

## “No Tax” plan: the Big Idea for victory

RONALD BANKS, the author of this Open Letter, is chairman of the London-based Land Policy Council. In 1989 he edited *Costing the Earth*, the book that provides the data on land values from which budgetary reform can begin along the lines proposed here to the leader of Britain's Labour Party.

Dear Tony Blair,

**S**o! You think you can win the next General Election. But what makes you think you can deal with the economic problems which beset the nation at this moment, and which will not go away?

Massive social spending that necessitate higher taxes which hurt production, spending cuts which harm the worst off in society, or a combination of both, all of which produce a vicious circle not capable of resolution?

Economists have given you a limited number of tools in the toolbag. There is no perception within the economic discipline of how to solve the western world's problems. It needs a giant shift of imagination for new avenues to be opened up to expand the economic discipline.

Take the 'feel good' factor. This is predicated upon some kind of inflation — not too much (or else there is too much public concern) — but enough to produce constantly rising house prices. This also produces what is known as the 'wealth effect', a phenomenon which in 1988 created a bank and building society second loan explosion of £24bn over a 12-month period. This far outdistanced the £5.7bn give-away which Chancellor Lawson created in the budget that spring. Supply problems followed which meant a massive increase in spending on foreign goods, leading to deficits in foreign trade. Home grown supply was not able to cope.

The 'feel good' factor is always a precursor of the 'feel bad' factor, which entails the 'cure' to restore the 'feel

good' factor — high interest rates, higher taxes and expenditure cuts which hurt the most vulnerable in society.

If governments are really serious about keeping inflation under control, which the Tories have done 'successfully' during the recession years, then what we are experiencing today is the likely on-going 'feel good' factor with only a little improvement. This is it! The new 'feel good' factor, unless inflation is allowed to rise again.

Expectations need to be changed. Unrealistic expectations, whether in personal finances, health and education, have to be tackled by all political parties — *unless* new economic policies can be introduced which cut through these limitations. Certainly, feelings of relative security in the job market are not going to be there. They are never there for the employees in the Pacific Basin, the most dynamic economies in the world at the present time. Jobs for life may be the old fashioned objective of the trades union movement, but modern economies will not be predicated on such a notion.

**T**he new economic paradigm which I am urging you to consider encompasses a revitalised public revenue programme — collecting revenue while at the same time cutting taxes. A contradiction? Not if we return to classical economics or, more properly, geoclassical economics, where land and its rent assume their proper place in the debate about public finance.

The proposition is that you call for a 'No Tax' strategy! There are some taxes which need to be kept - not for revenue

purposes (although the revenue collected will be substantial) but mainly for reasons of health and energy conservation. Tobacco and alcohol taxes would stay, with a tax of some sort to promote energy conservation (including the present tax on motor fuel). Although these taxes are for specific, non-financial reason, the revenue will be considerable.

The economic basis for the 'no tax' strategy is the concept of *public* and *private* value. Failure to distinguish between these two concepts has kept economics in a parlous situation for 100 years or more. The merging of the two 'values' has seriously hindered a more just system of public revenue collection. Value is currently taxed from whatever source it comes. This means that private endeavour is taxed and therefore discouraged, while windfall profits from the value of public works are taxed only on the same basis as value from private endeavour, if at all.

This latter point needs elaboration. The fact that taxes on private endeavour discourage production, employment and saving is axiomatic. However, there is a value, a public value, which lends itself as a suitable and fair source to finance public expenditure. The Labour Party has had many attempts to implement such a policy. They tried in the early twenties and again in 1931. Herbert Morrison also tried in 1939, specifically for London. The policy attempt was a good one, and comes close to what I am suggesting.

After the second World War, Labour lost its way in this area and introduced several policies which had the opposite effect of what was intended.

Our proposals deal with a number of aspirations which the Labour Party has had for most of its existence. These include: a just land policy for all citizens; sweeping away unjustified profits from speculative deals in land; a banking system which funds and finances *productive* investment and not speculative land deals; a tax policy which leaves earned income free of taxation and raises public revenue from income derived from public investment. All of this leads to a positive impact on the economy, especially on jobs and productivity and the ability of the public purse to provide for the needs of the most vulnerable in society.

Conservatives call themselves the 'tax cutting' party, with very little evidence to show that to be true. The Labour Party can call itself the 'no tax' party — a powerful counter to the Tory case. Of course, the case needs to be carefully presented and obvious Tory objections catered for. This we can do with you and your team.

In the 1960s and 1970s, when the Liberals were hawking their local tax strategy, which they called Site Value Rating (a poor substitute for the grand strategy we are urging), the Conservative counter-attack included the claim that the "Liberals were taking the ground from under peoples' feet". This was a recognition that under our proposals the price of land would be reduced, possibly close to zero.

In all taxation changes, as is obvious, there are winners and losers. And, of course, there will be some heavy criticism from the big losers, who will include not only big landlords but the institutions which finance them. None of these institutions can expect to retain the privileges which they enjoy at the expense of the rest of the community, but all of them would benefit from the cuts in taxation.

We have mentioned these negative aspects from the very start because they have to be taken seriously. However, they do not constitute a reason for not introducing a policy which will redress injustice and revitalise the economy to everyone's benefit.

On the immediate credit side, these proposals will be to the immediate benefit of a number of 'constituencies', sufficiently numerous to win any election.

This is the plan. After a valuation of all land in the United Kingdom, its annual 'rent' will be published to allow for appeals and any inconsistencies to be redressed. This annual rent will represent the amount of public revenue available to the public purse for the first year of operation. This will also be the figure (estimated to be at least 20% of the GNP) for cutting taxes. The Government must not cheat! The amount of land rent collected must be balanced by an equivalent tax cut.

The type of tax cut will vary with the Government's priorities in economic policy. For higher employment, the tax cut will be targeted at employer's national insurance contributions, maybe corporation tax, and any existing tax which is perceived to discourage employment.

For increased investment and research, the target will be corporation tax. (These tax cuts will, of course, have a positive impact on other parts of the economy.) To increase spending in the shops, the targets will be VAT and cuts in income taxes.

What should be deduced from the above is the kind of 'constituency' which would benefit immediately without any need to take account of balances between tax cuts and land rent due to be paid.

The poor, the homeless and the unemployed, all classes with very little or no interest in landed property, would gain from the tax cuts. No negative effects! Most property owners would find that the payment of land rent would be less than the benefits they receive from the tax cuts. This would be the case for most of middle England, a primary Labour Party target for winning the General Election.

Those who make a profit solely out of land, renting out residential or commercial property, would probably lose, although this is not certain, since the tax cuts would also apply to these classes. The mechanism for evaluating this balance between land rent due and tax cuts is to capitalise the tax cuts and compare this figure with the reduction

in the value of the taxpayer's property. Most home owners will be better off because so much more public value will be collected to compensate. Home owners will also recognise that housing for their children and grandchildren will be easier under this scheme.

The valuation process itself is a simple matter. Hector Wilks handled two valuations in Whitstable, Kent, in 1963 and 1973. The whole country could be covered within a year, with a further six months for appeals.

One of the really exciting features of this policy is the basis for our optimism for the future: taxation reduces land rent to a considerable extent. The higher the taxation, the lower the land rent.

Just consider the effect on the economy of the first year's tax cuts and the collection of land rent for public revenue. The impetus to the economy would be immense: from increased employment, increased productivity, higher spending and greater confidence and security. From all these factors, land rents would rise again! A further valuation would give a new figure for land rent collection and, therefore, a new figure for more tax cuts.

The ultimate result would be effectively to abolish taxation, with the exception of those health and energy taxes mentioned above. The title of the above policy: 'Land Rent as Public Revenue'.

It will take a huge imaginative shift (and a lot of courage) for a political party to espouse this proposition. But there is a big prize there for the taking. The British economy, along with others in the western world, is close to economic collapse. The huge demands for funding the ever-growing social and health needs in the future is becoming intolerable. Your own policy ideas are just tinkering at the edges - a more efficient and humane version of Conservative Party policies.

You want a 'Big Idea' to ensure victory at the next General Election — here it is!

Yours sincerely,  
Ronald Banks.