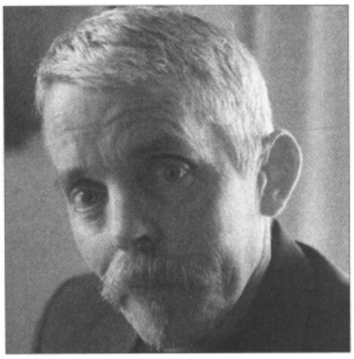
Income and profits in

Estimating Site Rent Revenue and the Citizens Dividend

TONY O'BRIEN offers a speculative peek into the possible impact on prices and incomes of a Site and Resource Rent Revenue system in Australia. For those wishing to relate the Australian estimates to the UK and the US, the comparisons in the table may be useful. The word 'Rent' is frequently used with a capital R as shorthand for 'site and resource rent' or 'economic rent'.



THERE IS a maxim in classical political economy, with which many modern economists agree, that "all taxation is at the expense of [economic] rent", and that gains won from *any* reduction in taxation – or the imposition of wage restraints for that matter – will automatically flow to Rent. The truth of this is observable today in the cruel irony whereby tax transfers, in the form of welfare benefits intended to help the poor, actually do the reverse by pushing up Rent and, by extension, the cost of goods and services. Henry George wrote:

> any temporary improvement [in wages as a result of reductions in taxation] would ... be ultimately swallowed up by increased land values ... reduction in the expenses of government can have no direct effect in extirpating poverty and increasing wages, so long as land is monopolised.[1]

Recent studies by the Land Values Research Group in Victoria put Australia's potential Rent from land sites at $90 billion and from resources at $60 billion; a total of $150 billion. Current total revenue is $190 billion, (of which barely 5% is Rent). Therefore, eliminating all taxes on production and trade could see the value of Rent increase to $330 billion, (sites $210 billion and other resources $120 billion). Since the "sector" ratio by aggregate value of sites in Australia is: residential 6; commercial 2; rural 1, the Rent revenues from each sector would then be: residential $140 billion, commercial $47 billion, rural $23 billion. On that reckoning, current residential Site Rents would average $20,000.

Table 1 Impact of the Site Rent Revenue system on household incomes

Income and deductions ($)	Current system	Site Rent-CD
Gross income	45,000	70,000
Taxes & compliance costs/site rent	24,300	20,000
Average disposable income	20,700	50,000

With taxes abolished, wages would obviously increase immediately by the amount of the PAYE and other taxes and compliance costs previously deducted. Tax and compliance costs in Australia currently take around 54% of average household incomes of $45,000.[2] We could therefore expect, after deducting estimated site rents, an average improvement in annual household disposable incomes of around $4,300. However the citizens' dividend will significantly boost this outcome.

Given current revenue requirement of $190 billion less dead weight losses of say conservatively 20%, then revenue required under a Site Rent system would be around $150 billion. With projected revenue of $330 billion, (see above), this could leave a surplus of approximately $180 billion. This surplus, distributed as a citizens' dividend or CD, would deliver $25,000 per household,[3] bringing average household disposable income to $50,000, or $960 per week, and median weekly incomes, currently about 75% of the average, would rise to $750 per week. Compare these outcomes with the average household disposable income (1996-97) of approximately $410 per week before housing costs.[4]

If the enterprise-stifling burden of taxes on production and the onerous compliance load were no longer borne by individuals and business, the effect would be either a reduction in retail prices or increased wages. Given that market competition would preclude the saving migrating into higher prices for goods and services; the end result, as shown in Table 1, would be an effective *doubling* of average disposable income.

OF THE million or so business in Australia in 1997, 80% of them employed a total of around seven million people – about 80% of the workforce.[5] These businesses averaged a total before-tax trading profit of $357,699.[6] Deducting an estimated $112,000 each in taxes,[7] and $30,000 each in estimated compliance costs[8] then leaves $216,000. With estimated aggregate Site Rent (excluding resources) for rural and commercial sites being $70 billion (see above), then, business site rents would average $87,000, resulting in an average immediate gain in trading profit per business of approximately $55,000.

But what of the increased disposable incomes of consumers; what effect might this have on business incomes?

If the average household spent say 70% of the extra disposable income, ie around $400 per week on goods and services, this would pump an annual $145 billion into the economy, resulting in an addition to the annual trading profit of each business, as shown in the table below, of around $45,000.[9]

Higher wages to directors and entrepreneurs and higher returns to shareholders would mirror the general doubling in the real

Table 2 Impact of the Site Rent Revenue system on business incomes

Income and deductions ($)	Current system	Site Rent/CD
Gross income	357,700	357,700
Taxes & compliance costs/site rent	142,000	87,000
Additional trading profit in Site Rent CD system		45,400
Trading profit after tax/site rent	215,700	316,200

a Site Rent System

Table 3 Contributions of business and households to Site Rent Revenue

Income unit	Number of units	Av'ge increase in profit or Income/CD ($)	Average Site Rent ($)	Site Rent % of income	Site Rent Revenue ($m)
Households	7,000,000	25,000	20,000	28	140,000
Businesses	802,350	100,000	87,000	24	70,000
Total					210,000

value of disposable incomes referred to above. The benefits of the considerable savings in compliance costs, as indicated above, would add even more to profit margins.

The projected increase in business profitability is a static projection and although predicated on a conservative (70% of the potential) increase in consumption, takes no account of the inevitable surge in productivity and export potential.

Projected gains of over $500 per week per household in disposable income and $2,000 a week in after-tax trading profit for businesses may seem extraordinarily high, but the fact is that we are *earning* these sums already! The problem is that we are not *receiving* them. That wealth, the legitimate source of government revenue, is being siphoned off by land and resource monopoly.

Any change to our tax systems which fails to recognise the mechanism inherent in land monopoly whereby any increase in disposable income simply drifts into higher land price, will fail. Reclaiming Rent for revenue is the only way we will release labour from the iron grip of land and resource monopoly and allow all citizens to contribute to, participate in and enjoy the full benefits of a Site Rent System.

In a site rent system, with all constraints on employment and productivity cast off, wages and profits would naturally start to rise immediately, so that the percentage of Rent to household income and Rent to profit margin would diminish even further. Whether the gains went to Wages or to Rent is largely irrelevant, since surplus revenue would in any case find its way back to household incomes as a Citizens' Dividend – an equal share for all in the Common Wealth.

REFERENCES

1 Henry George, *Progress and Poverty*, Book VI, Ch. 1, p.302, Centenary edition.

2 *Income Distribution Report* Issue 8 April 1998, table 3, NATSEM, University of Canberra, and unpublished LVRG research.

3 *Year Book Australia 2000, Population, Households and Families*, suggests that as at June 1998 there were an estimated 7.1 million households in Australia. I have used 7 million as a round figure in calculations.

4 *Income Distribution Report*, *Op. cit.*, table 3. Also *Who Bears The Tax Burden*, Natsem; *Housing in Australia, 1975-97*, Discussion paper 28. Natsem; *Australian Social Trends 1999*, Cat. 4102.0 ABS, *Unpublished data*, ABS 1993-94 Household Expenditure Survey

5 *Small Business in Australia*, 1997 ABS, cat 1321.0

6 *Summaries of Industry Performance 1992-93 to 1997-98*, December 1999, ABS cat No. 8140.0.40.002

7 *AusStats* Time Series Spreadsheets table 5206.028 Australian Demographic Statistics, ABS.

8 Estimated to be at least 15% of payrolls or $200,000 per business. (*See Summaries of industry Performance* etc.; *Op. cit.*)

9 $400 x 52 weeks x 7 million households ÷ 0.8 million businesses = $182,000 gross sales. The result multiplied by 25% = $45,400 trading profit.

Waltzing Back to History

DESPITE THE wealth of evidence, scholars have still not agreed on the reasons why civilisations have failed to find the formula for s sustainable existence, *writes Paolo Rossi.*

BBC economics editor Peter Jay – formerly Her Majesty's ambassador in Washington – traces the economic history of mankind and structures the evidence on the basis of what he calls "the waltz motive". It's been a story of 1, 2, 3 ... 1, 2, 3 ...

His analysis,* which is based on a lavish TV series, is frustrating for its failure to isolate the common causes of exploitation – just the things that may offer the clues to the eclipse of civilisations.

Step 1 is the capacity to engineer an economic advance, which makes it possible to support many more people and raise living standards.

Step 2 is the threat from predators – "external raiders or internal idlers" – which then threatens the original advance.

Step 3 is the attempt at a solution to the threats, to protect the original advance.

Jay's analysis would have been more illuminating if he had concentrated on the policy failures in step 3. He counts among the measures that preserve the gains "the political matrix of citizenship, State power, rents and taxes". A case might be made that this strategy was designed to fail; that the rent-and-tax policies of governments created to sustain social systems were actually sowing the seeds of catastrophe.

Jay identifies Adam Smith's explanation of the wealth of nations as containing a version of the waltz motif. What he does not note is that Smith, in *The Wealth of Nations*, offered a budgetary and income distribution strategy that was of a kind that might have provided the solution to long term non-catastrophic social evolution. He proposed that the public sector should be financed out of rents. If adopted, this policy would wipe out the "internal idlers" and the need for taxes in one stroke. But that version of history has still to be written.

*Peter Jay, *Road to Riches or The Wealth of Man*, London: Weidenfeld & Nicolson, £20.