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Cyberspace Rents

THE TECHNOLOGY of the new Information Age has a political significance that has not yet been explored.

The internet gurus have beguiled governments with the technical wizardry of computers, and the political leaders in the US and Britain have talked up claims about a new economy based on increased productivity.

But the scope for changing the fabric of society – to alleviate the injustices and massive poverty in the rich countries – has been neglected.

In particular, the prospect of changing the revenue-raising systems has not occupied the creative imaginations of the policy advisors in national Treasuries.

Their main concern has been to preserve the current tax structure against the threats from mobile labour and capital. As a result, a golden opportunity may slip from their grasp.

THE SCOPE for raising revenue from new sources is illustrated by the sale of the rights to use the radio spectrum for third generation mobile telephones.

① In Britain, the auction raised £22.5 (€38.5 billion) billion for the 20-year leases.

① In Germany, the auction raised €50.5 billion.

This money could be treated as additional revenue, or it could be used to restructure the way in which the state raises its revenue.

Income from resource rents such as the radio spectrum are benign. They do not inflict the damaging consequences of revenue raised from people's wages or savings.

Therefore, the Treasuries of Europe could be programming into their public finance systems what would be a revolutionary change. Revolutionary, but not catastrophic. For the rents that are bid for access to the resources now made possible by digital technology do not injure people's capacity to produce wealth.

On the contrary, when rent is treated as public revenue, replacing the abusive forms of taxes, the opportunities for improved lifestyles are expanded.

THE possibility of improving people's private fortunes will not be harnessed if governments fail to radically review their philosophy of taxation.

This is illustrated in the most basic way in those European countries, such as Finland, which have given access to the radio spectrum for nothing. Some countries, like France and Spain, have used "beauty contests" for handing out the licenses, yielding pitifully small revenue. Italy botched her auction, and ended up with five corporations bidding for five licences – which, not surprisingly, brought the bidding process to a grind-

ing halt at €13.7 bn, half of what the government expected to raise.

Result: resource rents are consolidated into the profits of the shareholders who own the tele-corporations, rather than being shared out for the benefit of all taxpayers.

In Britain, the up-front payments resulted in a handsome windfall for the Treasury, but an alternative approach would have generated a great deal more revenue for hard-pressed taxpayers. It was no consolation to be told by the *Financial Times* (Aug. 15) that "if, as the bidders hope, their investment revolutionises the mobile phone industry, the money raised by auctions in 2020 could make this year's proceeds look like small change".

The government ought to have reserved the right to revise the rental payments during the life of the 20-years licenses. Had it done so, the corporations would have been willing to pay a great deal more than the total £22.5 billion which they offered as a one-off payment.

THERE ARE many more new opportunities for raising revenue from rents as a result of the diffusion of computer technology.

The laying of fibre optic cables along the towpaths of canals, along the hard shoulders of motorways and beside the tracks of railways ought to generate a huge inflow of rents for the benefit of the public.

The orbital routes of satellites that bounce pictures back to earth, the franchises held by TV corporations – these are rent-generating opportunities that ought to be enriching everybody, not just corporate shareholders.

But to exploit the new commercial opportunities, governments should be engaged in re-learning the principles of public finance. Unfortunately, they continue to be wedded to the themes contained in modern textbooks. Instead, they ought to be dusting off the classical works of authors like Adam Smith and David Ricardo.

TWO HUNDRED years ago, the Founding Fathers of economics as a social science went straight to the heart of public finance by identifying rent as the correct source of society's revenue. That insight has been smothered by the teachings of the neo-classical economists. They continue to spread confusion by identifying land and natural resources as no more than a species of capital.

It is confusion such as this that enables commentators today to push the significance of land and natural resources even further back into history, rather than an essential component of good public policy for the 21st century.