

structure of the economy, security of property rights, viability of contracts and freedom of exchange in capital and financial markets. Last year Hong Kong topped the index, with a score (out of 10) of 9.6, followed by Singapore (9.4), New Zealand (9.2), US (9.1) and the UK (9.0).

Saatchi and Warburton interpret that evidence as supporting the theory that "individual prosperity is considerably greater in liberalised economies". But the elements of that index do not offer policymakers concrete guidance. Why, for example, is Hong Kong the consistent winner of such comparative studies of freedom? Could it be the distinctive source of public revenue (a heavy reliance on rental income, which makes possible very low rates of taxation)? Without answers to such specific questions, it will be difficult to build a consensus around the conclusion favoured by Saatchi and Warburton: that governments should reduce their tax-take.

Table 1: Gain in Output and Per Capita Income from switch to the Rent Revenue Policy (1993)

	NDP \$ bn	NDP per capita \$
USA	1,602	6,902
Canada	275	9,142
France	879	15,166
Germany	1,018	12,406
Italy	815	14,128
Japan	1,535	12,284
UK	716	12,133
Total	6,840	

Source: Fred Harrison (ed.) *The Losses of Nations*, London: Othila Press, 1998, p.vi.

But that throws the question back to the estimation of the deadweight losses of specific taxes, which then need to be added up. Saatchi and Warburton are pessimistic about being able to execute such an exercise. That pessimism is unwarranted. Economists at Virginia Polytechnic Institute and State University have started to refine a model that yields estimates of the negative impact of conventional taxes (table 1). The yardstick against which to assess the scale of losses? They compute the productive capacity of the economy if government employed the benign policy for raising revenue (charges on the flow of land and resource rents). According to their calculations, the US is now losing nearly \$2 trillion a year for no better reason than that Congress insists on employing taxes that favour landowners and penalise the working population!

IN MODERN history, Pitt played a leading roll in the shift of taxation in favour of the owners of land. In Britain, the Liberal government of 1905 tried to reverse the trend, but landlords in the House of Lords fought tooth and nail to prevent the reintroduction of a dedicated land tax. Their victory set the scene for the 20th century trend, which was to untax wealth and penalise people's earned incomes (table 2, page 6).

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BOX 1

The Land Tax & Pitt the Younger

WILLIAM PITT (1759-1806) was appointed prime minister of Britain in 1783, at the ripe old age of 24. From the outset, he was determined to consolidate the political dynasty established by his father, Pitt the Elder, who taught his son the facts of life about power. The basis of that power was land.

From his estate in Somerset (rental income: between £3,000 and £4,000) a year, Pitt the Elder allowed his imagination to roam beyond the landscape and into the ethereal sphere of history.

The estate "provided the kind of base that counted in the country, the landed position which sustained a political family; and it had fallen to him in a manner peculiarly appropriate to his conception of his career. It was perhaps no coincidence that he claimed a peerage at the first opportunity, as Earl of Chatham and Viscount Burton Pynsent," wrote biographer John Ehrman.

His son took high office for granted. Pitt the Younger's attitudes were shaped by his father. "His pleasures remained largely those of his father: he rode, he farmed when time allowed, above all he followed Chatham's favourite pastime of landscape gardening," notes Ehrman in the first of the definitive 3-volume biography of Pitt the Younger.

So when young Pitt was faced with the financial challenge of financing the war with Napoleon, he did not increase the Land Tax. In a new biography by Eric Evans, the Professor of Social History at Lancaster University, the social context of those who exercised power in London was pithily described in these terms:

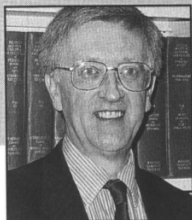
"Pitt's solution was to levy a new tax on income and to phase out the land tax, long hated by suspicious landowners who argued that 'the monied interest' has been unwarrantably advantaged by the tax system".

In 1799, Parliament introduced a 10% tax on all income over £200 a year, with lower rates for incomes above £60.

English fiscal history is full of precedents for Pitt's action. Walpole, for example, prepared to reimpose the Salt Tax in 1732 as a substitute for the Land Tax. The Salt Tax had been repealed two years earlier as the most suitable way of relieving the poor. Walpole claimed that reinstating the Salt Tax was fair between rich and poor, contending that everyone should pay tax since everyone shared the benefit of public services. A pamphlet supporting Walpole argued that if the labourer "has no estate, yet he owes the protection of his life and liberty to the Government and should consequently contribute his mite to its support". This blatantly ignored the feudal theory that rent paid by labourers to landlords should be used to defray the public services of the kingdom - i.e., labourers DID pay for the benefits of protection of life and liberty. The business of the politicians, however, was to convert that social rent into private income.

SOURCES:

John Ehrman, *The Younger Pitt*, London: Constable, 1969.
Eric J. Evans, *William Pitt the Younger*, London: Routledge, 1999.
Kenneth Jupp, *Stealing our Land*, London: Othila, 1997.
William Kennedy, *English Taxation 1640-1799*, London: Bell, 1913.



■ Eric Evans

That people resent this fiscal history is evidenced by evasion of taxation, of work and of investment, which distorts the economy. Thus, the systemic flaw can be corrected only by shifting the structure of public finance back onto resource rents. That would put history in reverse. Is that possible? Given the massive losses inflicted by conventional policies, the pertinent question is: Do we have a choice?

The damage is not limited to material losses. Cultural impoverishment cannot be quantified by economists' models. In the 1950s, for example, Americans discovered that the tax system nourished "widespread misconduct, including bribery, embezzlement, influence peddling, and rampant

conflict of interest," as Roth put it. Taxation's corrosive impact on morals is illustrated by the way the public in general condones tax-dodging, which is akin to a popular sport. But isn't it wrong to avoid paying for public services? The answer depends on assumptions about citizenship and property rights, and on the level of analysis that is applied. A good case can be mounted for arguing that there is no such thing as tax evasion - if the test is the one applied by Roth: people should pay for enjoying "the blessings of America".

People are not fools. They know that when they buy or rent residential or commercial property they pay for "the blessings of America". For the rent (or its capitalised form, the selling price) is a precise measure of the value of the benefits they would derive from using natural and/or public services in the locality. People rent or buy their way into the services they want from