

● *Is it possible to wipe out all taxation on wages and profits, and fund public expenditure out of economic rent — the surplus income after all expenses of production have been met out of gross revenue?*

● *Most economists argue, without doing their sums, that the rental income that can be measured today is not sufficient to meet the financial needs of the Welfare State. There are two replies to this:*

(1) *Expenditure could be lower. Much of it*

is a transfer of payments from one section of the community to another — and sometimes even back to the payer!

(2) *Government expenditure should be limited to whatever income a tax on land values brought in.*

● *In his appraisal VIC BLUNDELL reviews another perspective. This maintains that existing tax revenue is derived from economic rent anyway — so there need not be a problem about meeting current public expenditure.*



● Vic Blundell

THE IDEAL tax system envisaged by Henry George and by the French physiocrats a hundred years before him was the replacement of all other taxes by a single tax on land values.

This may well be regarded today as being politically premature. Although in many countries there has been a shift of *some* taxation from incomes and property to the value of land, no country in the world has reached the ideal state of complete substitution of the one for the other.

Politics may be the art of the possible, but political changes do not spring only from public demand or from pressure groups — or, for that matter, from the pre-arranged intention of the party in power. The climate of the times, or some specific event or crisis, may drive a government into a course of action which it had not originally intended, or had even formerly resisted.

The repeal of the Corn Laws is an example. The activities of Cobden and Bright and the Anti-Corn Law League were not alone responsible for achieving this reform, which was in fact precipitated by the famine in Ireland, when the potato crop failed utterly in almost every county in Ireland.

But supposing that, for whatever reason, the Single Tax were embarked upon as a practical proposition, would a tax upon land values raise enough revenue to meet the government's requirements without recourse to other forms of taxation?

HENRY GEORGE argued that current market values represent *only* that part of rent left in the hands of the land owners: the true or natural rent of land is this figure *plus all other taxation*. In short, taxation diminishes rent or, put another way, all taxation is ultimately at the expense of rent.

In *Progress and Poverty*¹ he wrote: "Social distress is still largely attributed to the immense burdens which existing govern-

ments impose — the great debts, the military and naval establishments, the extravagance which is characteristic as well of republican as of monarchical rulers, and especially characteristic of the administration of great cities.

"Now, there seems to be an evident connection between the immense sums thus taken from the people and the privations of the lower classes, and it is upon a superficial view natural to suppose that a reduction in the enormous burdens thus uselessly imposed would make it easier for the poorest to get a living. But a consideration of the matter in the light of the economic principles heretofore traced out will show that this would not be the effect.

"A reduction in the amount taken from the aggregate produce of a community by taxation would be simply equivalent to an increase in the power of net production. It would in effect add to

the productive power of labor just as do the increasing density of population and improvement in the arts. And as the advantage in the one case goes, and must go, to the owner of land, in increased rent, so would the advantage in the other.

"From the produce of the labor and capital of England are now supported the burden of an immense debt, a large number of sinecurists, a great army and a great navy. Suppose the debt repudiated, the sinecurists cut off, the army disbanded, the officers and men of the navy discharged and the ships sold. An enormous reduction in taxation would thus become possible. There would be a great addition to the net produce which remains to be distributed among the parties to production.

"But it would be only such an addition as improvement in the arts has been for a long time constantly making, and not so

Continued on Page 84 ►

SINGLE TAX

ECONOMICS

EXPLORED

great an addition as steam and machinery have made within the last twenty or thirty years. And as these additions have not alleviated pauperism, but have only increased rent, so would this. English land-owners would reap the whole benefit.

"Let me be clearly understood. I do not say that governmental economy is not desirable; but simply that reduction in the expenses of government can have no direct effect in extirpating poverty and increasing wages, so long as land is monopolised."

If Henry George's conclusion is correct, that reductions in taxation ultimately increase rent, then the converse must be equally true: increases in taxation reduce rent. From this it is one more logical step to the conclusion that existing taxation is ultimately at the expense of rent.

The *physiocrats* argued this very point, which was the basis of their proposal for an *impôt unique* or single tax on the rent of land to the exclusion of other taxes. They reasoned that, since there was only one source of wealth (land), it was here that all taxation must finally rest. It was pointless, therefore, to clutter industry and commerce with a multitude of taxes when the impost could be placed directly where it must ultimately fall — on the *produit net* (in effect, the rent of land).

The desire to get rid of the inconvenience, waste, friction and vexation of the existing taxes appeared to be the impetus behind their proposed reform; there was not the moral drive of equal rights to land that characterised Henry George's advocacy of the single tax.

What was to become known as the Iron Law of Wages by the later (classical) economists was perceived by the *physiocrats* as the reason why no taxes could be levied — and made to stick — on wages that were already at subsistence level. The leading *physiocrat*, Quesnay, explained: "Wages, and in consequence the enjoyments that wage-earners

can obtain, are fixed and reduced to the lowest level by the extreme competition that is among them."²

Adam Smith also argued that taxes on subsistence wages were at the expense of rent: "A direct tax upon the wages of labour, therefore, though the labourer may pay it out of his hand, could not properly be said to be even advanced by him . . . In order to get back the ordinary profits of stock (after paying increased wages), it would be necessary that he (the farmer) should retain a larger portion of the produce of the land, and consequently that he should pay less to the landlord."³

Smith also thought that consumers would to some degree bear part of the cost of the wage increase. But he did not observe that, since most consumers would be employees, the extra cost would be sent on the same route as before!

BUT ARE wages at subsistence level today?

First we must remember that this has reference only to the lowest paid, who probably form the largest stratum of wage earners. Secondly, when we speak of subsistence wages we must mean wages net of any taxation already levied upon them. For, although the lowest wage earners pay no tax on their earnings, many of those whose earnings come just within the tax system could well be at subsistence level after paying the tax. Thirdly, we have to take into account the various welfare benefits. If it were not for family income supplements, rent and rate rebates, subsidised housing, etc., many wage-earners could clearly be seen to be at — or even below — "official" subsistence level.

Subsistence, however, is difficult to define and ranges from starvation level, as in many South

American and Eastern countries, to simply being "poor" and living in crowded accommodation with only what are regarded in most European countries as bare necessities.

But if taxation on wages at subsistence level (however this is defined) is passed back to fall eventually upon the rent of land, what of taxation on wages above this level? Such taxation, it is reasoned, is likewise passed back to rent, and any additional taxation will ultimately follow the same path, since wage differentials, determined by skill, education, experience, etc., will tend to be maintained.

In short, wages in general are related to those of the lowest paid, rising when they rise and falling when they fall. And differential taxation imposed upon high wage earners appears also to be passed back, "take-home pay" being regarded as the real wage.

But what of other forms of taxation? Are they also at the expense of rent? The closer a tax is to the extractive industries or to farming, the clearer it is seen that it diminishes rent. When agriculture was finally freed from paying rates (De-rating Act 1929) the almost immediate result was a rise in rents for tenant farmers.

The *Daily Herald* reported (Sept. 19, 1929): "Farmers made bitter complaints at the meeting of the Caernarvonshire Farmers' Union on Saturday that in some cases rent had been raised by 25%-100% as the result of the working of de-rating." And when de-rating was being debated, the then Lord Advocate, speaking for the Scottish De-rating Bill in the House of Commons, said: "I do not want to argue at length whether a benefit like this ultimately comes to the landlord or not. My view is that it certainly does."

Britain's so-called enterprise zones also demonstrate how rate relief and other concessionary tax exemptions are reflected in increased rents or land values. Pro-

¹New York: Robert Schalkenbach Foundation, 1979; Bk. VI, Ch. 1.

²*Second Probleme Economique*, p. 706.

³*Wealth of Nations*, Bk. V, Ch. 2, Pt. II.

Continued on Page 95 ►

because they were not at that time considered damaging. Now it is clear they are doing far more harm than any building activity . . ."

Many of us still don't really think of things that way, but it is demonstrably correct. Lump together all the built-up areas, along with their gardens and their roads, and they could still be fitted into a good-sized English county. Throw in all the effluent they produce as well, and the effects are deplorable, but not irremediable.

What has happened to the remainder of Britain — the rural bits where, 40 years ago, Attlee's government and nearly all of its critics as well, could tacitly regard the activities of the farmer and the forester as generally beneficial?

Even in those days, some people shed a few tears about the serried ranks of the Forestry Commission's coniferous woodland, but scarcely anybody got upset about farmers grubbing up hedges and draining ponds or wetlands. Until quite recently we actually paid them good money from the taxpayer for doing such things, and called it "improvement".

Now look at Britain in the late 1980s! Look at the effect of our "improvements", along with the fertilisers and pesticides which have been spread on our crops. We wiped out the Large Blue



● Marion Shoard

butterfly shortly before we issued a postage stamp to commemorate its existence.

The great crested newt, which before the war schoolboys all over England used to collect, now requires (and has received) legal protection in order to enable it to survive — because so many of the ponds where it lived have been filled up.

The nightjar, whose eggs were collected for food a couple of centuries ago, is now on or over the edge of extinction in large parts of Britain. There are innumerable examples of that sort of thing with all kinds of wild life.

Ninety-five per cent of our hay meadows, Marion Shoard tells

us, "with their characteristic constellations of yellow flags and buttercups, fritillaries and cowslips, early purple and green-winged orchids, ragged robin and meadow-sweet have been subjected to agricultural 'improvement' since the war. Most of them now consist simply of cereals or perennial ryegrass sown as a monoculture."

Many counties have lost half or more of their Ancient Woodland in the last fifty years. Along with this irreplaceable heritage of natural environments and the great assemblies of creatures which used to live there, we are fast losing the footpaths and rights of way which used to give us access to them; and Marion Shoard is able to show that the process is sometimes tied up with the position of great landowners as leading figures on local authorities.

Land reformers ought to give a lot more attention to this sort of thing. We do no good by pretending that these problems don't exist, or that they will all go away if we free our trade and tax our land values — important and necessary as these reforms most certainly are.

IT IS unfortunate that Marion Shoard is on less sure ground when she makes proposals for the future than in her devastating analysis of the past and present.

Land Nationalisation she rightly dismisses. In the end she arrives at a system of land taxation which is designed positively to encourage environmentally useful activities, while financially penalising those which are deleterious. She also discusses the Swedish system of *Allmansrätten*, or general right of access to the countryside, and plumps down strongly in support.

What is really missing in this last part of the book is that very welcome feature which characterised the great bulk of it: the close analysis, the detailed comparative study. Marion Shoard may well have the germ of an idea which might, with substantial modifications, command support. The case, however, is not adequately made in this book.

◀ From Page 84

erty prices within the zones have risen to absorb the amount of the tax relief. Michael Ward, the then Chairman of the Greater London Council's Industry and Employment Committee, said in September 1984 that there is an inverse relationship between rents and rates: "The lower the rates, the higher the rents."

He added: "Land prices in the Isle of Dogs have been pushed up, because of the rate exemption, to as much as £150,000 per acre for industrial land and £400,000 per acre for office development. Cuts in rates end up in primarily sub-

sidising landlords with windfall gains, rather than the industries they are meant to encourage."

The fact that commercial rents are depressed by large increases in local taxation also illustrates that rent is the residual beneficiary in the distribution of wealth. The more that is extracted from total production on a site, for whatever reason, the less there remains for the landlord.

But while one may readily concede the principle in such examples, is it true that *all* taxation is ultimately at the expense of rent? This is a question that must await further research.