SCOTTISH LAND REVENUE GROUP

EQUAL ACCESS TO THE RENTS *WE* CREATE

www.slrg.scot 2015

BULLETIN no.1

Also available online at
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The Great Betrayal: 1707 and the blueprint for a new deal for Scotland

Clause IX of the Treaty of Union:
Act Ratifying and approving the Treaty
of the Two Kingdoms of Scotland and England
January 16, 1707

'That whenever the sum of £1,997,763 8s 4½d shall be enacted by Parliament of Great Britain, to be raised in that part of the United Kingdom now called England, on land and other things usually charged in Acts of Parliament there for granting an aid to the Crown by a *land tax*, that part of the United Kingdom now called Scotland shall be charged by the same Act a further sum of £48,000 free of all charges, as the quota of Scotland to such tax and so proportionately for any greater or lesser sum raised in England by any tax on land…'

HOW THE TREATY THAT UNITED SCOTLAND AND ENGLAND WAS BETRAYED BY THE LANDLORDS' PARLIAMENT

By Fred Harrison, Director, Land Research Trust, London

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Did you know?

- The Treaty of Union was grounded in the Land Tax which would have spread UK prosperity to every corner of the kingdom
- Landed interests progressively dismantled the Land Tax in order to pocket the nation's community-generated 'rents'
- The Landlords' Parliament devised taxes on wages and enterprise to try to make up for the vast sums they successfully 'privatised'
- Owners of land still pocket the annual proceeds of the UK's principal financial resource: community-generated land values
- Holyrood must use its newly devolved tax varying powers to zero-rate income tax and collect socially-created rents

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The Great Betrayal: 1707 and blueprint for a new deal for Scotland.
A report commissioned by the Scottish Land Revenue Group
from the Land Research Trust.
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The Great Betrayal: 1707 and the blueprint for a new deal for Scotland

How the treaty that united Scotland and England was betrayed by the Landlords' Parliament

Executive Summary

1. The Landlords' Parliament in Westminster twice betrayed its legal obligation to Scotland. **The first betrayal was of the Treaty of Union**. In 1707 the agreement between Scotland and England was grounded in the *Land Tax*. The treaty was subverted by England's aristocracy and gentry. They replaced the Land Tax with regressive taxes that degraded people's life chances. **The second betrayal was in 1910**. The people of Scotland initiated the democratic mandate for *The People's Budget*. They wanted to restore their financial rights under the 1707 treaty. The Budget was enacted into law, but the landlords blocked its implementation.
2. If Parliament had honoured the agreement of 1707,
   - Scotland would not have been discriminated against in favour of England; and
   - rural communities in the highlands and islands would not have been discriminated against in favour of lowland urban centres.

   The economic mechanism enshrined in the Land Tax guaranteed a fair share-out of the benefits that would flow from the union. All subjects of the Crown would have been enriched. Every locality would have enjoyed the freedom to flourish. Instead, the financial arithmetic was rigged to favour English landowners and, today, the owners of land in London and South-east England.
3. The economics of apartheid was embedded into the UK's political fabric. The organising principle within the new tax regime prejudiced the social, material and psychological needs of people who did not own land. Today, the Barnett Formula determines the grants allocated to regional governments. It camouflages the injustices embedded in the tax regime. Scotland is deprived of its share of the UK's taxable revenue – the net income, which is the rent people are willing to pay for the use of the services of nature and society.
4. It is impossible to now calculate how Scotland would have flourished, if Parliament had abided by the 1707

treaty. But the 2 million people who were driven into exile in the 19th century, to find work, would have been free to choose to remain in their homeland. And people who now die (on average) up to 17 years prematurely in zones like Drumchapel, Glasgow, would be enjoying lives of normal duration.

5. In abusing the 1707 financial formula, the aristocracy privatised the State. But their tax regime guaranteed budget deficits. And now, to try and balance the books, the Cameron government proposes welfare benefit cuts of £12bn. About 3m families will lose £1,300 a year, even *as the price of land in London soars to record heights*.

6. The last traces of the landlords' footprints are now being washed away. The Cameron Government's Life Chances Bill erases 'poverty' and 'income' as indicators of inequality. This diverts attention away from Westminster's prejudicial distribution of the nation's net income.

7. Holyrood has now acquired the power to correct injustices inflicted on the people of Scotland. Supported by the popular mandate for a 'radical land reform', Holyrood can begin to eliminate the Income Tax burden and raise revenue from the social rents created by the whole population. This would launch Scotland onto the evolutionary growth path to independent prosperity.

Box 1

High Finance: a treaty based on equal treatment

Clause VI of the Treaty of Union laid down the principle on which governance would fund public spending in the kingdom:

> 'That all parts of the United Kingdom for ever, from and after the Union, shall have the same allowances, encouragements, and drawbacks, and be under the same prohibitions, restrictions, and regulations of trade, and liable to the same customs and duties on import and export.'

These words translate into modern terminology as 'subsidies' and 'rebates'. In public finance, all parts of the union were to be treated as equal. Clause IV emphasizes that, pound for pound – whether in weights and measures (Clause XVII) or tax revenue raised in sterling – the people of Scotland were to be treated as equals of the English.

A union of equals?

Political skulduggery shrouded enactment of the treaty that united two kingdoms. This nourished grievances that continue to blight the United Kingdom. In the 2014 referendum, nearly half of the voters declared their wish to split from the UK. *There might have been a happier outcome for the peoples of the two nations if the treaty of 1707 had not been betrayed by the Landlords' Parliament.*

The Treaty of Union enshrined the principle that all subjects of the single Crown would be treated as equals (Box 1). Under the economics of Clause IX, the benefits of the union would have translated into fair shares for every person, hamlet, village, town and city.

It was not to be. Little time was lost in subverting the financial deal of 1707.

The financial arithmetic was rigged to favour, today, the owners of land in London and South-east England

To understand how and why the betrayal was executed, and to fathom the psycho-social and economic consequences, it is necessary to understand how the trusteeship of land as a social asset favours everyone in the community.

The 18th century Land Tax was fulsomely endorsed by Adam Smith in 1776. If it had remained in place, *it would have secured the prosperity and security of every family in the kingdom*. It drew revenue from the value that everyone added to the wealth of the nation.

- **Net Income** is the stream of revenue that Adam Smith called *economic rent* – the sum in excess of what was paid as wages and the profits of enterprise.
- **Public spending** funded out of rent turns government into a value-adding partner by enhancing the wealth and welfare of the people.

In raising revenue from rent, government would collect enough to pay for public services without taxing earned incomes or the profits from investments. But the ink on the treaty was barely dry before the Landlords' Parliament embarked on the systematic replacement of the Land Tax with new kinds of imposts on the population.

- **A tax on beer:** the law-rigging aristocrats avoided that levy because they brewed their beer on their estates.
- **A tax on salt:** this fell regressively on the peasants who toiled on the land, tilting the financial scales in a way that continues to this day.

The fiscal shift systematically impoverished the working people of Scotland and England. And it initiated the separate development of the landed aristocracy, who became a class apart.

The United Kingdom could not be consummated as a union of equals, and the people of Scotland knew it. When they protested, social activists risked harsh punishments, including banishment to the colonies. The link between fiscal discrimination and material impoverishment was clearly understood (Box 2).

The economics of apartheid

The Landlords' Parliament evolved the template for what has become the dominant form of governance in the world. Separate cultural and economic development within nations is based on one iron law:

- **those who capture the net income of society enjoy the happiest – and the longest – lives; whereas**
- **people deprived of their share of social rents are destined to endure lives described by Thomas Hobbes as "nasty, brutish and short".**

That formula originated with the English aristocracy in the 17th century. It was honed in the 18th century as the rural population was cleared from the commons, then applied with ferocity by the clan chiefs of Scotland in the 19th century: clansmen were cleared from the highlands and islands. The outcome was an exodus of biblical proportions.

Over the course of under a century, 2 million Scots were expelled from their homeland, the exodus driven by the search for work. Between 1921 and 1931 alone, about 400,000 Scots – 10% of the population – was forced to emigrate, for want of work in the land of their birth (Table 1).

The economic impact is reflected in the statistics on land occupation and income production. Compare Scotland, for example, with Denmark. A resource-poor territory which is half the size of Scotland now enjoys

Table 1 Scotland's vital statistics

Population	
1851	2.88 million
1901	4.47 million
1974	5.24 million
2011	5.29 million
Emigration (1841–1931)	
To USA/Australia	2 million
To England	750,000

Box 2

Human cost of the double-cross

In a pamphlet that critiqued the Treaty of Union, one author noted:

> 'Although deprived by the British Government of their due share of subsidies, State-Department contracts, and special legislation, the Scots may reflect that Scotland has higher rates of material and infantile mortality than England, more unemployment, poverty, overcrowding and disease, and a disproportionately large list of casualties in every one of the 74 wars (or thereby) wherein Scotland has been involved since the Union with England in 1707, which established *Great Britain*'.*

*** *Scotland's Scrap of Paper*, Penicuik: Scots Secretarian, n.d., p.28.**

Table 2 'Something rotten...'

Land, Population & Income		
	Scotland	Denmark
Square miles	30,418	16,562
Density/sq mile	174	339
GDP (nominal) per capita	$45,904	$52,822

double the density of people and a higher standard of living (Table 2). How can the difference be explained?

- In the 19th century, as Scottish families were cleared from their clan land by their chiefs,
- in Denmark the monarchy ordered the restoration of land to peasants.

Shakespeare had asserted that there was 'something rotten in the state of Denmark'. By the onset of the Industrial Revolution, any rottenness in Denmark was vanquished. Today, Denmark is classed by the UN as the happiest nation on earth. One indicator: she has the best housing stock in Europe.[1] In contrast, houses being built in Scotland are 'rabbit hutches' according to Alex Johnstone MSP.[2]

1 For a summary of Denmark's modernisation, see https://www.youtube.com/watch?v=J5_I6noG0ps

2 Magnus Gardham (2015), 'MSP: "Rabbit hutch" new build homes are making people ill', ***The Herald***, November 11.

Death by Acts of Parliament

The mortal injustice in Westminster's manipulation of taxation is dramatised by the inequality in life expectancy. Table 3 highlights the consequences of the stresses and strains endured by the dispossessed. Life spans are truncated. Male babies born today in Glasgow, on average, will live 13½ fewer years than babies born in the London borough of Kensington and Chelsea.

Prime Minister David Cameron, speaking at his Conservative Party conference in 2015, admitted that the UK is the most class-ridden society:

> 'Britain has the lowest social mobility in the developed world. Here, the salary you earn is more linked to what your father got paid than in any other major country.'

Cameron's policies will deepen the discrimination that divides Scotland from England. But it is important to note that the kill zones within the UK are not confined to Scotland. This emerges as we seek answers to three brutal questions.

There are 60,000 'excess deaths' every year attributable to the way Westminster biases the distribution of income through its taxes

1. Are the people of Scotland congenitally inferior to the English?
2. Was the unequal treatment of the two nations inevitable?
3. Can Scotland unilaterally restore the terms of the Treaty of Union?

Table 3 **Kill Zones**

Life expectancy at birth (2010)		
	Males	Females
Glasgow	71.6	78.0
Kensington & Chelsea	85.1	89.8
Deficit (years)	13.5	11.8

Funding Civilisation

The pauperisation of the populations of Scotland and England created two classes of people. Here's how.

Rent, as a nation's net income, funds culture. The evolution of all facets of a civilisation – its spiritual and aesthetic attributes (culture in its widest meaning), the material progress made possible by infrastructure, investment to advance the knowledge base – all are ultimately made possible by the production and distribution of rent. Control of rent gives control over culture. If that revenue is devoted to collective wellbeing, the outcomes are benign. But when rent is privatised, it nurtures a narcissistic culture that degrades the excluded.

Marginalised people are forced to scrape a bare subsistence, enduring lives of psychological stress, biological insecurity and social infirmity. Thus are lives foreshortened for those denied equal access to the rents which they create.

So now we ask whether premature deaths are peculiar to the people of Scotland. Are they in some way inferior to the English, biologically or culturally? The question, of course, is absurd. That there was nothing inferior about the Scots was attested during the Scottish Enlightenment, when people demonstrated their singular powers of intellectual creativity: the roll call includes Francis Hutcheson, David Hume, Dugald Steward, Thomas Reid, Robert Burns, Adam Ferguson, John Playfair, Joseph Black and James Hutton. Their learning spread around the world. But they lived under the constraints imposed by patrons, the landlords who were ever vigilant to protect the primacy of their rent-seeking culture.

It was different for the peasants. They did not have patrons. They were forced into the diaspora, or crowded into Glasgow tenements where disease struck them down in their early years.

We see the same story unfold in England. In the 19th century, people in the north-east led the way in innovating engineering skills that combined the power of nature with the power of technology to create the Industrial Revolution. And yet, today, the north-east hosts some of the worst kill zones. Life expectancy in the deprived areas of Stockton-on-Tees, for example, is over 17 years lower for men and over 11 years lower for women than in the least deprived areas.[3] A similar gap in life expectancy exists in London, between babies born in Tottenham Green and those born in Chelsea.

UK-wide, there are about 60,000 'excess deaths' every year – attributable to the way Westminster biases the distribution of income through its taxes.

3 *Stockton-on-Tees*, Public Health England, June 2, 2015.

The Traumatised Society

This tragic history was not inevitable. It has a singular cause: the betrayal of the Treaty of Union. Before 1707, the Land Tax funded the public costs of the two kingdoms. This was the efficient source of revenue for governance. In 1776, Adam Smith affirmed the virtuous nature of rent-as-public-revenue (Box 4). He proposed improvements to the Land Tax in *The Wealth of Nations*. But the aristocracy controlled the public purse. Their strategy was to diminish the Land Tax. They substituted bizarre instruments like the Window Tax. This caused people to brick up their windows. The flow of fresh air in tenement buildings was stemmed, incubating the diseases that killed those who could not afford to build palatial country homes. And so, the killing sanctioned by Acts of Parliament proceeded apace.

Today, the agenda set by the feudal aristocracy is alive and kicking in Westminster. The Cameron government's major policy innovation for stimulating economic growth is tax-funded subsidies that encourage retired folk with access to pension pots and housing wealth to convert themselves into buy-to-let landlords.

What can be done?

With new powers devolved to Edinburgh, Holyrood can lead the way to restore the rights of the people of Scotland. Tax reform would close the gap in life expectancy between babies born in Drumchapel (in Glasgow) and babies born in Chelsea, in, London – an average difference of 12 years.

The choice for Holyrood is stark:

- retain the fiscal policies that nurture a killing cult – the legacy of the Landlords' Parliament; or
- zero-rate the Income Tax and replace the revenue with a modern Land Tax. The estimated outcomes are shown in Table 4.

Box 4

Adam Smith's 'peculiar tax'

'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 the state, no discouragement will thereby be given to any sort of industry. *The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before.* 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.'

(Smith 1776:Bk.V: 370; emphasis added).

For a recent restatement of this economics, see John Kay in the *Financial Times* (October 13, 2015), *A Nation of shopkeepers in need of new taxation ideas*, http://www.ft.com/cms/s/0/ef8c67fc-7180-11e5-9b9e-690fdae72044.html#axzz3p6gWCNAx

At the time of the referendum on independence, the Institute for Fiscal Studies estimated that, under the current tax regime, Holyrood's budget deficit would more than double by 2020. This means *the tools currently employed in Holyrood cannot launch Scotland on a path to economic independence.*

Extra Revenue

But what if Holyrood zero-rated the Income Tax and recovered the revenue from Scotland's rents? A *net gain of £11bn would be shared between the public and private sectors.*[4] *Every year.*

4 Roger Sandilands and Fred Harrison (2015), *From Black Holes to Pots of Gold*, Glasgow: Scottish Land Revenue Group. Available at www.slrg.scot

Table 4 **Looking at Scotland's projected finances under competing scenarios**

2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20
Net deficits under the current tax regime (2013–14 figures and IFS projections to 2020[1])						
– £3.8 billion	– £5.9 billion	– £7.6 billion	– £8.2 billion	– £8.5 billion	– £8.9 billion	– £9.7 billion
Net gains from zero-rating Scotland's Income Tax and introducing LVR						
+ £11.5 billion	+ £11.5 billion	+ £11.5 billion	+ £11.7 billion	+ £11.9 billion	+ £12.2 billion	+ £12.4 billion

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

This is the *extra revenue* produced by a more productive population, as measured in terms of wealth and welfare. Relieving people of the *deadweight losses* of the landlords' taxes would boost productivity. Treadmill Taxes deter people in a thousand and one ways from being as productive as they otherwise would be.

Terminating the Acts of Death

Under the Conservative Government's proposed Life Chances Act, poverty as a social phenomenon is abolished from the political landscape. Income is removed as an index of need. The government is substituting what it calls a National Living Wage, which it says will replace the loss of £4.6bn worth of tax-funded benefits for low-income families.

Opposition to the Life Chances Bill created an historically revealing crisis. When the House of Lords voted against George Osborne's Bill, the Chancellor of the Exchequer cited a law that was enacted in 1911. He warned:

> '[T]he question for the House of Lords is, is it going to respect the 1911 settlement that says the House of Lords must not second-guess the House of Commons on financial matters?'[5]

In 1911, landlords who dominated the Lords sought to sabotage the *People's Budget*. That budget began its life in Scotland with a popular demand: to re-democratise the public's finances. People wanted the public's finances shifted back onto the kingdom's rents. The first formal expression of this mandate was a resolution adopted by Glasgow Council in 1905. The Liberal Party took up the cause, which was eloquently championed by people like Winston S. Churchill.

The best interests of the people – as expressed in the treaty of 1707 – were betrayed by those who had grabbed the nation's land

But restoring the 1707 financial settlement was anathema to the lords of the land. Their resistance led to the 1911 Parliament Act. But the landlords would not give up. *They devised extra-parliamentary tactics to defy the norms of justice.* Once again the best interests of the people – as expressed in the treaty of 1707 – were betrayed by those who had grabbed the nation's land.

The shame bestowed on Parliament by the successful opposition to the 1910 budget was not an aberration. It happened again in 1931. Labour Chancellor of the Exchequer Philip Snowden enacted a law to re-start the direct collection of rent for the public purse. The Conservative Party obstructed implementation. The law was deleted from the statute book in 1935.

5 Steven Swinford (2015), "Peers to 'have wings clipped' if they defeat Osborne's tax credit cuts", Daily Telegraph, October 23.

Today, the Life Chances Bill is yet another betrayal of the spirit of The People's Budget. All of Osborne's fiscal initiatives are designed to bolster the 'housing' market (for which, read 'land market'). Policies like those which encourage investment in real estate help to *boost the rise in house prices*, pushing affordability beyond the reach of ever-more young people and low-income families.

Amending the 1707 Treaty

Treaties, like constitutions, can be amended. Nations need to 'move with the times', adjusting laws in line with changed circumstances. But such changes have to be improvements on the original agreement, and they have to be made with the consent of the people involved. These criteria were not applied by the Landlords' Parliament, which

- did not seek the consent of the people when the Land Tax was replaced by Treadmill Taxes. Those who did not own property were not allowed to vote. And
- the fiscal changes to the 1707 treaty were self-serving. They enriched landowners at the expense of the nation.

To this day, Westminster does not require Members to declare the ownership of their residences. Their properties might rise in value as a result of the decisions they take. So their judgements might be coloured by their beneficial interest in land. Non-disclosure of that interest is contrary to the norms of justice; but such a consideration does not apply in the Landlords' Parliament.

For 300 years, Westminster played its cards well in subverting the interests of Scotland. But the decision to devolve fiscal power to Holyrood was a fatal mistake.

Holyrood's Trump Card

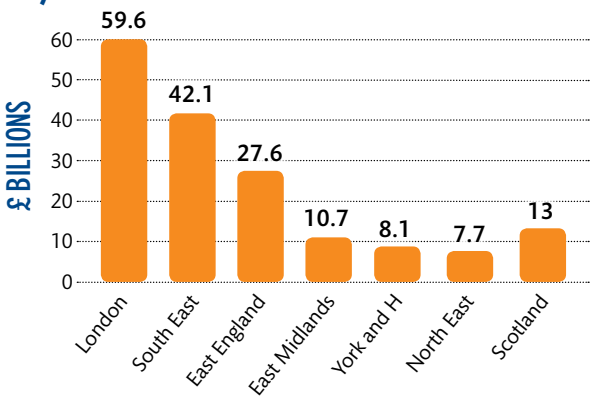
The people of Scotland are told that they are generously treated by Westminster. Under the Barnett Formula, the per capita grant to Scotland is about £1,500 more than for England. The difference was £1,700 in the referendum year, which left English MPs frothing at the mouth with anger at how England was 'generous' to the Scots.[6] But this way of representing the distribution of funds to regional governments is a deception. It *ignores the discriminatory impact of public investment funded by taxpayers.*

6 Jack Doyle and Alan Roden (2015), 'McBribe! Cash spent on Scots rose by 8% in referendum year'. *Daily Mail*, November 13.

Those investments – supposedly for the *common good* – create streams of rent that *leak into private pockets via the land market*. The overwhelming bias favours land owners in London and the South-east. The numbers for residential land alone are revealed in Graph 1. This illustrates the imputed annual rental value of houses. *Every year, Londoners pocket £59 billion worth of tax-funded benefits, compared to Scotland's £13 billion.* That value is by courtesy of the Landlords' Parliament.

Graph 1

Annual residential rents @ 5% of land value (£ bn)



If the Land Tax formula of 1707 had been preserved, *the revenue flowing north from London would be immensely more than what Scotland receives under the Barnett Formula.*

But what would now encourage London-centric politicians to shift towards a justice-based distribution of the UK's net income? The first step is for Scotland to lead by example.

New route

A *new* route to economic justice has been opened up. Under the devolved powers, Holyrood could

- **redesign** the property taxes on residential and commercial real estate. Immediate impacts: a boost to construction and compact cities, and
- **reduce** Income Tax rates: this would increase employment and capital formation. Productivity would be elevated, and – crucially – the impact of future land-led boom/busts would be mitigated.

An economic crisis would be created for many businesses elsewhere in the UK. England, Wales and Northern Ireland would need to follow suit with similar reforms. That would create a crisis in Westminster. The Landlords' Parliament would be forced to choose between the ideology of an obsolete fiscal doctrine, and the common good of everyone in the UK.

Failure not an option

But what if Holyrood failed to use its devolved powers? This would create a political crisis in Scotland. The cause of independence would be seen as of little value to people in general.

Greece and Ireland are sovereign nations: that did not protect them from the worst effects of the 2008 financial crisis. Sovereignty is tokenism if the country morphs into the *client state* of international financial institutions.

Since 1707, the people of Scotland blazed the way in identifying policies good for everyone in the British Isles. They can now side-step the Landlords' Parliament. This time, they have the power to get the job done.

Holyrood must use its newly devolved tax varying powers to zero-rate income tax and collect socially-created rents

Did you know?

- The Treaty of Union was grounded in the Land Tax which would have spread UK prosperity to every corner of the kingdom
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