Scotland loses £37 bn. Every year. Enough to pay for all the services people need. Will the Minister for Industry explain what he plans to do about it?

SINCE COMING to power in May 1997, the New Labour government of Premier Tony Blair has presided over a loss of wealth to Scotland worth at least £37 billion.

For how long will the people of Scotland be expected to suffer this haemorrhaging of goods and services? We can expect the answers on Sept. 4 from the Minister who is responsible for Britain's trade policies.

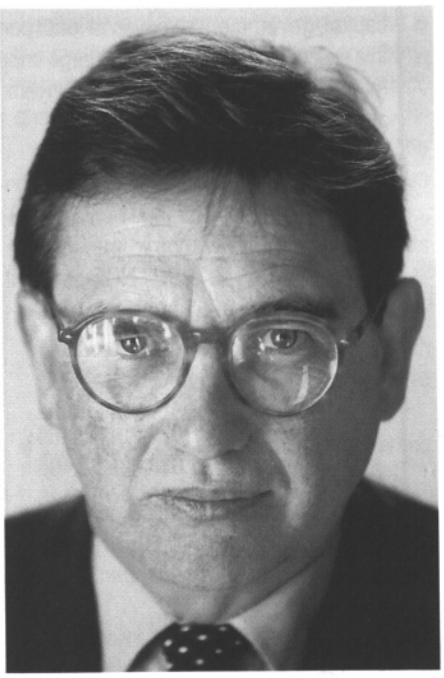
Brian Wilson will deliver the McEwen Lecture. The annual event is dedicated to the memory of the author of *Who Owns Scotland*. Mr. Wilson is challenged by the question asked by John McEwen. And the people of Scotland are entitled to answers.

Today, the pertinent questions penetrate deeper than those addressed by John McEwen in 1977.[1] His was a path-breaking investigation, in which he collated data on the identities of the people, trusts, companies and public agencies with title deeds to land.

But this information is the veneer wrapped around the problem of land ownership. Posed in these terms, it turns landowners into the villains. And it implicitly exonerates government from responsibility for the state of the nation, insofar as that fate is determined by the use and abuse of land and the resources of nature.

But the welfare of the people of Scotland is determined not just by those whose names are on the title deeds.

The key issue, when seeking to identify the forces that shape people's lives, is the distribution of the rental income that flows from land and natural resources.



● Brian Wilson believes the "land question" is "unfinished business": Report – p.6, col.3.

That reality integrates government's role into the millennia-old drama known as The Land Question.

Government, with its sovereign power over the law-making process, exercises the paramount influence over people. Its tax policy is the key to the distribution of power and the forces that determine whether people are free to enjoy prosperity or are coerced into impoverishment.

Today, government tax policy blights the lives of the people of Scotland to the tune of at least £37 billion. Responsibility for that loss falls on government. The loss stems from the failure to treat the rent of land and natural resources as public revenue. When we know who owns the rent - *or who exercises the power to damage the nation's ability to produce rent* - we know who owns Scotland.

GOVERNMENTS of all ideologies employ the same refrain: they cannot fulfil the wishes of the electorate because they cannot afford to pay for all the better schools and hospitals and the other amenities for which the public sector is responsible.

This claim is fraudulent. **It is a cover-up for the disastrous taxes that governments employ to claw revenue from people's wages and their savings. The outcome is partial paralysis to the body economic: a mountain of disincentives restrain people from producing the goods and services which they would otherwise generate by their labour and the wise investment of their capital.**

The only way to avoid what is called the "excess burden" of taxation - or deadweight losses - is for government to draw its revenue from the rents that people willingly pay for the use of urban and farm land, and the natural resources under, on and above the soil.

The scientific knowledge is available to reshape fiscal policy in line with principles of morality that have stood the test of time. But the political will has been lacking. And, in a democracy, that is a matter of public education.

Which makes Brian Wilson the man of destiny. He was the minister in the Scottish Office responsible for industry. On July 28 he was promoted to Minister of Trade at the Department of Trade and Industry in London. He is now presented with the opportunity to explain what the New Labour government plans to do to emancipate the people of Scotland.

In his pre-political days, Mr. Wilson founded the *West Highland Free Press*. Through his newspaper he exposed injustices and campaigned for land reform, invoking the principle of fairness.

He now has the obligation to explain why his government continues to champion a tax regime that penalises people who wish to work to enrich both their private lives and their communities.

The McEwen Lecture, which will be delivered in Aviemore, offers the Minister a platform to explain how New Labour - which wants to create a New Britain - plans to shape a new Scotland. His theme is relevant: "Land Reform for the 21st Century".

New Labour took the initiative in offering the people of Scotland a new start. In a referendum, the majority supported devolved power. And now, through initiatives by the Scottish Office, the people are told that the new Parliament in Edinburgh should reform the rural land regime.

That is not enough. **The character of taxation is determined in Westminster, and central government insists it will retain ultimate power over taxation. Land reform without tax reform will not enhance the quality of peoples' lives.**

For the keys to a better future for Scotland, we still have to turn to New Labour in London. And the man in the hot seat is Brian Wilson. People need answers to some basic questions.

Question 1. **Why does the Blair government, which wants to "re-brand" Britain, wish to preserve a tax system that is arbitrary and abusive?**

Every year, Britain is deprived of the chance to produce at least £430 billion - the amount of wealth that would be generated if people were free from the exactions of damaging taxes. That is a concerted abuse of a most heinous kind which should not be tolerated in a civilised society.

Question 2: **Does the Blair government agree that Scotland loses £37 billion every year because of taxation?**

Some economists might argue that this estimate overstates the damage inflicted by Act of Parliament, on the basis of a lower level of productivity in Scotland compared with the UK average. But this number is more likely to have to be revised *upwards*. The estimate is based on a model that relies largely on a trade-off between work and leisure. Excess burden includes the loss that arises when people avoid taxable work. A simple example is the decision not to work overtime on a Saturday, preferring to go angling rather than earn the extra wages, much of which has to be handed over to the taxman.

But there are additional reasons which, when computed, will reveal that the scale of the losses is much greater. A rational system of land-use, a pre-condition of which is tax reform, would generate at least three additional dynamic effects. These offer people the right to choose either to raise the output of goods and services, or to enjoy current levels of income that they could earn in less time and with fewer resources - thanks to the enormous increase in productivity that would flow from this reform.

DEADWEIGHT losses are inflicted when a landowner decides to defer the renewal of a building beyond the economical date. This occurs because new buildings pay higher taxes than old buildings. So do the activities that occur in newer buildings: more sales taxes, higher payroll taxes, etc.

Another example is the property developer's decision not to build additional floors at the top of a multi-storey building, because the tax-take makes the additional investment uneconomical.

For families, the supply and price of land are major obstacles to a "property-owning democracy". These have contributed to the low percentage of home-ownership in Scotland compared to England and Wales.

Box 1: The secret tax bill: $9 trillion per year down the drain!

THE LOSS inflicted on an economy by the negative impact of taxation (because people work less and save less, for example) is what economists call excess burden of taxation. An alternative (and more revealing) label is the deadweight loss of taxation. The losses inflicted on the populations of the G7 countries, according to two US economists (Drs. Nicolaus Tideman and Florenz Plassmann), ran to about $7 trillion in 1993. With the growth of economies since then, the current deadweight loss of taxation is probably about $9 trillion per year!

Deadweight loss is a measure of the value of potential production that is aborted because of tax liabilities that render unprofitable what would otherwise be profitable. By substituting land-rent charges for taxation on labour and capital, government removes at least part of this excess burden, and if rent is large enough (or government small enough) we can remove all of it.

G7: Gain in Output and Per Capita Income under the Rent Revenue Policy (1993)

	NDP $ bn	NDP per capita $
USA	1,602	6,902
Canada	275	9,142
France	879	15,166
Germany	1,018	12,406
Italy	815	14,128
Japan	1,535	12,284
UK	716	12,133
Total	6,840	

Source: *The Losses of Nations*, (ed: F. Harrison), London: Othila Press, 1998, p.vi.

Economists, in their textbooks, do discuss the concept of excess burden or deadweight loss. But few of them measure it, or evaluate the efforts of others to measure it. And official statistical agencies never estimate the deadweight losses for which their governments are responsible. Deadweight losses are the hidden tax bills that democratic governments deliver to their nations every year.

- The spreadsheets that were used to produce the calculations above may be accessed via the internet at http://www.econ.vt.edu/tideman/taxedout.htm

Question 3. **Will Mr. Wilson work with the construction industry to calculate the gains to the fabric of Glasgow and Edinburgh if tax disincentives were removed?**

Deadweight losses arise when a town loses the potential additional favourable spillover effects from newer and better buildings. These new buildings raise demand for nearby sites. In doing so, they raise the rental revenue base out of which to fund additional public services. Under the present tax regime, huge revenue losses are inflicted on local governments every year.

Question 4. **Will Mr. Wilson calculate the losses to Scotland's local governments as a result of Chancellor Gordon Brown's decision to force them to sell "surplus" land?**

A rational local property tax would enrich the private and public sectors. And local authorities, if they administered their property portfolios prudently, would generate huge increases in rental income from land - to the benefit of all citizens.[2]

Question 5. **Will Mr. Wilson encourage the government to adopt a tax-driven plan to eliminate homelessness?**

Taxes that penalise people's savings deter the formation of fixed capital, which reduces labour productivity (*see Box 2*). That is a key reason for low wages - which, in turn, prevents people from financing the construction of quality homes for their families.

Homelessness is not a supply-side problem. South of the border, for example, in Newcastle, 4,000 households are on the council house waiting list and 12,000 people wait to be rehoused, in a city with 18,000 dwellings that stand empty. If the owners of empty dwellings were required to pay the full cost of the amenities that their properties enjoyed - and were untaxed on the value of the capital investments on the land - they would renovate their buildings and rent them to those in need.

Question 6. **Will Mr. Wilson explain how his government justifies a tax system that actively deters employers from hiring workers?**

Deadweight taxes abort all the extended synergies that emerge in vital *centres of activity*, says Dr. Mason Gaffney, a US economist who is a foremost authority on the economics of natural resources. Dr. Gaffney's recent explorations of land, taxation and related public policies are key statements for policy-makers seeking to penetrate the failures of economic policies of the past, particularly with respect to the damage inflicted by the failure to restructure taxation in favour of win-win strategies.[3] By removing the deadening effects of taxation, vigorous entrepreneurial activity converts sleepy corners of a town (which includes pockets of the inner city) or nation into thriving centres of activity. This results in higher wage rates and productivity.

The relevant statistic is not the number of unemployed workers in Scotland. People are entitled to know what the *shortage of workers* would be in a dynamic economy operating at its full, natural potential.

The days of full employment - and of lifetime employment - are supposed to be numbered. That may be true, but only according to the rules of today's game. Full employment is a dream when taxation forces employers to carry crippling burdens. In France, on average, the costs a firm must bear to employ a person amount, in total, to *three times* what the worker receives after all taxes. In the US, the equivalent cost to employers is "only" 80% more than the employee's take-home pay.[4] What is the comparable figure for Scottish workers?

But in a post-dependency society, people would not need to rely on others to hire them: they would create their own jobs. That freedom is negated by meretricious taxation.

New Labour. New Britain. New Scotland. Or a mirage in a highland mist?

Box 2: How to raise productivity by tax reform

ECONOMISTS are shy about calculating the costs of government tax policy. But they implicitly work with the concept of deadweight losses every day, when they wrestle with how to efficiently allocate scarce resources.

Dr. Mason Gaffney, professor of economics at the University of California, drew *Land & Liberty's* attention to the way in which the deadweight spectre lurked behind one of the key concepts emphasised by John Maynard Keynes: the marginal efficiency of capital.

If we untax new investment (such as buildings), says Dr. Gaffney, we raise the marginal rate of return after taxes. This is what Keynes called the "marginal efficiency of capital," which he identified as "the inducement to invest." To economists who stress the demand side of the economic equation, this is the motor that drives the macro-economy, raises national income via the multiplier effect, and offsets the propensity to save.

By treating rent as public revenue, the marginal rate of return after taxes is raised in at least three ways.

- It lowers direct taxes on capital and its income.
- It raises the returns to investors: for example, by lowering the payroll tax (part of which is borne by investors when they hire workers).
- It pressures landowners to attract capital and hire labour.

The cumulative impact is one of stimulation: aggregate demand is raised, provoking entrepreneurial activity in a benign upward spiral.

Thus, rent taxation fulfils the goals of both demand-side and supply-side economics: raising output, and raising saving. It reconciles supply-side economics with public finance by providing a mode of taxation that stimulates instead of dragging down production and employment. This constitutes "true fiscal stimulus".

Conference contacts:

Sept. 3, Perth: "Land Reform - The Enduring Settlement for Scotland". Contact Peter Gibb, Land Reform Scotland, The Chalmer, Mill of Towie, Cullen, Buckie, Banffshire. Tele: 01542 841842.

Sept.4, Aviemore: "The McEwan Lecture". Contact John Watt, Community Land Unit, Highlands & Islands Enterprise, Bridge House, 20 Bridge St., Inverness IV1 1QR.

References

[1] John McEwen, *Who Owns Scotland* (1977); second edn., Polygon Books, Edinburgh, 1981.

[2] "Do Gordon Brown's numbers add up?" *Land & Liberty*, Spring 1998, p. 4.

[3] Mason Gaffney and Fred Harrison, *The Corruption of Economics*, and "Land as a Distinctive Factor of Production", in Nicolaus Tideman (ed), *Land and Taxation*, both published by Shepheard-Walwyn, London, 1994; and see Dr. Gaffney's contributions to *The Losses of Nations* (1998).

[4] *The Economist*, April 4, 1998, p.17.