10
Towards Reform

Policy objectives such as a zero rate of inflation coupled with low unemployment, extensive social welfare, and economic prosperity require high levels of public spending. When that spending is to be funded by equally high levels of taxation or borrowing, a zero rate of inflation is incompatible with the other policy objectives with which it is coupled. The politicians may win votes by their promises, but upon election to government they will be unable to deliver in full. As has been deduced from the theory of Keynes and the work of Colin Clark, the imposition of any amount of taxation inevitably raises prices and also distorts and restricts production. When the amount of taxation exceeds a certain proportion of NNP at market prices, a government is confronted with a choice: a zero rate of inflation together with a persistent slump, or, persistent inflation and what may be passed off for a time as economic prosperity. The case argued in this work, the abolition of all taxation and its replacement by the collection of public revenue by government as a public duty, is a *prerequisite* for solving the major social and economic problems, including inflation and unemployment, that today appear endemic in industrialised trading economies. Only when this fundamental change in public finance is completed will social justice together with a stable general price level and economic prosperity become possible to achieve. Setting in motion the change is not an immediate panacea, although when implemented in an appropropriate way, it will bring forth immediate benefits.

The fundamental reform of public finance will take time to complete and the method by which it can be accomplished will vary from country to country, depending upon their particular circumstances. The first step in the process must be the production of a full valuation of current public value together with the required administrative arrangements for keeping the list of data up-to-date, preferably on an annual basis. This is not a difficult task and in the opinion of professional assessors would be much simpler than the revaluations for the former local rating system in England and Wales. In 1963 The Rating and Valuation Association carried through their pilot survey of Whitstable U.D.C. area within nine months. Although carried out for the purpose of supporting an alternative proposal for local taxation, this survey in fact provided an estimate of public value as defined in this work. Following the publication of the public valuation lists further time, say up to a year, must be allowed for the hearing and settlement of likely objections. Thus experience suggests that in the United Kingdom the House of Commons would be able to determine a national rate and begin collecting some part of the public revenue within three years from a Bill first being introduced.

Upon the first assessment of public value, the public revenue that could be obtained from this source would be significant but no more than a proportion of the present total tax revenue. For the United Kingdom the pilot survey carried out by the Rating and Valuation Association implies that the first valuation could produce a public revenue in the same order of magnitude as local taxes. Nonetheless United Kingdom evidence shows conclusively that over a period of time there is a negative relationship between the proportion of NNP at market prices appropriated as tax revenue and the proportion accruing as net disposable property income.[1] As the tax proportion rises or falls inversely, then over time the proportion accruing as net disposable property income falls or rises equally. Income generated by public value is a significant part of what can be isolated from the standard national accounting system only as net disposable property income. Thus, as taxation is cut, public value will rise at the next revaluation and, with this rise, public revenue will increase, given a constant rate, and so allow a further cut in taxation. Having made the first step of collecting the public revenue directly available and reducing taxation by an equal amount, a government must wait upon the economy adapting to the new set of circumstances. Once the process of fundamental change in the method of public finance has been started a government may continue the process in the economy's own good time until all taxation is abolished and the full public revenue is being collected.

Any cut in the amount of taxation will result eventually in a rise of public value. However, it is important for government to select the taxes to be cut, whether national or local, that will affect directly the immediate benefits required by the economy. In the United Kingdom, for example, abolishing the employers' contributions to social security taxes (a form of payroll tax) as a top priority will tend to reduce unemployment quickly, as it would immediately reduce labour costs to all employers of labour. Such a move would not only reduce public expenditure by reducing claims on social security benefits but, by reducing labour costs, automatically improve the competitive position of home producers as against overseas producers and thus assist in rectifying an adverse balance of payments position. If, on the other hand, it was considered most desirable to expand consumer demand, then cutting the amount of taxation by raising income tax thresholds would be appropriate. This would immediately increase the amount of money in the pockets of those consumers who may be expected to spend a major part of an increased personal income. This again would create opportunities for cutting public expenditure since, as the number of income tax payers are reduced, the work load of the Inland Revenue would fall. For the efficacious continuation of change in the method of public finance, it is essential that, when cutting the amount of taxation, a government creates opportunities for reducing public expenditure as well as achieving their short-run objective. For instance, giving priority to reducing the standard rate of U.K. income tax from 25 to 20 per cent may be most desirable from the point of view of taxpayers and may even marginally expand consumer demand but it will not create opportunities for the government to reduce public expenditure.

At a time when environmental considerations are paramount, the proposed fundamental change in the method of public finance is of particular importance. By collecting public revenue in place of tax revenue, a government will be able to remove the causes of much environmental despoliation rather than attempting to mitigate the results. Pollution will continue so long as it is profitable and will cease when it ceases to be profitable. Punitive taxation may be a possible means of ensuring unprofitability, but at a cost to the economy as a whole which is likely to prove unacceptable. What may be profitable to the pollutor is, to everyone suffering from the pollution, an external diseconomy which will depress public value and so reduce the public revenue available for collection by government. If it were known that as a matter of practice a government would automatically make good the loss of public revenue from the pollutor, then the processes causing polution would become unprofitable and cease. For example, should a river become polluted with excess nitrogen, the public value of a water company's rights of extraction would fall and with it the public revenue. Providing farmers were aware that any loss of public revenue from such a cause would be charged to them, they would cease to apply excess nitrogenous fertilisers as the net additional produce obtained would become loss making rather than profit making. In the new circumstances this method of removing the causes of pollution becomes capable of wide application.

The public revenue to be collected by government as a public duty is not an arbitary levy and is not, therefore, taxation in economic terminology (p.39). Public revenue will enter into the supply price of individual firms but unlike tax revenue it will not aggregate to inflate the aggregate supply price. By collecting the public revenue government will be charging occupiers the current market price for the publicly produced externalities available to them at the place they occupy. For productive enterprises it means that firms will be required to pay for the publicly produced externalities as they already pay for other services and raw materials consumed in the process of production: both sets of payments will cancel out upon aggregation. A difference between the two sets of payments is that public revenue will be charged not on the basis of what is *consumed* in the process of production but on the publicly produced externalities *available* to the site they occupy. This fact will both ease planning procedures and provide environmental benefits. Profitability will demand that firms seek to locate on those sites at which the publicly produced externalities available are those they need to produce competitively. At any other location they will incur unnecessary costs either as a result of paying a public revenue for externalities they do not require or by paying privately for externalities required but not available at the site they occupy. The tendency towards micro-dispersion (urban sprawl) will be replaced by a tendency towards micro-concentration as a matter of private choice without government compulsion.

The momentum of the process of change from tax revenue to public revenue will depend on government not attempting to increase its total income by niggardly tax cuts. When taxation is abolished, however, the public revenue to be collected will exceed the public expenditure needed by a prudent government for public services of all kinds. This will arise in the nature of things, for much public value is produced by the general public automatically at no public expense. For example, sites adjacent to a railway station enjoy an enhanced public value produced by the passing trade available from the number of passengers using that railway station. The enhancement of these public values incurs no additional public expense. The old private railway companies were well aware of this bonus and usually purchased the freeholds of adjacent sites before building the station. The excess of public revenue over necessary public expenditure sets a financial limit for social welfare schemes undertaken by government which are not expected to yield a public revenue sufficient to cover the public expense.

The challenge of our time is to awake to the possibility of taking steps towards realising the given right of humanity to a truly just society in which they may live and, as free individuals, live more fully. This awakening requires a lead' from economics for it is largely market forces generated by economic ignorance that holds the world's population in thraldom. Economists must direct their work so that by its results they are recognised as 'trustees of the possibility of civilisation'. This requires them to observe the nature of present day trading societies and on the basis of these observations offer to governments and electors policy prescriptions in line with the aim of their science and indeed all sciences — that people may live and live more fully. Politicians also have their part to play as servants to the community. They must cease to pick and choose advice depending on their momentary political beliefs and what they hope to be to their political advantage while side-stepping discussion of alternatives or even pretending ignorance of such alternatives. Political democracy rests on politicians listening to the people in a free, full and honest discussion of all relevant alternatives in the light of current knowledge. The arguments in this work are put forward to assist such a discussion.

1. Ronald Burgess, *Fanfare To Action*, Ch.VII, Economic Study Association, 1973.