates of corporation tax. Such policy decisions ought to be based on the best estimates of the relative damage caused by each of the fiscal instruments. That information would enable an informed electorate to participate in the discussions. The ensuing consensus would authorise government to behave responsibly in the realm of fiscal policy.

This strategy, of narrowing the revenue base by getting rid of bad taxes in favour of raising revenue from rent, offends one of the cornerstones of conventional fiscal philosophy. Institutions like the IMF and the OECD actively promote the doctrine of "broad-based taxation". This doctrine is intended to conceal knowledge about the taxes that people pay. As such, it offends the philosophy of democracy, which prescribes transparency and accountability. Auditing the tax system, by accounting for deadweight losses, would shift governance closer towards the ideal of a participative system of governance in an open society (Box 1).

The Palace of Westminster is in serious physical decay and is about to undergo a £3.5bn refurbishment. There is no comparable plan to refurbish the reputation of policy-makers, whose status is also in serious decay in the minds of a large part of the electorate. Distrust of those who occupy the seats of governance is at a dangerously high level. This corrodes the fabric of civil society by undermining the institutions on which the state is constructed.

Closer attention to the causes of premature deaths of millions of people ought to inject a sombre mood about the UK's future. The epidemiological evidence that connects unemployment and under-employment to mental ill-health, physical stress and self-harming activities which result in premature death are well attested in the medical journals. The causal links between taxation and land speculation (which result in boom/busts) are well-established (Harrison 2005). Once the government's responsibility for economic instability is admitted, Parliament's responsibilities become clear.

Refurbishing the fiscal structure on which the whole edifice of governance stands is long overdue. The fiscal rules employed by HM Treasury lock the UK into the mortal failures of the past. Parliament, if it is to champion an authentic democracy, should establish a new rule: *documents presented in support of the annual budget must include estimates of the deadweight losses created by taxation*. That would render the fiscal system transparent, and enable the electorate to hold their representatives accountable for the actions taken in their names.

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Debt Death and Deadweight

CHAPTER 3

The making of a new Scottish Enlightenment

Ian Kirkwood

THE restoration of a Parliament to Edinburgh has yet to reverse the fate of the people of Scotland. This is not a failure of the principle of the devolution of power. It is the failure of the political will to exercise the power that has been transferred from Westminster to Holyrood.

Under the terms of the Scotland Acts 2012 and 2016, members of the Scottish Parliament have the right to initiate a positive transformation of culture and society north of the border. This must begin with a national conversation about the need to reduce the damage caused by taxes such as those on their *earned* incomes.

By now (2017), the people could have granted a democratic mandate for that reform. And that would have empowered their elected representatives to plan the expenditure of additional billions on the welfare of the population.

The value of output could be increased by at least £6bn a year by swapping income taxation for a new levy on the rents of all Scottish sites. A proportion of those gains would be collected to fund public services. How this might yet be enacted at Holyrood is oulined in Box 1.

Instead, with the decline in oil revenues, people are repeatedly reminded that Scotland will endure an ever-increasing dependency on the fiscal generosity of Westminster. Must Scotland continue to mourn the loss of a bounty that is within its grasp – the additional revenue that would be created by the ingenuity of a population which, in the past, has demonstrated its creative powers under the most extreme adversity?

The current state of affairs has bequeathed a legacy of declining public services and continuing deprivation. Government refusal to collect wealth that is generated by the efforts of society necessitates the implementation of Austerity.

Government refusal to collect socially-created wealth is the single reason why we are, in Scotland today, constantly exposed to such headlines as:

> **'Westminster austerity hits poorest Scots families hard'**
> Single-parent families face losing more than £4,000 a year in benefit because of the UK government's austerity drive, according to a study by the Scottish government. Angela Constance, Scotland's social security secretary, said those on low incomes had been "targeted" by welfare changes since 2015, with families with children hit hardest. (*The Times*, 2 September 2017)

> **'Fewer than half of 13 and 14-year-old Scots pupils can write properly after decade of SNP government'**
> Figures from the Scottish Survey of Literacy and Numeracy (SSLN) showed "The deprivation gap in writing attainment did not change significantly between 2012 and 2016".
> (*The Telegraph,* 9 May 2017)

> **'Scotland's child health "among worst in Europe"'**
> The State of Child Health – Scotland report compiled by the Royal College of Paediatrics and Child Health (RCPCH), found more than 210,000 children live in poverty, 28 per cent are overweight or obese, and around 400 die each year in Scotland – with a significant number of deaths potentially avoidable. The report also shows almost 30 per cent of pregnant women in the most deprived areas are smokers. (*The Telegraph,* 26 January 2017)

Box 1

Holyrood's route to Scottish renewal

The opportunity to cancel the first 1/6 of Scotlands £36bn annual deadweight losses has been open to Holyrood since April 2016 when the Scotland Act 2016 devolved to the Scottish Parliament the power to vary all rates and bands of Income Tax by any amount.

Since its inception, the Scottish Government has had the power to introduce a Bill establishing a reformed local government tax.

Taking these powers together, the option has been open to MSPs since April 2016 to substitute all or part of Income tax with locally-collected AGR (Annual Ground Rent aka LVT).

The reason why steps in this direction are a good idea is that at least £6bn of Scotland's deadweight losses (economic damage caused by Income Tax; but from which AGR is immune) would be cancelled, boosting Scotland's economy by that sum each year.

'Deadly health divide: Mortality rate in Scotland's deprived areas is double that in the wealthiest parts of the country'
A total of 1661 people per 100,000 died in the poorest areas compared with 815 deaths in the most wealthy. Figures released yesterday showed there is still huge inequality in Scotland with the death rate strongly linked to deprivation.
(*Daily Record*, 23 March 2016)

Box 2

Scotland's 1:1 deadweight taxes

Current taxes that drag down Scotland's economy and impoverish its citizens and culture are listed here. They inflict deadweight losses on Scots of at least £1 for each £1 of revenue raised. Which is how Scotland's annual deadweight loss may be estimated at £36bn (a conservative figure in the light of assessments by economists such as Harvard's Martin Feldstein, who put losses at more than double that).

Holyrood's devolved powers to reduce Income Tax in favour of AGR offer MSPs an epoch-defining opportunity to set out on a course which would turbo-charge wealth creation and start the process of equalising life chances in Scotland.

Revenue 2015-16	Scotland (£m)	UK (£m)
Income Tax	12,195	168,451
Capital Gains Tax	309	7,060
National Insurance	9,392	113,701
VAT	9,638	115,415
Corporation Tax	3,106	43,872
Corporation Tax Offshore	439	538
Bank Levy	222	3,392
Inheritance Tax	266	4,650
Stamp Tax on Shares	177	3,320
Insurance Premium Tax	226	3,293
Customs Duties	240	3,089
Swiss Capital Tax	3	32
Total	36,213	466,813

The following current UK taxes are not included above as, whilst they may include a measure of rent, their equivalents would be retained within or alongside AGR (Annual Ground Rent) because of their desired reducing effects on consumption, use of resources and pollution: Fuel Duties, Stamp Duty Land Tax, Annual Tax on Enveloped Dwellings, Tobacco Duties, Spirits Duties, Beer Duty, Wine Duties, Cider Duties, Betting and Gaming Duties, Air Passenger Duty, Landfill Tax, Climate Change Levy, Aggregates Levy.

Source: A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland, HM Revenue and Customs, October 2016.

Box 3

The Land Tax in the Treaty of Union

Act Ratifying and approving the Treaty of the Two Kingdoms of Scotland and England, January 16, 1707

Clause IX

> **'That whenever the sum of £1,997,763 8s 4 1/2d shall be raised in... England, on land... by a land tax... Scotland shall be charged... £48,000... as the quota of Scotland... by any tax on land.'**

It need not have been like this. Today's conditions are the legacy of a course of events that originated 300 years ago, at the time of the Treaty of Union. When the parliament in Edinburgh signed that treaty in 1707, Scotland was raising revenue with the aid of the Land Tax.

Seventy years later, Adam Smith, a professor of moral philosophy in Glasgow, recommended that the Land Tax should be the major revenue raiser (see box 4). He called it the (annual) ground rent. The reason why he advocated the rent-as-public-revenue strategy remains as true today as it was in the 18th century. Revenue from this stream of income would not damage the economy, and it would accord with the moral sensibilities of the population.

If Smith's advice in *The Wealth of Nations* had been followed, the Scottish Enlightenment of the 18th-century would have been protracted through to the modern era. Instead, as Westminster legislated to privilege the landlords, the people of Scotland saw their landscapes and native cultures contorted to suit the powers south of the border (see box 5). The interests of the peoples of the highlands and islands were sacrificed to the culture of Rent-seeking. The most visible immediate expression of this was the militarisation of the lines of communication for the purpose of pacification of the clans.

> **'The period of military building in the Highlands began in earnest in the 1720s following an assessment conducted in 1724 by, the then, General George Wade. Wade's analysis recommended the construction of roads, barracks and proper bridges to provide both north to south, and east to west access through the Highlands, with an aim to respond to, and suppress, local rebellions and uprisings, as had occurred during the Jacobite Uprising of 1715.'**
> (Hill and Gamble 2017).

The Highlands needed infrastructure to modernise the economy and to increase people's incomes. But the highways turned out to be one-way streets for the majority of people: they facilitated the exodus as communities in the islands and uplands were decimated by the lairds who claimed the clan lands as their own.

The Great Exodus

Historians describe the social transformation in suitably impersonal terms:

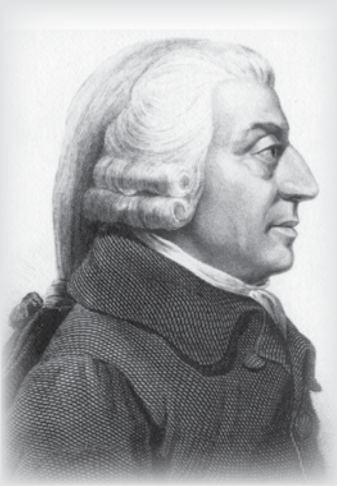
> **'Ultimately the new military roads were one aspect of the changing social and cultural state of the Highlands, with governmental, economic, and agricultural policies being responsible for depopulation, cultural assimilation, and changing social order.'**
> (Hill and Gamble 2017: 15)

But the great transformation had a singular purpose: privatising the rents that could be extracted out of the highlands and islands, and the impoverishment of the people. As the new elites moved in to build their villas and hunting lodges and pursue their country sports, the indigenous inhabitants were forced to abandon their ancient settlements for the lowland towns and cities, staging posts for many of them who shipped off to seek livelihoods on the other side of the world.

The Enlightenment of the 18th century, concentrated among a few intellectuals in the universities, occurred despite the channelling of the country's *net income* into the pockets of the lairds and the new class of gentry. What might have happened if those rents had been recycled back into the communities to benefit everyone (i.e. those who generated them)? We can begin to imagine what would have been possible by what happened in Australia.

Box 4

Adam Smith on Annual Ground Rent



'Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of state, no discouragement will thereby be given to any sort of industry ...Ground-rents, and the ordinary rent of land, are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them.'

The Wealth of Nations (1776) Bk V: 370

The loss of Scottish ancestral land rights triggered mass migration to the colonies. Not all of the migrants were voluntary exiles. Many Scots, driven to petty crime by their state of impoverished desperation, were among the 162,000 people who were despatched as convicts to Australia in the 80 years up to 1868 (McCarthy and MacKenzie 2016). But Australia was enriched by those Scots. Their impact on the emergent Australian society has been elegantly summarised to demonstrate the formative roles they played in discoveries and achievements in disciplines ranging from medicine to botany, geology to engineering; and then there was their contribution as pastoralists and civil administrators (Wilkie 2017). They helped to create what became, by the end of the 19th century, one of the most prosperous nations in the world. What might have happened in Scotland, if all of that talent had enjoyed the freedom to remain in their homeland communities?

- **The Islands** instead of being denuded of their peoples, would have flourished under positive influences. The islanders' full share of socially generated wealth would have been collected and re-invested in comprehensive local infrastructure, education and health services. The new revenue burden (AGR) would have reduced their liability to what they could afford to contribute – their surplus. Positive forces would have combined to boost their enterprises instead of destroying them, thus permitting islanders the freedom to continue to live there. Their enterprises and culture would have thrived instead of being crushed. Sustainable fisheries, including the herring fishery, would have continued to support island communities because managed licenses would have been auctioned to the highest bidders annually.
- **The Highlands** instead of the ancient forests being cleared to make way for sheep, would have thrived with the growth of villages into towns at scales suited to serve their inhabitants. The myth that populations were too high would have been exposed when highlanders were freed to supply one another's needs with unrestricted enterprise. The sporting fraternity would have been compensating society in full for the land reserved for its activities. Country sports would have evolved to live in harmony with communities instead of conspiring to render them piles of stones.
- **The great cities of the Lowlands** instead of being dumps for the transient populations displaced from Scotland's margins, would have expanded into ever more productivce centres of industry, art and culture. The absence of taxes on earned incomes, site improvements or trade would have initiated an unrestricted and growing wave of invention, innovation and technological

> advance. The attraction of investing in enterprise would have led to competition for sites for homes and businesses. Growth in site rental values would have provided a growing public purse available to re-invest in improved amenities and services in the interests of Scottish society at all levels and locations. Slums, poverty and social disintegration would have become unknown because citizen outcasts everywhere would have been reconnected to the stream of wealth they themselves create. Pollution would have been minimised by the forces of AGR.

These prospects were all contingent on the rents of Scotland being recycled back into the communities that created them so that life chances could be equalized across Scotland. Instead, that stream of income was congealed in the palatial dwellings constructed to serve the social status of the lairds, or funnelled into real estate and the stock market in London.

And so, instead of the emergence of an authentic Scottish culture in response to the aspirations of the population in general, through the continuous evolution of ancestral life into modernity, we observe the constructed mores

Box 5

The first privilege of UK membership

Joining the UK granted Scotland the privilege of investing in London and the Southeast. Scotland has continued to do so since 1707 in whatever proportion its tax contributions were of total UK revenue (currently between 7% and 8%).

Those annual investments by Scots tax payers helped raise site values in the wealthiest part of the UK far in excess of the periphery. Those substantial returns would have been collected and returned for use in Scotland via the Land Tax enshrined in Clause 9 of the Act of Union (Box 3). In which case the *UK Idea* would have worked for all its members, bringing prosperity to all areas.

Sadly the first privilege of UK membership was nulified by landlords in control at Westminster. At an early date the benign Land Tax was reduced. Then abolished and replaced with taxes that demanded more than could be paid at the margin. Life there was extinguished. The returns on the invested Scottish taxes were diverted into the pockets of London site owners.

People around the edges of Britain instinctively knew something had gone wrong. By this little-understood process – devised at Westminster – UK society was broken. Today large sections of the population at the economic periphery, including many Scots, remain effective outcasts. But the damage could even now be reversed by the adoption of AGR/LVT.

that accommodated the ambitions of the rent-seekers. Today, popular support for political independence is one expression of the quest for a new identity based on the legitimate demands of a population that instinctively knows something went very wrong a very long time ago with the mechanical workings of the UK.

What's to be Done?

The fiscal system of Scotland is not fit for a nation that wishes to renew its social contract. Attempts by the Scottish Government to reshape the taxation of property in Scotland have not proven fit for purpose.

The Land and Buildings Transaction Tax (LBTT) introduced in 2015 to replace stamp duty, has been blamed for its negative impact on the housing market. And a review of the methods used to forecast how much the levy would raise has been criticised as 'ill-suited' for analysis. The tax raised £156.7m instead of the predicted £235m. As a result, budget forecasts for tax from residential transactions were halved from almost £1.8 billion to £962m in total over the next four years (Sanderson and Bennett 2016).

A new beginning is needed, directed at reducing the artificial constraints on the creative powers of the population. That can mean one thing only: the untaxation of people's wages, savings and investments, and raising revenue from the socially-created rental value of each site. Scotland desperately needs Adam Smith's Annual Ground Rent.

With regard to the reform of Scotland's Council Tax, Andy Wightman MSP (a member of a cross party Commission tasked with researching its potential replacement) noted in a speech:[2]

> '**So this Parliament must be bolder...on...issues...such as the perennial imperative to reform local taxation. A cross-party commission recommended the end of Council Tax. The Scottish Government's own adviser on poverty and inequality, Naomi Eisenstadt, told the First Minister that she needs to be bold on local tax reform, introduce a new system that is, in her words, "genuinely progressive" and to focus on the bottom 40% of the income distribution in order to effectively tackle income inequality.**
>
> **Instead we still have the grubby, miserable and iniquitous Council Tax which even after recent Government changes will remain probably the most regressive tax in the UK where, according to analysis by Scottish Parliamentary Information Centre (SPICe), the bottom 10% of households by income will be paying around 9% of their equalised household disposable income in Council Tax, while the top 10% pay a mere 3%.'**

2. Politics, Parliament and Power: The case for a renewal of Scottish democracy. The Scottish Council for Voluntary Organisation's (SCVO) Stephen Maxwell Memorial Lecture delivered by Andy Wightman MSP, 8th December 2016 http://bellacaledonia.org.uk/2016/12/16/politics-parliament-and-power-the-case-for-a-renewal-of-scottish-democracy/stephen-maxwell

One of the voids in the statistical record is an assessment of the annual net income generated in Scotland. This calculation needs to be located in a survey of how the negative taxes reduce the sum total of rents that would otherwise be produced in Scotland.

Armed with an intelligent assessment of existing levels of net income, it becomes possible to explore the transitional measures towards creating a national budget that stands on the twin pillars of efficiency and equity.

Economists can initiate research projects that help people to visualise the possibilities of a bonanza emerging out of the lands of Scotland (Sandilands and Harrison 2015). Robust estimates are needed of the deadweight losses inflicted by the mainstream taxes favoured by Holyrood and Westminster. Such a measure would be the measure of the stream of value that is Scotland's most productive: the wealth created by all of us working together – the surplus identified by our earliest ancestors which made cooperation and social evolution worth the effort. It was and is worth the effort. Right up to the point where a subset of that society finds a way of diverting a part of that stream of value into its own pockets.

Box 6

Government analysis points to the mechanics required to achieve Scotland's renewal

It's not a secret. A candid Scottish Government document[2] outlines the potential economic harm that would come from increasing Income Tax.

If *"artificially shifting income, relocation, migration from Scotland, rearranging domestic affairs, loss in revenues, reduced attractiveness of locating in Scotland in the future and reduced potential economic and tax growth rates"* are *not* what we all want for Scotland, then it is clear that solutions lie in a direction other than that of inflicting additional burdens on (earned) incomes.

If, on the basis of the analysis in their document, the Scottish Government *reduced* its income tax rates, there would be *a reverse flow of people and investments into Scotland from the rest of the UK*.

This process would not be prejudiced by the simultaneous introduction of AGR (immune to deadweight losses), because the new fiscal-led economy would be a growing one, alive with the new opportunities for which investors are desperately searching. The AGR option is at hand, an option that promises to boost economy and culture at every level. So we are bound to ask:

> **Why does Holyrood fail to insist on a full declaration of deadweight losses attributable to existing taxes – compared to the impact of collecting AGR?**

2. *The impact of an increase in the additional rate of income tax from 45p to 50p Scotland* (March 2016). http://www.gov.scot/Resource/0049/00497818.pdf

The nation's surplus/net income far exceeds the value of Scotland's diminishing oil rents and is inexhaustible while the population lives. The surplus *includes* the oil rents. Not only does it take in the improved site values attributable to taxes invested in amenities, it also includes all of nature's services and resources, including those yet to be discovered or invented. As Adam Smith pointed out, its full collection 'to defray the expenses of state' cannot negatively impact on anyone's wealth-creating enterprise or (earned) income.

Were the Annual Ground Rent collected and harmful taxes ditched, the discourse over the future of Scotland would be transformed. At present, the London-based commentariat routinely ridicules Scotland for being in debt to England for financial transfers.

Spending per person in Scotland was £12,800 in 2015-16, compared with £11,500 for the UK as a whole. The problem is that Scotland's tax base is too small to pay for this, which means that it is racking up a massive budget deficit (funded by the English taxpayers) (Heath 2017).

Such observations are a statistical comment on the ugly realities of a fiscal system that has traumatised the nation for the best part of three centuries. If the philosophers of Scotland – those who would inhabit the glens of the highlands and the foreshores of the islands if the taxman got off their backs – can visualise a life of fiscal freedom, Scotland would not be in debt to England. It would pay its way, either on its own or as an equal partner in what would finally become a united kingdom.

That is why it was deeply disappointing to hear Scotland's First Minister Nicola Sturgeon announce on 5 September 2017 that her government will give serious consideration to increasing the rates of Income Tax. Such increases have been proposed by other parties. Increasing the tax burden on earned income would only damage Scotland further, inflicting yet more deadweight losses on Scotland, carrying the country further away from the potential the people could achieve under a humane fiscal policy. Yet, in the same speech the First Minister also looked in a different direction:

> **'We will continue to implement the 2016 Land Reform Act and shortly approve the first strategic plan of the new Land Commission. It will outline a programme of research to inform options for future change – for example, possible measures to tackle constraints on the supply and cost of land for housing, and possible tax and fiscal reforms, including the potential for some form of land value based tax.'[3]**

This is the way to go.

3. https://beta.gov.scot/publications/programme-for-government-2017-2018-first-ministers-speech/

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Debt Death and Deadweight
CHAPTER 4

Denmark: the constitution of a happy nation

Lasse S. Andersen

DENMARK is one of the European nations that can be held up as a model for others to emulate. It is evident that this small Scandinavian country has accomplished things that are universally envied. For many years it has been ranked as one of the happiest places on earth, seconded only by Norway in 2017. It is the least corrupt country in the world according to Transparency International. And it has the best quality housing stock in Europe, measured in terms of living space.

These outcomes are the result of many things, not least the country's long and peaceful tradition of compromise and cooperation in parliament. But it is also to a large extent the result of Denmark's long history of taxing and regulating the housing market.

This history begins early in the 19th century when Frederick VI, who ruled from 1808 to 1839, abolished hereditary servitude and liberated the peasants from the landlords. This allowed a new class of smallholders to emerge. And in the same period, a system of land taxation - the so-called hardkorn tax - was introduced by the liberal-minded landlord and nobleman Count C.D.F. Reventløw (1748-1827). This tax was basically a tax on the estimated produce of land and it ensured that a steady revenue flowed from the large manor houses and rural estates to the crown. As such, however, it was clearly designed for an agrarian society and it gradually grew insufficient and unfair as industrialisation and urbanisation progressed during the 19th century.

In 1903, the government abolished the hardkorn tax in favour of a tax on income and property in general. This government, however, was dominated by landlords and large farmers who, in effect, tried to shift the tax burden away from themselves and onto the small farmers, the industrial workers, and the urban elites. The property tax was particularly hurtful to the small farmers because it was a tax on buildings as well as land and, naturally, buildings constituted a higher share of the total value of their small farms. Luckily, the small farmers were highly organised and educated due to the existence of rural folk high schools, created by the priest and politician N.F.S. Grundtvig (1783-1872). A counter-movement quickly took hold in many of these schools.

The small farmers wanted land to be liberated from the entailed estates of the noble landlords and they wanted to implement a system of land value taxation which fell equally on all land – urban sites as well as farm land. They had been inspired by what had happened in the 1880s. That was when a debate had arisen in Denmark about the merits of the solution proposed by Henry George, the American social reformer whose book *Progress and Poverty* had made it clear that the rent of land was the only ideal and just source of taxation. A group of folk high school teachers led by Jakob E. Lange heavily influenced the public debate on the issue of tax reform, and by 1905 they were represented in parliament by a new political party, the Radical Liberals, who demanded and quickly achieved the regular revaluation of all land for the purpose of taxation (Lefman & Lassen 2000).

And so, because people reacted to the shifting of taxes in 1903 and steadily gained more representation in parliament, the tax system was gradually improved. In 1916 all the land in Denmark was revalued. In 1919 all entailed estates were abolished, liberating a lot of idle land to productive use. And in 1922 and 1926 property taxes were replaced by a general tax on land values, with the gradual removal of taxes on improvements on the land. Also, a system of regular revaluation of all sites was initiated; a system which has continued – in various guises – to this day (Müller & Mørch-Lassen 1989).

Denmark was one of the richest countries in the world by 1930, and in spite of the Great Depression its economy kept growing in strength and enjoyed a Golden Age in the decades following World War 2. With the subsequent growth of the welfare state, however, the income tax quickly became the primary source of public revenue, and the revenue from the land value tax, which reached its peak in 1960, fell in proportion to the income tax and, later, also the consumption tax (VAT). In 2015, the revenue from property taxes accounted for about 4 % of total tax revenue.[1]

A civilized housing market

Even though revenue from the land value tax generally has declined since the 1960s, this fiscal policy has nonetheless contributed significantly to stabilizing the housing market. Along with some key regulations, it has safeguarded the Danish market from the excesses of property speculation which distort the London property market. Foreign nationals operating as

1. http://www.skm.dk/english/facts-and-figures/the-tax-structure

cash-rich speculators can buy and sell houses and apartments in the British capital purely to make a quick profit. Alternatively, 'hot' cash can be invested in upmarket dwellings (and left empty) as a safe haven for investors who do not wish to risk their money in the stock markets. This is not permitted with real estate in Denmark. Section 1(1) of the Acquisition of Real Property Act stipulates that persons who are not residents of Denmark and have not lived in the country for a total period of five years previously may only acquire title to real property after having obtained permission from the Ministry of Justice.[2]

Since 1972, because of the fear that Germans would buy all the summer houses near the beaches, Denmark secured an exemption from EU rules to protect the ownership of these dwellings. Some cities have (on a dispensation from the rules) allowed foreigners to buy city houses to be used for vacation purposes. The owners are, in the main, Norwegian nationals in northern Jutland. But they have to demonstrate a relationship to Denmark, such as having a history of vacationing in the area for many years.

Long-term vacancy of properties is discouraged in Denmark. If an owner moves and does not wish to sell his property, he must rent it out - or at least try to sell it. If a property is empty for more than six weeks, the owner has to report to the municipal authority, which then seeks to provide tenants which the owner has to accept. This is why, in Copenhagen, we would not experience the situation that existed in London, where 1,652 high-value properties were vacant for up to two years in the borough where an estimated 80 people were burnt to death in Grenfell Tower in June 2017. Of the survivors, only 12 households had been re-accommodated a month after the inferno, with dozens of people living in temporary accommodation. Some of the owners of the nearby vacant properties included foreign royalty and east European oligarchs. More than a third of their properties had been vacant for more than two years (Batty *et al* 2017).

Because vacant land is subject to the land value tax, property owners in Denmark have an incentive to ensure that the dwellings are occupied. Urban sprawl does therefore not blight Danish cities as it does cities in other countries. And anyone in Denmark can log onto the government's website and view the valuation of each site in the country. If the land value tax was returned to its former glory and levied at a higher rate, the regulations mentioned above, which limit the liberty of the owners, would be less necessary, but in the absence of a substantial land value tax, they have proven to be very beneficial for the housing market.

2. http://justitsministeriet.dk/arbejdsomraader/civilret/foreign-citizens-acquisition-real-property

Politics and property owners

Almost all politicians in Denmark are reluctant to go against the interests of the county's many home owners. In the autumn of 2016, however, the level of anxiety among politicians reached a high-water mark when a new and improved system of land and property valuation was presented for implementation by the Ministry of Taxation. It was estimated that the new system, because of its accuracy, would cause taxes – especially the land value tax – to spike in the large metropolitan areas, which had been substantially undervalued for decades. For this reason, mainstream politicians quickly initiated talks about how to protect property owners from future tax increases. The result of these negotiations was a broad settlement about property taxation that heavily favours the current home owners.

The present minority government is composed of three political parties: the center-right Venstre, the Conservative and the Liberal Alliance parties. The latter two wanted to abolish the land value tax completely (claiming that they saw no justification for this method of raising revenue). All three parties shared the desire to render the property tax less progressive, but they were opposed in this by a majority composed of the other six parties in parliament. And so, on May 2, 2017, the Danish government concluded a settlement on property taxation with three of the opposition parties. Thus, six parties out of nine represented in parliament supported a settlement that was intended to ensure that the new and improved system of valuation (which would come into operation in 2018/2019) did not generate a higher total revenue from property taxation. This, however, was only the latest in a line of political initiatives that were supposed to stabilize the property market and prevent property taxes from rising exorbitantly.

- In 2002, the center-right government tied the estate tax to the then nominal value of property.
- In 2003, an artificial ceiling on the land value tax was imposed. The change permitted an annual increase of no more than 7% on land values, which meant that the land value tax in most cities lagged behind the actual development of the housing market. Because of this artificial ceiling in particular, 90% of all land was not taxed on the basis of its market value in 2014.

The coalition government's settlement abolishes these defects. But the price of returning to the status quo ante is extremely high. To safeguard property owners from higher taxation, the rate of taxation will fall dramatically. The floor beneath the land value tax, which has hitherto been at 1.6% of the assessed value, is abolished, and the previous maximum of 3.4% was reduced to 3%. Municipalities have been instructed to lower the tax rate if their expected total revenue from property taxes exceed the revenue they collected before the implementation of the new system of valuation.

Furthermore, current owners will receive a permanent tax deduction equivalent to the nominal difference between new and old taxation. If the value of their land/property increases, they will be taxed fully on the margin, but the fact that the deduction is permanent means that they will be under-charged for as long as they remain in their homes. Payment of increased taxes may be deferred, becoming a form of mortgage: a debt to the government which can be discharged from the proceeds when the property is sold. The debt is interest-free for increases 2017–2020, after which interest will be payable. But home owners can opt out of this scheme after 2020 and pay the increased taxes. *Why make a charge simple when you can make it complicated – and at a later date, using the complication as an excuse for abolishing it!*

The outcome of these initiatives means that the settlement will result in a very unequal taxation of land values between regions as well as between neighbours. Because the old valuation system, as well as the artificial limitations on property taxes, favours the large cities at the expense of the more rural locations, the largest deductions and the largest lowering of rates will occur in the municipalities of the largest cities. Copenhagen, in particular, is favoured over the other cities of Denmark.

We may suspect that the measures taken to curb the taxation of land and property are based on political fear of property owners. Commentators suggest that the possibility of repeal and reform is minuscule. But if this bias in fiscal policy does persist, it entails the risk of jeopardising a key building block of the social solidarity which has characterized Danish society for more than a century.

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CHAPTER 5

Systemic integrity: the Australian model

Fred Harrison

IMAGINE the opportunity presented to rational people who were transported onto virgin soil and given the chance to create a new society. What would their blueprint look like? Such a prospect is not fantasy. The history of colonialism is replete with cases where that was a real prospect. Australia provides us with a test case for examining a theoretical model against what people actually accomplished.

The earliest phase of settlement was not a desirable beginning. Australia was treated by the UK Government as a dumping ground for the people whom it wished to expel. A fleet of eleven convict ships set sail for Botany Bay in 1787, landing on what became Sydney, New South Wales. Penal colonies were established in Tasmania in 1803 and Queensland in 1824. Western Australia, founded in 1829 as a free colony, received convicts from 1850. Penal transportation dropped off significantly in the 1840s, with the last convict ship arriving in Western Australia on 10 January 1868. The free colonies were populated by people whose ancestors had been rendered landless by earlier generations of aristocrats and gentry. Australia offered them a refuge and the means of earning a living.

There would come a point when the settlers realised that they had to lay the financial foundations for a commonwealth that straddled a vast continent. How would rational people create the infrastructure for a political and economic system that would integrate the population into a viable social system? How would they amass the funds to invest in the huge infrastructure that they would need, to link the scattered settlements? If highways and railways were to be constructed to serve the emerging economy and the new settlements, it would not make sense to import the UK's abusive tax regime and funding arrangements which, taken together, created destructive cycles of boom and bust. *To achieve the most effective outcomes, at the quickest pace,* *while emancipating people to achieve their aspirations, the ideal source of revenue was the rent of land.*

Beginning in the 1850s, municipalities began to levy a rate on unimproved land values. This contrasted with Britain's property tax, which imposed the charge on the value of buildings as well as land. In Australia, starting with nothing, incentives had to be maximised to construct new commercial and residential properties. The wisdom of excluding improvements prevailed.

The dynamism that emerged may be inferred by comparing US GDP *per capita* with Australia's. In 1820, Australia's output was $400 compared to the $1,257 in the US. Fifty years later, in 1870, Australians were generating $3,273. The US had merely doubled its revenue to $2,445.[1] By 1890, in *per capita* terms Australia was the richest nation on earth!

State land taxes were introduced in the six states: South Australia (1884), New South Wales (1895), Tasmania and Western Australia (1907), Victoria (1910) and Queensland in 1915. A graduated federal land tax was enacted in 1910, with the intent of breaking up large landholdings.

Part of Australia's success must be attributed to the rich natural resources buried in the territory. But this is not a sufficient explanation for the rapid growth of prosperity. Many countries in Africa are richly endowed in valuable resources, but they continue to suffer from what some economists call the 'resource curse'. This concept draws attention to the social pathologies that arise when the rents of the commodities are not cycled back into those territories to fund social development. In Australia, nature's generous gifts were combined with an enlightened fiscal policy. Central to the successful jump into the high-growth stakes were the economic incentives that flowed from a revenue system that did not discourage people from working, saving and investing.

Once Australian society had matured, however, the rent-seekers began to work away at the political system. They wanted to reduce the revenue from rent; which meant that they had to countenance the taxes that imposed deadweight losses on the population. The federal land tax was abolished in 1952. The five state governments continue to levy a direct charge on the market value of land.

The administrative infrastructure for the valuation of land is one of the best in the world. The New South Wales Valuer-General's website explains how land is valued separately from building values.[2] Drawing on data from official sources enabled Bryan Kavanagh of the Melbourne-based think-tank Prosper Australia to construct the following two figures.

1. Maddison (2007), p.104, Table 2.9b. Comparison in 1990 Geary-Khamis $.
2. http://www.valuergeneral.nsw.gov.au/land_values

Figure 1 tracks land values since 1910. Figure 2 plots the ratio of land prices to GDP over the course of the 20th century up to the present.

Figure 1

Australia total land values 1990–2016

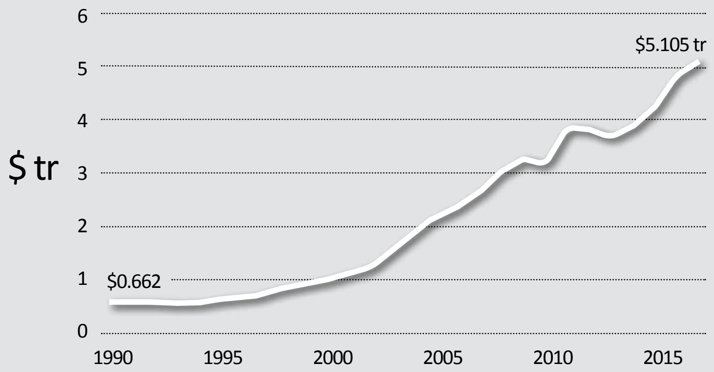
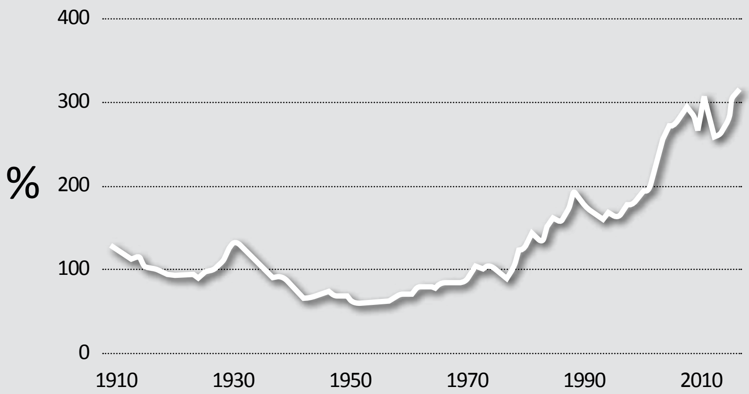


Figure 2

Australia total land prices to GDP ratio 1910–2016



Source: ABS, Coleman, Dwyer, Herps, Scott

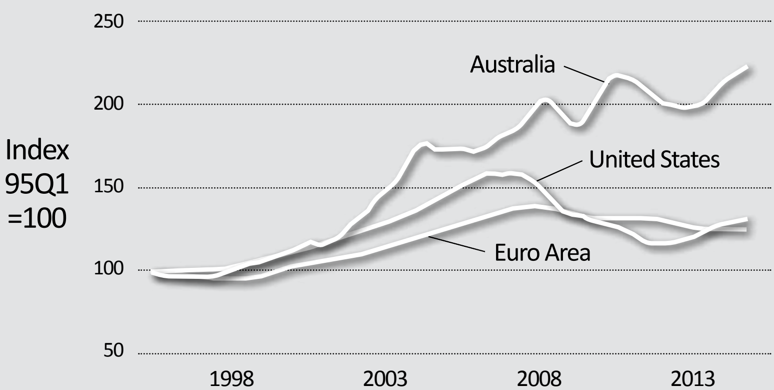
With the passage of time, the early wisdom waned: there emerged a class of rent-seekers who made it their business to diminish the amount of rent that was collected to fund public services. Australia became a victim of the boom/bust property cycle. Despite the land tax, so much rent was being capitalised into the selling price of land that Australia ended up importing a crippling disease from the motherland: *land speculation!*

Australia has experienced five post-war real estate booms: the 1960 boom which saw the Menzies Government reduced to a one-seat majority in the 'credit squeeze' election of 1961; the 1973 commercial land bubble which heralded the recession of 1974/75 and saw the Whitlam Government dismissed; the 1981 residential bubble which burst into the 1982/83 recession and defeated the Fraser Government at the 1983 election; the 1988/89 commercial bubble which broke into the 1991 recession and saw the Keating government hold on in the 1993 election; and the current hyper-inflated residential bubble that has extended ever since 1996 and still awaits its inevitable resolution. Both Liberal and Labor governments have pointedly fed this bubble, for fear that it would burst on their watch. As this appears to be the paramount, if unstated, consideration, it is unsurprising that the economy and wages are floundering.

Today, Australia's property markets are bucking the global trends. Thanks to China as a hungry customer for Australia's mineral resources, coupled with the Rudd Government pumping more than A$50bn into the economy to keep the bubble inflated, the 2008 crisis was not as severe as in Europe or the USA. Figure 3 illustrates the dangers: Australia's housing market is rocketing away, and it will eventually end in tears.

Figure 3

House market developments risk macro-economic stability



Reviving the wisdom of the settlers

The efficiency and ethics of governance regressed in the 20th century. The major indicator for this qualitative change is the character of fiscal policy. Over the decades, the incremental shift in the structure of taxation favoured tools for raising revenue which abused the creative potential of the population.

Economists can measure the damage which those taxes inflict. Bryan Kavanagh has estimated that the average annual excess burden since 1972 was $2.34 for each dollar of taxation raised.[3]

At present, complacency prevails among policy-makers as they celebrate the fact that Australia is one of the least corrupt nations on earth. According to Transparency International, Australia is near the top of the rankings, at 13th out of 176 countries.[4] Nonetheless, Australia has had its share of scandals involving both politicians and entrepreneurs. Many of these involved property deals, such as those that implicated the late politician Sir Phillip Lynch ('Stumpy Gully Phil'). A new book by two academics (Murray and Frijters 2017) provides insights into the 'grey gifts' handed out between contacts and friends in Australia. More often than not these have related to real estate.

There is room for improving the moral fabric of the body politic. But how is that to be achieved on a cost-effective basis? Griffith University in Queensland has developed one methodology, which it calls the National Integrity System Assessment (NISA). This is designed to lay bare the interlocking relationships between people and institutions, to expose failings in behaviour. Their metaphor is that of the bird's nest, *"in which a multitude of often weak institutions and relationships can combine to more effectively protect and promote the fragile goal of public integrity"* (Sampford, Smith and Brown 2005). Unfortunately, this approach relies on accommodating and deploying existing regulatory and legal tools.

- If there are structural flaws in the foundations of the system, the NISA model accommodates them in the process of mitigating their impact.
- As problems accumulate, the regulatory strategy requires ever-more complex oversight tools for combatting them, along with new palliative policies.
- The costs of compliance and enforcement increase, as the existing tax regime raises additional revenue to fund the palliative policies.

The alternative, holistic approach to remedial action is based on fiscal reform. This works by removing the temptations that currently reward bad behaviour.

3. http://thedepression.org.au/why-economies-are-failing/
4. https://www.transparency.org/news/feature/corruption_perceptions_index_2016

If government was to overhaul the tax structure, replacing the deadweight taxes with charges on rents, the flow of net income that is currently circulating in society would be reduced. The logic underpinning this thesis is as follows.

When government fails to collect a nation's socially-created rents, that revenue stream is detached from its moral anchorage. We must emphasise that, unlike wages, this is the stream of value which the whole population helps to create on a cooperative basis. When rent is rendered footloose, it is 'up for grabs' by anyone in a position to exploit connections to the centres of power. The whole of society is made to suffer. Two examples illustrate this insight.

- **In Italy,** some construction companies operate as 'fronts' for mafia-type operations. They extract the nation's net income through contracts to construct highways or public buildings. One strategy: short-change the public by delivering substandard products. Costs are cut to maximise profits. Public buildings have been known to collapse because of the use of sub-standard materials.[5]
- **In China,** some developers are accumulating fortunes by bribing local government officials to secure land leases at less than market price. The developers construct buildings and pocket super-profits – the value of the land that ought to have gone into the public purse.

This kind of behaviour, as a social process, is thwarted when governments are obliged to administer the nation's rents on a transparent and accountable basis. If a nation's rents are collected and invested for the common good, nothing is left to fuel corruption. Corrupt practises are less likely, when criminals turn their attention to wages and entrepreneurial profits! People jealously guard their earned incomes. They are unwilling to part with them unless under direct duress (the highway robber model).

By monitoring the flow of rent, and holding government accountable for the way in which it is collected and spent, the integrity of the social system is elevated. It is no accident that, in the rankings on corruption produced by Transparency International, Denmark and New Zealand are placed 1st and 2nd. Both countries adopted the use of the land value tax early in the 20th century. And while the proportion of revenue collected directly from rent has been reduced since World War 2, those two societies continue to benefit from the era of ethical finance (these and other cases are fully described in Andelson 2000).

5. The *modus operandi* of criminal gangs which target the public purse was documented in a recent trial in which 41 people were convicted of skimming money from public contracts in Rome. What was characterised as a Mafia operation included former politicians and local officials (Politi and Ghiglione 2017).

Dr Terry Dwyer, a Canberra-based tax lawyer who has served as advisor to the Department of Prime Minister and Cabinet, has demonstrated that *land rent is more than adequate to replace Australia's income and company taxes* (Dwyer 2003). That assessment exposes the lie in the standard textbooks on economics, which seek to trivialise rent. They report, without offering evidence, that economic rent in countries like the UK and US is of the order of between one and four percent of national income. If economists would like to rescue the integrity of their discipline, they could do worse than to start with a forensic examination of Australia, the country where a proper assessment of land rent has finally emerged.

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CHAPTER 6

Citizens as champions of tax Reform, Pennsylvania-style

Edward J. Dodson

THE DIFFICULTY in valuing land separate from the value of buildings is considered to be fatal to the one tax policy that does not damage people's personal or social interests. Even advocates who recognize the wisdom of drawing government revenue from rent retreat from the policy on such grounds. One of them, Malcolm Torry, appealed to the authority of the Bible in support of treating rent as public revenue. And yet, he withdraws his support because

> **'Determining the value that accrues to those who occupy land is no easy matter, so it would not be easy to calculate the amount of tax that each occupant of land should pay.'[1]**

And yet, the practice of valuing land has a professional history that ought to have long ago silenced the ideologues who wish to retain the taxes that redistribute wealth from producers to rentier (i.e., landowning) interests. The empirical evidence from the United States goes back to the beginning of the twentieth century, when states began to require separate assessment of land and improvements.

The theoretical strengths and implementation challenges associated with what is now generally referred to as *land value taxation* offers insights to guide tax reform in Britain.

The debate in the United States over how revenue ought to be raised to pay for public goods and services began even before the establishment of the states and the federal government. The taxation of real estate was assigned to local tax jurisdictions to pay for public schools and services provided by cities, towns, boroughs, townships and counties. The quality of implementation has not always followed best practice, leading to charges by taxpayers of inequity and corruption.

1. Malcolm Torry (2016), Citizen's Basic Income: A Christian Social Policy, London: Darton, Longman and Todd.

The need for fundamental reform erupted late in the 19th century when journalist turned political economist Henry George published a forensic critique of the way governments around the world funded public services. In *Progress and Poverty* (1879) he argued on grounds of moral principle and economic efficiency that only the potential annual rental value of a location was the appropriate source of public revenue. Buildings, as legitimate private goods, should be exempted from taxation. Support for George's views mutated into the first global reform movement. But his supporters in America were faced with a difficult legal obstacle: the constitutions of twenty-five states called for uniform rates of taxation on both land and buildings.

As a consequence, proponents of George's reform sought to convince officials to lobby for the local option to implement this radical change in public policy. Commissions were created in many states to hear testimony on the issue, but changes in law were effectively opposed by those who benefited most by maintaining the *status quo*. The breakthrough came in 1913. The state of Pennsylvania enacted legislation that gave two cities – Pittsburgh and Scranton – the local option to impose a higher tax rate on the assessed value of land than on buildings.

The Pittsburgh model

Pittsburgh taxed locations at double the rate imposed on the value of buildings. William N. McNair, who was elected mayor in 1934, recorded the outcome.

> **'After 20 years of taxing houses less than land, I think the people of Pittsburgh are heartily in favour of the system and no one of consequence in Pittsburgh seriously proposes a return to the old system which prevailed prior to the Act of 1913...Much greater benefits will be realized if Pittsburgh's present tax policy is so extended in scope as to materially reduce all taxes on improvements and eventually to eliminate all taxes on improvements.'[2]**

The Graded Tax was a triumph! Its effectiveness, however, depended on the accurate assessment of property values – recognizing that buildings depreciate in value over time, while land values are pulled upward. Pittsburgh was fortunate in having able land appraisers as heads of its City Board of Assessors.[3]

Following the end of the Second World War, civic leaders in Pittsburgh began to focus on modernization of the city's central district. An area of 59 acres of 'commercial blight' was cleared in 1950, replaced by a state park, new high-rise office towers and a new hotel. Pittsburgh's unique property tax structure played an important role:

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2. From an address by The Hon. William N. McNair, Mayor of Pittsburgh, Pennsylvania, delivered at the Fifth International Conference to promote Land Value Taxation and Free Trade, Caxton hall, Westminster, London, September, 1936.
3. Percy R. Williams (1963), "The Pittsburgh Grade Tax Plan", New York: Schalkenbach Foundation.

> **'The graded tax offers the incentive of substantially lower taxes for these great private improvement projects…The graded tax also assists in making land more readily available because the higher land tax has checked land speculation by making it unprofitable to hold valuable land out of use and thus tends either to reduce or to stabilize prices.'[4]**

The Graded Tax, however, was insufficiently powerful to compensate for the nationwide stagflation of the late 1970, as well as the lack of permissive statutes for the Pittsburgh School District to enact land value taxation. As a consequence, the base rate to fund the schools exceeded the city rate by the late 1960s. Facing a budgetary crisis in 1979, Pittsburgh increased the rate of taxation on assessed land values, from 4.95% to 9.85%. As a result, the value of building permits issued 'rose 14% as compared with the 1977-78 average.'[5] The rate was increased again in 1980, along with a three-year tax exemption on the value of all new buildings. Even so, Pittsburgh was plagued by the same economic and financial challenges shared by other northern rust belt cities. The city was losing population to the ring of suburban communities and to the rapidly growing parts of the U.S.

Assessments in the City of Pittsburgh were seriously affected by a change in law. After 1942, responsibility for property assessment was transferred to the County, which employed a methodology that countered the effects of the Graded Tax in Pittsburgh.

> **'[T]he County used a property's assessed value from the prior year when assessing value in the current year, sometimes with a slight increase in neighborhoods where property values were increasing, and a slight decrease in neighborhoods where values were perceived as declining. Periodically, an entire area was reassessed, though the area may only have comprised a portion of a school district.'[6]**

In 2000, the courts ordered the county to perform annual reassessments on all properties. Some 90,000 taxpayers filed appeals contesting their 2001 valuations, many within the City of Pittsburgh. Several corrective reassessments followed, and, in response to public outrage, Pittsburgh's elected officials returned to a uniform tax rate on real estate. Construction in Pittsburgh came to a standstill for several years. The city's population has since 2000 fallen by 30,000 inhabitants. A form of land value taxation does remain in Pittsburgh, however. The Pittsburgh Improvement District continues to employ a surcharge on assessed land values.

4. Ibid., 59.
5. Gurney Breckenfeld (1983), "Higher Taxes That Promote Development," Fortune Magazine, 8 August. http://www.cooperative-individualism.org/breckenfeld-gurney_higher-taxes-that-promote-development-1983.htm
6. Clifton vs. Allegheny County, 29 April, 2009.

The Harrisburg test

The organization whose mission is to work with local government officials to advocate land-value taxation is the Philadelphia-based Center for the Study of Economics (CSE), which appointed Steven Cord, Professor of History at Indiana University of Pennsylvania, as its head in the 1970s.

Prof Cord toured cities large and small across Pennsylvania to promote land value taxation. His efforts, supported at times by local proponents, resulted in a small, and slowly growing list of cities and towns whose elected officials voted to incrementally adopt fiscal reform. Dr. Cord reported in 2000 that each of the 23 Pennsylvania localities that adopted the Graded Tax experienced an increase in the issue of building permits. Similarly-sized nearby communities experienced declines in construction. Since then, a few cities (for reasons different from Pittsburgh's) returned to the traditional uniform rate structure. However, two school districts, one borough and a few new cities have implemented land value taxation. The most significant city was the state capital, Harrisburg.

Beginning in the late 1960s, Harrisburg had fallen into serious decay. In 1981, it was listed as the second-most distressed city in the United States according to metrics employed by the federal government. The city had lost 800 businesses and a third of its population during the previous two decades. The ultimate test for land value taxation began in 1975, when the city initiated a gradual adoption of the measure. The policy was fully embraced by a new mayor, Stephen Reed, who was elected in 1981. During the next two decades, the city periodically increased the tax rate on land, reaching a six-to-one ratio by 2003. When the Philadelphia City Controller asked for information on the results, Mayor Reed reported:

> **'Harrisburg…launched aggressive initiatives related to economic development, the creation of non-tax revenue sources, and a constant effort to refine and improve the operations of city government…As part of our economic development incentives, the land-value tax policy is key, and without it, a significant amount of new investment would not have occurred here during recent years.'[7]**

The Mayor celebrated Harrisburg's track record by declaring:

> **'In the current era, we have registered in excess of $3.1 billion in new investment. The number of businesses on the City's tax rolls has increased from 1,908 to more than 5,900. Taxable real estate values have increased from an aggregate of $212 million to over $1.6 billion. The number of vacant properties has been cut by 85%.**

7. The city made numerous other moves to attract businesses and residents, including attraction (and eventual purchase) of a minor league baseball team and measures to reduce the city's exposure to flooding of the Susquehanna River.

The crime rate has been reduced 54% and the fire rate has dropped over 76%. Unemployment, which generally ran in the double digits, even in times of a good national economy, is normally less than half those previous rates today.'

Reed's successors, Linda Thompson (2010-2014) and Eric Papenfuse (2014–) had to deal with financial problems created by the national recession and a general decline in property values after 2008. Harrisburg has the additional problem of having to fund services to tax-exempt state-owned properties, which occupy 42% of the city's land. Whether the current mayor and city council will move further in the direction of land-value taxation or in the reverse direction is a matter that now concerns Joshua Vincent, the current President of the Center for the Study of Economics.

The power of accurate assessment

The degree to which the beneficial effects of land value taxation are realized depends in part on the quality of assessments. Under conditions of economic expansion and population growth, the value of land will increase. This effect is offset by the depreciation of buildings. Recessions also accelerate the depreciated value of buildings and can erode the value of land. Under such conditions, owners who believe their properties are overvalued will appeal for a downward reassessment.

As the campaign initiated by Henry George gained traction, support came from those who were trained to assess real estate. One of these professionals, in New York City, was Lawson Purdy. In 1906 he revealed how assessment practices had been corrupted.

'It is notorious that assessments are not generally made as the law directs, at full value, but are made at some arbitrary proportion. The adoption of any standard of value other than that required by law really takes away all standards. Each assessor is a law unto himself, and each assessment becomes a matter of his own arbitrary and secret judgment.'[8]

Purdy was appointed President of the New York City Tax Department in 1911. He helped to promote legislation, enacted in 1921, to exempt from taxation the value of new construction in the City of New York for 10 years. The result was an impressive $7 billion building boom, impressive even for the roaring twenties. However, not even this economic stimulus could soften the impact of the Great Depression. The Empire State Building, which opened in 1931, found few tenants, relying on fees from visitors taking an elevator to

8. Lawson Purdy (1906), "The Influence of Taxation on the Prosperity of Cities." A paper read before the League of American Municipalities, in session at Chicago, 26 September. Reprinted in The Public, 6 October, 1906.

the observation deck. Not until 1950 was the building profitable.[9]

In the mid-1960s a young property appraiser named Ted Gwartney became interested in Henry George's philosophy. In 1967, he was recruited by James Clarkson, the Mayor of Southfield, Michigan, to implement the partial exemption of improvements from the tax base. Land assessments were to be brought up to market value. As Ted Gwartney later reported:

> **'To accomplish the first reappraisal, the J.M. Cleminshaw Company… was hired. The Cleminshaw Company did a complete reappraisal of land values throughout the city which resulted in an increase in valuation of land parcels amounting to $45 million. The Council balked, and a compromise was reached by depreciating all buildings in the city by $22.5 million.'**[10]

Ted Gwartney went on to become one of the nation's leading assessment practitioners. In 1974 he was appointed Assessment Commissioner in British Columbia. Under his supervision, the Canadian state produced the first province-wide assessment of 879,126 properties, whose valued totaled $42.2 billion.[11]

Drawing on his extensive experience, Ted Gwartney explained to public officials that at some point after the adoption of land-value taxation, assessments needed to be converted from market (capital) values to rental values. In 1992, he authored a paper on the technical process:

> '**In 1981, a simple model was used for computer calculation of land values for 1,200,000 residential land sites. The model, which included the size of the plot, the number of building lots into which the original plot can legally be divided, and the location of the plot, was based on analysis of the sales prices for 6,000 residential lots. In this model, the land rental value could be estimated by multiplying the land value by the appropriate capitalization rate. A country adopting a system of land rentals would have actual data for every site in use and could estimate rental value for the unused sites.'**[12]

The ease with which property professionals can assess the market rents of land is beyond question. But despite the important initial successes in Pennsylvania, factors having nothing to do with the positive effects of land-value taxation resulted in decisions to abandon the reform in Pittsburgh, and four smaller cities (Coatesville, Connellsville, Oil City, Altoona). Only by maintaining ongoing contact with current officials, by monitoring changes

9. The underlying land is owned separately, by Empire State Building Associates, comprised of nearly 2,800 investors. The building itself is owned by a partnership between the Malkin family, the Qatar Investment Authority and other foreign investors.
10. Ted Gwartney. "The Southfield Story: A Lesson in Creative Taxation." A paper presented at the Twelfth International Conference on Land-Value Taxation and Free Trade, Caswell Bay, Wales, September 1968.
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in building permits and other economic measures, and testimony at public hearings has CSE been able to maintain existing gains in land-value taxation and convince officials in other cities (in Pennsylvania and, more recently, in Connecticut, Maryland and Virginia) to consider switching to the two-rate property tax structure.

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CHAPTER 7

The dog that must bark: the design of a problem solving revenue system

Ted Gwartney

WIDESPREAD public discontent with taxation is attested in the media every day. International financial institutions like the OECD and IMF repeatedly offer advice to governments on the need to amend fiscal systems, but that advice is never anchored in first principles. As a result, the proposals for what are called 'reforms' are shaped to accommodate the defects embedded in current tax structures.

A rare attempt at addressing taxation from fundamental principles was the study commissioned by the London-based Institute for Fiscal Studies. Called *Dimensions of Taxation Design*, a battery of economists was convened under the chairmanship of Nobel laureate Sir James Mirrlees. Their book runs to over 1,340 pages! And yet, there is barely any mention of the one policy that would begin the process of comprehensively solving the significant problems that challenge all nations in the 21st century.

The core problem with the way governments raise their revenue is that their tools of choice inflict severe damage to the wealth and welfare of their nations. This is a wholly avoidable outcome. Social scientists have long known how to fund public services without imposing intolerable costs on people or their communities. But readers of the Mirrlees review have to plough through 800 pages before reaching a reference to the one fiscal policy that is economically optimal and ethically compelling. In discussing the taxes on residential and on commercial property, the authors declare that

> **'It would be preferable if both tax bases could be moved to the taxation of the value of land rather than of the property so as to remove the distortion against improvements.'** (Mirrlees 2010: 806)

This observation, noted Martin Weale in his Comment, brought the authors "nearer to *the dog they have not allowed to bark*" (Mirrlees 2010: 834; emphasis added). Weale was the then Director of the National Institute of Economic and Social Research (NIESR), one of Britain's foremost think-tanks. His appraisal of the treatment of wealth taxation, if it had been incorporated at the top of the Mirrlees review, would have turned the whole exercise on its head. While acknowledging that the authors offer compelling assessments of property taxes, he noted that "they do not follow their argument through to the case for a land tax". Why was this significant?

> **'The argument for taxing land but not other forms of wealth is that the disincentive effects to the accumulation of wealth plainly do not apply to land; the stock is fixed and the tax is non-distortionary. Taxes on land are likely to increase the efficiency with which land is used and particularly so if as in the case of owner-occupation the benefit is currently not taxed.'** (Mirrlees 2010: 835)

Weale then explained how this insight ought to influence the restructure of taxation.

> **'Tax policy is not only about the advantages and disadvantages of any individual tax, but also the overall tax package. I argued above that the case for a land tax might be enhanced by the fact that it could be used to replace an array of unpopular and probably unsatisfactory taxes.'**

In the United States, the character of the tax system has become a defining issue for the Trump administration. But the debates in Washington, DC, are about cutting the tax rate on the richest income tax payers, or offering fiscal inducements to corporations which have stashed cash piles in foreign havens, beyond the reach of the US authorities. This impoverished public debate will not help to "make America great". To achieve such an outcome, Congress needs to locate the conversation on the issues that could re-empower the nation by raising productivity. And that means switching the tax base from people's earned incomes to the nation's flow of rents.

Prioritising the collection of rent to fund public services achieves much more than just an enhanced flow of material benefits from the economy.

- ► Ethical behaviour is enhanced by the incentives that arise when rent, which is socially generated, removes the need for government to target the incomes from working, saving and investing.
- ► People are actively encouraged to act as stewards of the environment. Land rent is the product of ecological as well as social endowments, not the personal activities of individuals.

- Social solidarity is revitalised within flourishing communities, when cities are enriched with a sustainable and growing revenue source to fund the services people share in common.

Each of these issues reinforces the case for fiscal reform. Here, however, I shall confine my observations to the ease with which the United States could redesign its revenue system, and the degree to which public services could be funded out of rent.

The adequacy of Rent

There is sufficient land rent available to deliver adequate funding for all the services that modern government's need to provide to their citizens. That pronouncement is based on my lifetime's study of how America's land markets work, and the negative impact of conventional taxes on productivity. In addition, the global evidence affirms the statement that, if the political will existed, it would be possible to fund all the socially necessary public services out of rent.

- In the early 1990s I was a financial consultant in several cities in Russia and Estonia. A Russian public resource official estimated the value of land and natural resources was greater than $3 trillion, providing more than enough land rent to fund all the local and provincial government requirements (Gwartney 2014).
- Australia has some of the best records available on land rental values. Studies by Terry Dwyer and Bryan Kavanagh concluded land rent represented more than 25% of gross annual domestic product. Australia's land rent is adequate to eliminate taxes on buildings, wages, production, commerce and investment and fund all government services.[1]

The cost-effective valuation of land rent can be undertaken with acceptable accuracy and transparency. The efficient system of assessment and collection of land rent would pay for itself many times over as a result of the optimum economic use of the land. Every community that gathers its revenue from land rent enhances the wealth and well-being of its entire population, which means that taxes need not be imposed on employees, producers, merchants and buildings.

1. Terry Dwyer (2003), "The Taxable Capacity of Australian Land and Resources", Australian Tax Forum (Vol.18:1), at https://www.prosper.org.au/wp-content/uploads/2007/11/dwyer-tax-resources.pdf
Table 4 shows smoothed land income to be 136.1% as a percentage of company and income tax in 1998/99. This was before Australia's current land price bubble. Using Dwyer's technique, Melbourne real estate valuer Bryan Kavanagh extrapolated the data in a submission to the Australian Treasury, in which he showed land rent to be 32.5% of GDP in the 2006/2007 financial year. Available at http://taxreview.treasury.gov.au/content/submissions/pre_14_november_2008/Bryan_Kavanagh.pdf

The market-based rent of land is the amount that should be paid annually for the exclusive use of the benefits that accrue to each location, or for the use of other rent-generating natural resources.

Land rent varies by location and available amenities. It changes in response to people's competitive desire to occupy sites that are fixed in supply. Demand is the sole determinant of land rent. This means that the amount paid to government is fixed by citizens, not governments.

As the demand for land increases, rent will increase proportionally. This creates the virtuous circle: collecting land rent enables the community to attain a sustainable and growing revenue base. Land is visible and cannot leave the community to evade taxes.

Collecting land rent would reduce land speculation and premature land use, by encouraging compact urban development, making it easier to preserve open spaces for parks, recreation, historic sites and other public purposes. In the process, compact cities reverses the trend to urban sprawl and the detrimental use of farm land in rural areas. Land speculators are encouraged to build or sell to others, to recover their carrying costs, which then delivers a supply of housing to meet the demand for dwellings at prices people can afford.

California irrigation districts

The assessment and taxation of land and property is delegated to the state governments. Most assessments are done at the county level, but a few states do it at the state level (as do most provinces in Canada), with a few at the city level. Most assessors show land and buildings separately; some do not. The data base is accessible to the public, but sometimes charges are made for access to the total jurisdiction database.

Land is easier to assess than buildings. In addition to vacant land sales, teardowns are treated as land sales and every improved sale has a land component that is easy to estimate.

Frequency of assessment is a critical factor. Most states do it on a cycle of three or four years. A few, such as British Columbia, do it annually. New York and a few other states have no requirement and their assessments are very old and do not reflect current market trends.

The property tax is used as a primary source of revenue for funding local government services, infrastructure and public schools. Both land and buildings, which are usually assessed separately, are taxed at the same rate (but see Edward Dodson's account of the Graded Tax in Pennsylvania, where some cities allow a higher tax rate on land value and a lower tax rate on building value). It is feasible to update land value or rental assessments annually at a low cost. The value of land rent can be estimated at a cost which is very small compared to the revenue to be obtained. These outcomes are not based on theoretical speculation. In California, we have ample empirical evidence to support the claims.

An example of a land value capture system that began initially to fund irrigation infrastructure is California's local irrigation districts. Back in 1886, citizens organised themselves after one California rancher who owned one million acres won full rights to the water of the Kern River. The result was the Wright Act, which permitted local irrigation districts to fund the construction of dams and canals and other infrastructure with bonds that were paid off by land rent. The impact was startling. It took just 10 years for the Central Valley to be transformed into over 7,000 independent farms.

The Wright Act was amended to mandate the total exemption of improvements from the tax base. Irrigation Districts included and taxed land that was used not only for farming but also for residence and commerce within townships. Steadily the Irrigation Districts evolved to fund reclamation, recreation, and electric power. The formerly semi-arid plains of the San Joaquin Valley became the "bread basket of America", one of the most productive farming areas on the planet.

State of California total revenue

The opportunity to test the claim that land rent could provide sufficient revenue to pay for all public expenditure came with a political initiative in my home state of California.

For the 2011 election year, an Initiative was proposed to replace all existing taxes with a land value tax. The plan was to eliminate taxes on sales, income and buildings and replace the lost revenue with a charge of 75% of annual land rental values. I was invited to review the Comprehensive Tax Reform Initiative, as it was called. I estimated that sufficient revenue could be raised from rent to replace the revenue that then flowed to state and local governments. To arrive at this conclusion, I had to evaluate existing data and make adjustments and assumptions to fill the data void.

If the Comprehensive Tax Reform Initiative had become law, the State of California could have replaced all the existing revenue sources yielding $140 billion in annual revenue. The initiative was submitted to the California Attorney General and California Secretary of State. The Legislative Analyst's office approved a fiscal analysis. Unfortunately, an initiative also required signatures on petitions from 8% of the registered voters before an amendment to the state constitution could be proposed and placed upon the ballot. The cost of securing these signatures was prohibitive, and the initiative did not get on the ballot.

Conclusion

As noted above, the shift to a rent-based revenue system delivers benefits far beyond those of material welfare. Take the case of territorial disputes. The social sharing of rent has a major role to play in diplomacy, when applied as a tool for the peaceful resolution of conflicts over the possession and use of land on the borders between nations. Peaceful resolution would be negotiated by sharing the value of commons rent on surface land sites. This would accelerate economic growth to the advantage of all parties in the dispute, thereby enhancing the solidarity that secures sustainable peace.

If such outcomes are kept beyond people's reach, it is not because of the practical issues relating to the assessment and collection of rent as the public's primary source of revenue. The real obstacle is one of political ideology. If policy-makers are to replace their cosmetic exercises with real reforms to taxation, the dog must be allowed to bark. Politicians need a mandate from their electorates. Therefore, somehow, the need for this conversation must be turned into a central issue about the future of democracy itself.

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About the authors

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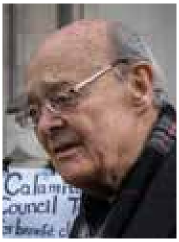

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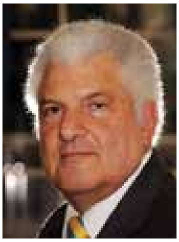

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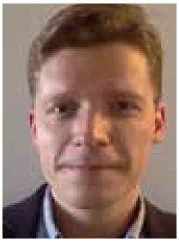

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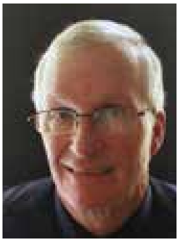

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Beyond Brexit: The Blueprint

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Beyond Brexit: the Blueprint is published by the Land Research Trust

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UK production falls short by about £500bn because of the kinds of taxes sanctioned by Parliament. The sum might be bigger, or smaller, by a few billion pounds: the public cannot judge because HM Treasury refuses to disclose the annual loss to wealth and health it imposes on the four nations of the kingdom.

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The Essays in this collection were presented at a seminar hosted by two All-Party Parliamentary Groups (on health and poverty), in cooperation with Taxpayers Against Poverty, at Portcullis House, Westminster, on October 18, 2017.

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