

Rental Realities

THE VIRTUES of basing taxes on resource rents are becoming central to public policy.

One reason: globalisation and the internet have struck at the heart of the power of the state. As theorists of civil disobedience have noted in the past, the way to attack the nation-state is to go on a tax strike. Without revenue, the state cannot function.

Multi-national corporations use the tax strike as a matter of routine. In doing so they threaten the ability of governments to fulfil their obligations.

- Consumers dodge sales taxes by ordering goods over the internet.
- High-tech workers dodge the income tax by taking their remuneration as stock options.
- Corporations use computers to conceal their profits from tax inspectors.

Governments are in a state of panic. Through their Paris-based think-tank, the Organisation for Economic Co-operation and Development (OECD), they have struck out with talk of coercing governments into "harmonising" tax systems – the idea being to prevent competition from tax havens.

THE REMEDY is to raise revenue from sources that cannot be transported across borders.

A political consensus does seem to be gelling, in Britain at least. Across the political spectrum we see commentators acknowledging the need to focus on rental income as the tax base of the future.

On the left, the *New Statesman* (March 13) asked: "Should we have better arrangements for taxing land and property, since these have the virtue, unlike the goods and services bought and sold over the Internet, of being fixed and immovable?"

In the centre, the Liberal Party's Trade and Industry spokesman, Vincent Cable MP, proposes that the rental value of airport landing slots should be auctioned. "Governments have been slow to grasp that TV licences can and should benefit taxpayers rather than media moguls" (*The Independent*, April 25)

On the right, the *Financial Times* (April 25) registers its pleasure at the way in which the auction for mobile telephone licences will enrich the Treasury by more than £22 billion. It editorialised: "The auction has proved a huge technical success in extracting for the nation the full rental value of scarce spectrum. If it had been as inefficient as the last auction of television licences, much of the rental value would have accrued to shareholders. Indeed, the late Lord Thompson of Fleet famously observed that the first TV licences, issued free, were 'a licence to print money'".

THE NEW awareness is being driven by technological innovation rather than philosophical enlightenment.

That rent is the "peculiarly suitable" source of public

finance has been acknowledged ever since Adam Smith's famous endorsement in 1776.

The vested political interests did not favour efficiency in the administration of the state, however, and for two centuries people have laboured under tax regimes that were abusive and exploitative.

That this should have occurred in the 19th century is not surprising, for governments were controlled by the Old World aristocracy and the New World patri- cians.

But the 20th century was the Age of Democracy. Alas, wisdom was not diffused with the vote. And even today, governmental think-tanks like the OECD continue to search for revenue-raising techniques that reflect the obsolete orthodoxy.

But we notice, here and there, tentative acknowledgement that land, unlike capital and skilled workers, is not mobile. It is, therefore, the obvious source of revenue for a globalised economy. In London, for example, the new Mayor, Ken Livingstone, plans to introduce congestion charges. Road rents are now near the top of the political agenda in other major world cities.

But it is much more than merely a functionally efficient source of cash to pay for public services. The ethical content of this fiscal philosophy is even more important. In what is becoming a borderless world, we need global agreement on a new ethic.

- Property rights need to be redefined, to identify the divide between public and private rights.
- Part of rental income originates on a trans-national basis. We need a mechanism for sharing this value among countries.
- Negative rents caused by environmental damage ought to be the subject of international agreements. Compensation is payable to communities whose natural environment is damaged, as with the fallout from nuclear waste.

THE advocates of rent-as-public-revenue have approached this policy on a cautious, piecemeal basis.

This was understandable, in the past, when conventional fiscal wisdom reigned supreme. But the exponents of the arbitrary approach to taxation – those who want to continue to grab the incomes from people's work and savings – are now on the run.

They tried to eliminate poverty by engineering a massive redistribution of income – and failed.

They tried to foster full employment by raising revenue by stealth – and failed.

It is now time for everyone to lay the cards on the table. We need a fundamental review of the philosophy of public finance, and a redefinition of the nature of public property.

This would open up the possibility of a principled and coherent reform of taxation.