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BENEFITS AND TAXES

A RADICAL STRATEGY

A Discussion Paper

By **James Robertson**

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James Robertson, March 1994.

BENEFITS AND TAXES: A RADICAL STRATEGY

FOR ECONOMIC EFFICIENCY, SOCIAL JUSTICE AND ECOLOGICALLY SUSTAINABLE WAYS OF LIFE

By **James Robertson**

"The essential test of any economic system must be the type of individual it tends to reproduce".

J.R. Bellerby, A Contributive Society.

"What is required is a new approach in which all nations aim at a type of development that integrates production with resource conservation and enhancement, and that links both to the provision for all of an adequate livelihood base".

The Brundtland Report, Our Common Future.

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INTRODUCTION, SUMMARY AND CONCLUSIONS

This paper is about simplifying the present system of welfare benefits and the present system of taxation, so as to promote economic efficiency, social justice and ecologically sustainable ways of life.

It is based on a preliminary study of the feasibility of combining four policy proposals. They are for:

1) paying a Citizen's Income unconditionally to every citizen,
2) abolishing taxes on incomes, profits, and the value that is added by the production of useful goods and services, and
3) replacing those taxes with a land-rent tax, and
4) an energy tax.

In recent years, support for each of these four proposals has been growing. The case for each is strong in its own right. Their supporters will no doubt continue to research and promote each of them on its own merits.

New economics writers have suggested that the proposals be combined.[1] But so far the implications of combining them have not been explored or discussed in depth. This paper aims to stimulate further exploration and discussion.

Among those it will interest are:

- people who already support a Citizen's Income, or a shift of the tax burden from incomes to expenditure, or taxation of land-rent, or increased taxes on energy;
- people who are aware that the welfare state must be restructured, but who also realise that means testing is an economically inefficient and socially damaging way of targeting benefits to those who need them;
- people who are searching for new ways of tackling at source the conditions that lead to unemployment, poverty, social exclusion and the growth of crime;

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[1] See, for example:
Paul Ekins: Wealth Beyond Measure: Gaia Books, 1992; and
James Robertson: Future Wealth: A New Economics For The 21st Century: Cassell, 1990.

- people who are interested in greening the economy; and
- those people, involved in people-centred service occupations and in technological and entrepreneurial innovation in sunrise industries, who know that greater economic efficiency is interdependent with social wellbeing and ecological sustainability.

Summary

The first four sections outline each of the proposals and the principal arguments for and against them.

The order in which the proposals are discussed reflects:
- the need to restructure the welfare state;
- the need for a full Citizen's Income to be financed from taxes other than Income Tax; and
- the fact that, if Income Tax and other existing taxes are to be abolished, all the more weight must fall on new taxes such as land-rent and energy taxes.

The proposals could have been taken in a different order to reflect other connections between them. We might have started with the growing interest in energy taxation to encourage sustainable development, then have identified its regressive effects, and then have discussed Citizen's Income and land-rent taxation as progressive measures to correct those effects. Alternatively, the introduction of a Citizen's Income and a land-rent tax could have been paired as a way of sharing among all Citizen's the forms of wealth that are created by nature and the community at large. Abolishing VAT and introducing energy taxation could have been paired as the replacement of an existing form of expenditure taxation by a better one. Or, in a different pairing, Citizen's Income and energy taxation could have been discussed as two comparatively new proposals - aimed at reforming the welfare state and encouraging sustainable development - which give fresh relevance to the earlier proposals to shift the tax burden from income to expenditure, and to tax the rental site value of land. In short, there is a web of interdependencies between the four proposals.

The Four Main Proposals

1. A Citizen's Income.
A tax-free income paid by the state to every man, woman and child. A right of citizenship. Amount tied to the cost of living, but unaffected by a person's other income, wealth, work status, gender or marital status.

Age-related. More for adults than children and more for elderly people than "working-age" adults. CI for children will replace today's child benefit, and Cl for the elderly will replace today's state pensions.

Supplements in exceptional circumstances, e.g. for disabilities, housing. Otherwise Cl will replace all existing benefits and tax allowances.

2. Shift Taxes Off "Goods" On To "Bads".
Taxes on incomes, profits and value added will be abolished. Those taxes penalise productive activity and useful work. (Associated allowances and reliefs will be abolished too.)

The abolished taxes will be replaced with new taxes, on activities which result in value subtracted rather than value added. In particular, these include a land-rent tax and an energy tax.

3. Land-Rent Tax.
This will tax the annual rental site value of land. That is the rental value of a piece of land, excluding the value of buildings on it or improvements that have been made to it.

Economists have recognised for many years that this would be the fairest and most economically efficient of all taxes, introducing no distortions and resulting in no loss of economic welfare.

4. Energy Tax.
This tax will rationalise the various existing taxes on energy, and increase the revenue from them.

It will fall on coal, oil, gas and nuclear power at the point of production. It will not apply to energy from renewable sources, at least for many years.

The tax will be passed down through the economy, raising the embodied energy cost of all materials and equipments used at every level of manufacture, distribution, consumption and waste disposal, and the energy cost of all the activities involved in all those processes.

It is already widely recognised that energy taxation must play an important part in encouraging sustainable development.

The fifth section (supported by the Appendix) presents an illustrative scenario. This gives a sense of the financial implications of the combined proposals. It hypothesises that, following a three-year preparatory period, the proposals would be phased in over ten years. The package would be revenue neutral, in the sense that an overall balance between government revenue and expenditure would be maintained. Certain other new taxes on the use of "commons" - i.e. resources provided by nature and facilities and values created by society - would be added to the taxes on land-rent and energy, and the package as a whole would allow a reduction in the cost of public services.

Section VI discusses the possible impact that the combined changes might have on incomes and prices. Among its conclusions is that the general effect is likely to be progressive (in the sense of giving poorer people a better deal) , provided that measures are taken to deal with certain specific problems. Fuel poverty is one of these. The possible need to retain Income Tax on high incomes, or for a redistribution of wealth accompanied by the abolition of existing capital taxes, is another.

Section VII suggests that the combined proposals are likely to have a stabilising effect on the economy, in the sense of evening out the peaks of boom and the troughs of recession. Their effects are also likely to encourage economic decentralisation, and to be beneficial in terms of international competition with countries that fail to make similar changes.

Section VII also suggests that the proposed changes might help to bring about a shift in the main financial driving force in economic life

from the expansion of incomes and the growth of revenues
to the avoidance of costs and the saving of expenditures.

Such a shift could prove to be a key feature of the transition to sustainable development over the coming decades.

Section VIII suggests that, although the proposed combination of changes will benefit most people, each is likely to be opposed by certain powerful interests. Within all the main political groupings - Right, Left, Centre - the proposals are likely to attract support but also opposition.

Conclusions

In principle, there appear to be strong arguments for combining the introduction of a Citizen's Income with the abolition of Income Tax (and National Insurance Contributions), VAT and company profits tax, and for replacing those taxes with land-rent and energy and other ecological and "commons" taxes. There are merits in each of the proposals. The drawbacks in some - such as the regressive nature of an energy tax and the difficulty of financing a Citizen's Income from the existing tax base - are largely countered by the effects of others.

As well as having environmentally beneficial effects, the combined proposals may be expected to bring about beneficial changes in working patterns and practices, removing today's unemployment and poverty traps, eliminating today's black economy of undeclared earnings, raising pay levels for dirty and unsocial jobs, and encouraging work in the informal economy. The results, in terms of both economic efficiency and social wellbeing, could be very significant.

The strategy would include a programme to eradicate fuel poverty. In general, it would reduce costs in the public sector and would allow some reduction in the present level of public services and subsidies. It would encourage a reorientation of public service activities, in line with calls already being made for the "reinvention" of government.[2] It might either have to retain Income Tax on high incomes, or include a once-for-all capital levy (or a capital levy paid in instalments over a given number of years, in the form of a limited-period wealth tax) - to be accompanied by the abolition of existing taxes on capital (Capital Gains Tax and Inheritance Tax).

In practice, changes on these lines will probably take longer to accomplish than the thirteen years envisaged in our illustrative scenario. They may be more likely to happen as a muddled,

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[2] See, for example, David Osborne and Ted Gaebler: Reinventing Government": Penguin, 1993.

piecemeal process of change - driven along by the pressure of events and developing public awareness - than as a coherent long-term policy programme of the kind the scenario suggests. As informed public opinion becomes increasingly aware of the principles underlying the combined proposals, pressure to work out practically feasible ways of implementing them will grow.

The combined proposals can be seen as a transitional strategy as a key feature of the transition needed over the next half century:

from a path of economic progress geared to rising money incomes, which are however now being outstripped by more rapidly rising social and environmental costs;

to a new path of progress which will be geared to keeping down those costs.

Recommendations

The first need is:

- to promote further discussion and clearer understanding of what the proposed changes may mean for prices and incomes, and for economic behaviour and structure;
- to study and discuss what they may mean for particular industrial sectors and particular sectoral interests, such as transport, farming, retailing, electronics, banking, etc, etc;
- to mobilise wider consensus about the need for the changes and wider understanding of the principles underlying them;
- to begin to build a coalition of potential supporters; and
- to work out how the various probable opponents of the changes might be reconciled to them.

The following are among the particular questions that need to be followed up.

1) What obligations to society will match the citizen's entitlement to a Citizen's Income? What should be done to encourage citizens to be aware of and to meet those obligations?
2) Bearing in mind the need to keep the tax system as simple as possible, what ecological and "commons" taxes and charges, in addition to the land-rent and energy taxes, should be included in the package?

3) The need to eradicate fuel poverty is already on the new economics agenda. Should it be given higher priority? If so, how?
4) Further discussion is needed of the likely impact of the proposed changes on:
    i. prices and incomes,
    ii. different industries, sectors and sectoral interests,
    iii. urban and rural economies,
    iv. national economic competitiveness, and
    v. economic structure and development.
5) Will it be necessary to include, as part of the package, either the retention of Income Tax on high incomes or a capital levy or limited-period wealth tax accompanied by the abolition of existing capital taxes?
6) How much and how quickly may the land-rent and energy taxes be expected to reduce their own bases? What consequences may follow?
7) How much tax would the public sector be likely to have to pay on land-rent and energy taxes? How could this be offset by reductions in the level and cost of public sector services and subsidies? What reductions in overall public sector costs would be made possible by the proposed changes?
8) If, as Section VII suggests, the proposed changes resulted in shifting the dominant financial priority from the expansion of incomes and revenue to the reduction of expenditure and the avoidance of costs, what might the consequences be? And what should be done about them?
9) Much modelling work is already being done on the possible impacts of energy taxes and other taxes. The combination of changes we are discussing will need extensive modelling. In setting up the models, it will have to be kept in mind that, as the proposed changes begin to take effect, they are likely to alter economic behaviour and expectations in ways that will invalidate parameters and coefficients based on past experience.

In pursuing these and other ways forward, support should be given to those already promoting Citizen's Income, the need for tax reform, the arguments for a land-rent tax and the arguments for energy and ecological taxation. Dialogue and cooperation should be encouraged with them and between them.

Although the focus in this paper is on Britain, the proposed changes are equally relevant to other member countries of the European Community, other OECD countries and many other countries too. Similar studies, discussions and debates should be set in train there. Moreover, certainly within the European Community, the changes should be introduced as part of an agreed international programme, if possible. Further study, discussion and debate should therefore have an international dimension. It will be for pioneering bodies like the New Economics Foundation to make the running on this, until governmental and inter-governmental agencies, political parties and established economic and social research institutes are ready to take it up.

Finally, in discussing the proposed changes and taking them forward, we must keep the broader context in view. Britain and other industrialised countries are now in a bind, trapped in a web of social and economic problems for which conventional policies appear to offer no solution.

The problems include:

- continuing high unemployment;
- a widening gap between rich and poor, and a growing "underclass" of people excluded from the economic and social mainstream;
- rising levels of social stress and crime;
- ageing populations;
- increasing pressure on welfare budgets; and
- increasingly competitive conditions in international financial, labour and trading markets.

All these are tightening the Stop-Go trap (either low growth and high unemployment or high inflation and balance of payments problems), which is being tightened even further by growing global pressures for ecologically more sustainable ways of life and a fairer deal for "less developed" countries.

The combination of policies discussed in this paper appears to offer a way through those problems. It reflects a vision of a future in which all citizens will not only have an adequate income, but will also be enabled to use their labour and talents and enterprise for themselves and the common good, taking their share of responsibility for helping to create a better, fairer and greener world. This is a vision that offers hope to all:

- constructive opportunities for men now excluded from useful work and social- and self-esteem;
- a fairer deal for women, in the sphere of incomes and paid work and also in the unpaid sphere of household and family; and
- a better start for children, in families and communities better able to protect themselves from economic and social disintegration.

As readers approach the more detailed exposition in the sections that follow, I would ask them to keep that wider context in mind.

I. CITIZEN'S INCOME[3]

Citizen's Income (CI) will be a tax-free income paid by the state to every man, woman and child as a right of citizenship. It will be age-related, with more for adults than children and more for elderly people than "working-age" adults. CI for children will replace today's child benefit, and CI for the elderly will replace today's state pensions.

There will be supplements for disability, housing benefits, and other exceptional circumstances. Otherwise Cl will replace all existing benefits and tax allowances. The amount of a person's Cl will be unaffected by their income or wealth, their work status, gender or marital status.

The level of CI will be tied to the cost of living, rising if the cost of living rises and falling if it falls.

Background To CI

The roots of CI go back at least to the 1920s, when Major C.H. Douglas proposed a Social Credit or National Dividend as a response to unemployment. In the 1930s Professor James Meade, the 1977 Nobel Prizewinner for Economics, was already advocating a Social Dividend or National Dividend. In 1993, his papers for the Labour Party's Commission on Social Justice included support for a Citizen's Income to supplement the restrained levels of pay needed to secure full employment.[4] However, the origin of Cl in its present form is generally attributed to Lady (Juliet) Rhys Williams, who put forward something very like it in 1943 as an alternative to Beveridge.

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[3] For a fuller account see the invaluable series of notes on *Aspects of Citizen's Income* which, with other useful publications, is available from the Citizen's Income Study Centre, St. Philips Building, Sheffield Street, London WC2A 2EX. Two recent discussion papers edited by Hermione Parker deserve particular mention: *Basic Income And The Labour Market* (1991) and *Citizen's Income And Women* (1993).

[4] J.E. Meade, *Fifteen Propositions concerning the Building of an Equitable, Full-Employment, Non-Inflationary, Free-Enterprise Economy*, Employment Policy Institute (Southbank House, Black Prince Road, London SE1 7SJ), June 1993 (£6.50). Also see James Meade, *Agathotopia: The Economics Of Partnership*, Hume Paper No. 16, Aberdeen University Press, 1989.

In 1972, the Conservatives under Edward Heath put forward a tax credit scheme resembling Cl, but his government fell in 1974 before the scheme could be enacted. In 1982, in evidence to the House of Commons, the term Basic Income was used by the Conservative MP, Sir Brandon Rhys Williams, and the Liberal Party put forward tax credit proposals almost identical to CI. In 1989 Hermione Parker published her important study, *Instead of The Dole*.[5] In 1990 the Liberal Democrats unanimously approved Cl proposals. Also in 1990 Samuel Brittan (one of the most respected financial and economic commentators in the U.K.) and Steven Webb (from the prestigious Institute For Fiscal Studies) argued that "Basic Incomes need to advance beyond their present state of intense preoccupation to a minority and enter into the main current of political and economic discussion".[6]

Outside Britain support for CI has also been growing. In 1962, in *Capitalism And Freedom* [7] Milton and Rose Friedman supported a negative income tax scheme, similar to Cl in many respects. By the late 1970s, "Basisinkommen" was being discussed in the Netherlands. In Canada, Belgium, France, Germany, Denmark, and Italy there is interest in the idea. The Basic Income European Network (BIEN) was set up in 1988.

Arguments for CI

In Britain, since the Beveridge Report in 1942, the state has accepted an obligation to ensure that every citizen receives a minimum subsistence income. CI aims to meet this obligation more effectively than it is met now.

At present, an endlessly changing hotch-potch of social security benefits

- fail to ensure take-up of entitlements,
- are experienced as degrading by many recipients,
- are open to fraud on the one hand and arbitrary bureaucratic decision on the other,
- penalise people who have built up their own savings,

[5] Hermione Parker, *Instead Of The Dole*, Routledge, 1989.

[6] Samuel Brittan and Steven Webb, *Beyond The Welfare State: An Examination Of Basic Incomes In A Market Economy*, Hume Paper No. 17, Aberdeen University Press, 1990.

[7] Milton and Rose Friedman, *Capitalism And Freedom*, Pelican, 1981.

- create an unemployment trap and a poverty trap which make it financially impossible for many recipients to take on paid work, and
- mean that, because of their employment record, many pensioners (mostly women) have not built up entitlement to a full basic pension.

In short, the existing benefits system is socially ineffective and economically wasteful. Coupled with the existing system of tax allowances and reliefs for those with taxable incomes, it is unjust. It is financially vulnerable to continuing high unemployment and to cyclical recessions, which reduce the total tax revenue coming in and increase the total value of benefits to be paid out. An ageing population makes reform of the present system all the more urgent. Cl would provide an effective response to most of these problems.

Further, by helping to remove the unemployment and poverty traps, CI would make part-time employment and self-employment more attractive. By removing the subsistence element from labour costs, CI would allow a freer and more flexible labour market. In both these ways Cl would reduce the cost of labour relatively to the cost of capital. It would thus help to reduce unemployment. It would also make it easier for people to give time to useful unpaid work in the family, household and local community.

By providing income security during education, training and retraining, as well as by opening up new work opportunities in a more flexible labour market, CI would provide encouragement for people to develop their skills, and would thus contribute to national economic performance.

Finally, by cushioning consumer demand in times of recession, CI would help to smooth the economic cycles.

Arguments Put Forward Against CI

(1) Cl Would Be Too Expensive

The assumption has generally been accepted hitherto that CI would be financed out of Income Tax. Recipients would not be taxed on the CI itself, but on all (or almost all) their other income. But on that assumption - according to the Citizen's Income Study Group[8] - a Full CI, enough to live on, would mean a tax rate on other income (estimated as at least 70%) which would be unacceptably high on both economic and political grounds. (This is why much detailed work on CI in the last few years has been on whether it would make sense to introduce a small Transitional CI and later, if Income Tax revenue rose as a result of economic growth, a rather larger Partial CI alongside existing benefits. The problem, of course, is that this would add yet another benefit to an already over-complicated system, while not achieving the advantages of a Full CI.)

Response. Why stick to Income Tax? There are good arguments (unconnected with CI) for shifting the burden of tax off incomes. There are also arguments (again unconnected) for taxing land-rent and energy. Could restructuring the tax system help to remove the financing problem which is now blocking progress towards a Full CI? Could a restructured tax system be so designed that richer people, who need CI least, would find themselves paying back so much more in tax than poorer people, that the practical effect would be to target the benefit on those who need it most - but indirectly, without the disadvantages of means testing?

(2) An Unconditional Cl Would Encourage Idleness

In spite of the social, economic and administrative arguments in favour of universality, the view is widely held on the Right that unearned incomes from the state should be conditional on need and, for adults of "working age", on willingness to do useful work. Notions of deserving and undeserving poor echo down from the 19th century. The fear is that many people unaccustomed to unearned incomes would treat CI as an opportunity to live idle, useless, selfish and irresponsible lives. They would be tempted to spend their CI on booze or drugs or gambling or trivial luxuries, to become New Age travellers, or otherwise to spend their new leisure time on socially negative and positively criminal activities. For this reason, as well as in order to limit the total cost, state benefits should be targeted to

[8] Aspects Of Citizen's Income, No. 3: Paying For Citizen's Income.

people who qualify for them. Means testing must be accepted, with all its attendant problems.

Response. In practice, CI's potential to enable honest, decent people to take up paid work and other useful activities who are now prevented from doing so, will outweigh its potential to encourage idleness. Nonetheless, this anxiety must be taken seriously. It does identify a genuine element of risk, and - whether justified or not - it could be a serious obstacle to the introduction of CI.

The question is about the rights and obligations of the citizen in post-modern society. What citizen's obligations will match entitlement to CI? If the need to get a job no longer motivates people quite so strongly as it has done in modern society, on what new foundation will people's obligation to contribute to society rest? Clearly, universal compulsory workfare could not be the counterpart to a universal right to CI. But how should we be encouraged to appreciate our obligations as citizens and to feel responsible for carrying them out? Should there be specific requirements? For example, should all citizens between eighteen and twenty-five do a period of full-time community service, or should all citizens work so many days every month for an accredited community service initiative? Alternatively, should the matter be left to each person's sense of obligation to family, neighbourhood and community? This question goes beyond conventional economic analysis. It is a priority item for the new economics agenda.

(3) A Minimum Wage Is A Better Solution

A variant of the above argument is heard from the Left. It is that Cl would be a subsidy to employers like the Speenhamland System of the late 18th and early 19th centuries, and that it would have a similarly pauperising effect. Making employers pay a minimum wage is a better approach.

Response. The historical parallel with Speenhamland is false. Under the Speenhamland system, parish ratepayers were obliged to bring the wages received by labourers in their parish up to a given level in accordance with the changing price of bread. Thus, unlike CI, Speenhamland - until it was abolished in 1834 -

effectively prevented the establishment of a competitive labour market.[9] Unlike CI, Speenhamland limited the amount that people could earn from more and better work. CI will not keep workers dependent on employers, as Speenhamland did; it will strengthen workers' negotiating position with employers. It will not enable big employers to shift their wage costs on to independent self-employed people - today's equivalent of freeholder ratepayers in the 18th and 19th centuries - as Speenhamland did. Nor will it enable big employers in one parish to shift their wage costs on to ratepayers in the adjoining parish (if their workers live there), as Speenhamland did.

Compelling employers to pay a minimum wage would not help people who are unemployed, and it could increase their number. It would not help people to do the unpaid work of family and household management, which necessarily tends to suffer in a society obsessed with jobs. It would not solve the problems of the present benefit system, or help to disconnect basic incomes from dependence on the ability and willingness of employers to provide jobs. The background of confrontation between the labour movement and employers explains why some on the Left prefer this approach. But, although minimum income legislation would not necessarily be incompatible with CI, it cannot substitute for it.

(4) Cl Would Mean Abandoning The Insurance Principle
Underlying the Beveridge scheme was the principle that National Insurance Contributions are paid into a fund from which benefits are paid when entitlement falls due. People now value the thought that they have paid for the state benefits and pensions to which they are entitled.

Response. Undoubtedly some people do value this. But the fact is that,in practice, no viable National Insurance Fund exists. For all practical purposes the government treats National Insurance Contributions like any other tax revenue, and treats benefits like any other public expenditure. It is high time the charade of National Insurance is brought to an end. The prospect of an

[9] Karl Polanyi: The Great Transformation: The Political And Economic Origins of Our Time: Beacon Press, 1957, p.78.

ageing population and continuing high unemployment makes it all the more important that people should clearly understand the real basis on which pensions and other benefits are financed.

The Right Rate For CI

A Full CI should be high enough to eliminate the need for most existing social benefit payments, but not so high as to encourage idleness by removing the incentive to work - either in paid work to bring in more money, or in unpaid work which would reduce the need to spend money. The rates assumed in the illustrative scenario (see Section V) are pensioners £77 per week, adults £55, and children £15. (These compare with the 1990 basic retirement and widow's pension of £46.90, unemployment benefit of £37.85, sickness benefit of £35.70, and child benefit of £7.25.) In practice, a wider range of rates could be adopted - for younger and older children, and for younger and older pensioners.

II. ABOLISHING TAXES ON INCOMES, PROFITS AND VALUE ADDED

The proposal is that Income Tax and National Insurance Contributions (NIC), Corporation Tax (company profits tax) and Value Added Tax should be abolished, together with all their associated allowances and reliefs. They should be replaced by the taxes on land rent, energy and other "commons" discussed in the following sections.

Background

As a recent British study has pointed out, the idea of shifting the balance of taxation away from income and towards resource use and expenditure has a respectable history in mainstream economic literature.[10] Well-known British economists who have proposed it include Nicholas Kaldor in the 1950s, James Meade in the 1970s and John Kay and Mervyn King in the 1980s. Recent Conservative governments have reduced Income Tax, but offset the reductions by raising VAT. This has hit poorer people harder than rich. And, by continuing to penalise added - not subtracted - value, it has made little contribution to economic effictency and none to ecological sustainability.

In the last few years, growing awareness that ecological taxation will contribute to sustainable development has brought fresh criticism to bear on conventional taxes. A recent American study found that "switching some of the revenue burden from taxes on income, employment and profits to environmental charges on resource use, waste collection and pollution would yield double economic benefits". [11] First, the economically negative effects of the old taxes would be removed and, second, the new taxes would avert the economic costs of the environmental damage that would have taken place without them. The study calculated that, per dollar of tax shifted from "goods" to "bads", the total economic benefit could be between $0.45 and $0.80. A recent

[10] Geoff Mulgan and Robin Murray, *Reconnecting Taxation*, Paper No.1, 1993, £5.95 from Demos, 120 Wilton Road, London SWIV IGZ.
[11] Robert Repetto et al., Green Fees: How a Tax Shift Can Work forthe Environment and the Economy, World Resources Institute, November 1992.

European study has also drawn attention to "the economic gains that could result from a reduction in existing taxes on business profits, value added and gainful employment".[12]

Arguments For Abolition

The arguments for abolition are based on considerations of fairness and efficiency. To tax incomes, profits and value added is to penalise people whose efforts have made a contribution - in other words, have added value. By contrast it fails to penalise people who, by using resources themselves, have made made them unavailable to other people - in other words, have subtracted value. That is socially unjust. It is also economically inefficient, because it reduces incentives to do useful things that add value and to make efficient, sparing use of resources.

Income Tax especially, but also to some extent VAT, are taxes on work. By skewing the economy against human work in favour of capital-intensive and energy-intensive forms of production, they help to create unemployment and keep it high.

Income Tax, profits tax and VAT put businesses and households producing the same goods and services, e.g. food preparation, on a different economic footing. Households have to purchase their materials and equipment out of income that has been taxed (by Income Tax), in the form of consumer goods that have been taxed (by VAT). Businesses can treat the cost of their materials and equipment as pre-tax business expenditure, and they can pass VAT on to their customers. Abolishing the taxes would result in a more "level playing field". It would probably make unpaid household production relatively more attractive, even though the abolition of Income Tax would tend to bring down business labour costs, and even though the abolition of company profits tax and VAT would also enable businesses to reduce the prices of their products and services to consumers. (Few past studies have recognised that taxation affects the relative advantages of business and household production. But the potential economic and social value of unpaid, informal activity is now becoming better understood.)

[12] Ernst U. von Weizsacker and Jochen Jesinghaus, *Ecological Tax Reform*, Zed Books, 1992.

Finally, the cumbersome administrative requirements of the existing taxes are economically inefficient and unfair. Many thousands of people, in private and public sectors alike, are now unproductively engaged in handling them. Rich people can better afford than poor the professional help needed to minimise their income tax, and big companies can better afford than small the staff needed to handle VAT.

III. LAND-RENT TAX[13]

This is a tax on the annual rental site value of land.

The annual rental site-value is the rental value which a particular piece of land would have if there were no buildings or improvements on it. It is the value of a site, as provided by nature and as affected for better or worse by the activities of the community at large. The tax falls on the annual value of land at the point where it enters into economic activity, before the application of capital and labour to it.

As V.H. Blundell puts it "the value of different sites of land varies enormously according to a variety of factors which (unlike the value of improvements) have nothing to do with the activities of the landowner or his predecessors in title. These factors include fertility, the presence of minerals, ease of communications, proximity of towns, and the kinds of use permitted by planning and other environmental legislation. These factors would all be taken into account in assessing the tax." [14]

Background

The idea of a land-rent tax goes back many years. Ricardo pointed out in 1817 that a "tax on rent would affect rent only; it would fall wholly on landlords and could not be shifted to any class of consumers".[15] Its best known advocate was the American economist, Henry George. In 1879, in Progress And Poverty, he argued that "to shift the burden of taxation from production and exchange to the value or rent of land would be not merely to give

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[13] The Centre For Incentive Taxation (7 Kings Road, Teddington, Middlesex TWll OQB) is an invaluable source of information and analysis. Recent books include:

Ronald Banks, ed., *Costing The Earth*, Shepheard-Walwyn, London 1989.

R.V. Andelson, ed., *Commons Without Tragedy*, Shepheard-Walwyn,London,1991.

Land And Liberty International and the Economic and Social Science Research Association (both at 177 Vauxhall Bridge Road, London SWLV 1EU) are other useful sources. Recent publications include a reading list and:

V.H.Blundell, *Essays In Land Economics*, 1993, including "Labour's Flawed Land Acts, 1947-1976" and "Enquiry Committees And Land-Value Rating, 1952-1976".

David Richards, The Land Value Of Britain, 1985-1990.

[14] V.H. Blundell, op. cit.

[15] David Ricardo, The Principles Of Political Economy And Taxation, 1817.

new stimulus to the production of wealth; it would be to open new opportunities.... The selling price of land would fall; land speculation would receive its death-blow, land monopolisation would no longer pay.[16]

In *Ecology, Politics and the Nature of Rent,* Fred Harrison[17] quotes leading contemporary economists who corroborate the findings of the classical economists that the tax on economic rent is the most neutral and most efficient of all fiscal instruments, inducing no distortions and generating no loss of welfare: "the least bad tax" (Milton Friedman); "cannot be shifted forward on to prices" (Samuelson and Nordhaus); "perfectly neutral with respect to the allocation of resources" (Lipsey). In 1990, Nobel Prize-winning economists Franco Modigliani, James Tobin and Robert Solow were among a distinguished list of mainly American scholars who endorsed the principle that the rental value of land should be enjoyed by the community. They signed an open letter to Mr. Gorbachev, then president of the USSR, urging him not to sell publicly owned land but to raise government revenue by charging rent for it.[18]

In Britain a land-rent tax or site-value tax was for many years part of Liberal Party policy. Labour governments since 1945 have made unsuccessful attempts to tax land values - unsuccessful because they failed to grasp the significance of land rent. Until now, the opposition of the landowning interest and a wider failure to grasp the principles and potential significance of land-rent taxation have thwarted progress towards it. The cranky image of some of its advocates has not helped.

Arguments For A Land-Rent Tax

Like the arguments for Citizen's Income and the abolition of taxes on incomes, profits and value added, the arguments for a land-rent tax are to do with fairness and economic efficiency.

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[16] Henry George, *Progress And Poverty,* Hogarth Press, 1966.
[17] See Chapter I in Ronald Banks, ed., op. cit. (Note 13).
[18] See the Appendix to Richard Noyes, ed., *Now The Synthesis: Capitalism, Socialism And The New Social Contract,* Shepheard-Walwyn, London 1991.

Most of the reward from rising land values now goes to those who own land, while most of the cost of the activities that create rising land values does not. This is because rising land values - for example in prosperous city centres or prime agricultural areas - are largely created by the activities of the community as a whole and by government regulations and subsidies, while the the higher value of each particular site is enjoyed by its owner.

This means that now it often pays landowners to keep sites unused, in order to sell them later when (they hope) land values will have risen. Speculation on rising land values distorts land prices, generally making them significantly higher than they would otherwise be.

This economic distortion puts land out of reach for potential users and uses, and puts housing out of reach for people who need it. It also amplifies the effect of Stop-Go cycles. When recession comes, the slump in land and property values can be devastating - as many people can testify who, having borrowed to buy their first home a few years ago, now find themselves the possessors of negative equity in the form of mortgage debts worth more than the value of their property.

In terms of economic efficiency, a land-rent tax is the most benign of taxes, because - as Ricardo pointed out - it does not affect production costs. In other words, it falls on people in the capacity of landowner, not land user.

In short, land-rent taxation would lead to more efficient land use within the structure of social, environmental and economic goals embodied in planning and other legislation. It would reduce the cost of land, so reducing the cost of housing and creating opportunities for employment and self-employment which high land costs now deny. It would make it possible to abolish other more economically damaging taxes. It would smooth out the swings of the Stop-Go cycle and reduce the impaCI of recessions.

Why Land-Rent Tax Will Not Increase Production Costs

Point One. The reason why the rental value of land varies from site to site is because higher profits can be made from using one site than another for the same purpose - e.g. from providing rented residential accommodation in Mayfair as contrasted with Brixton. The rental value of any particular site is determined by how much extra annual profit can be made from using it, e.g. building a block of flats on it, compared with the lowest level of profit which makes the same activity economically viable (on the least valuable site for the purpose). The land-rent tax will fall on the extra profit generated by higher-value sites.

Point Two. The reason why it will not be possible for the landowner to pass the tax on to the land user, thereby raising the land user's cost of production, is because in a free market economy the price that buyers are prepared to pay for goods or services sets a limit to the cost at which production is profitable. Raising production costs beyond that level would make use of the land unprofitable.

This means that, when a land-rent tax is introduced, land users will continue to pay rental values to landowners, as at present. But, instead of landowners enjoying those rental values in full, a proportion will be passed on to the state in land-rent tax. In practice, no doubt, landowners will try to recoup some of the tax they will have to pay, by raising the prices of the products and services theyproduce (as land users), or by raising their rents to tenants. They may succeed to some extent, owing to imperfections in the market. But the main effects of the tax will be to reduce the unearned element in incomes which the owners of land now derive from its profitable use, and to increase the costs of owners who now hold unused or unprofitably used land.

Arguments Put Forward Against A Land-Rent Tax

(1) Administrative Problems

It would be administratively very difficult to assess land-rent values, because land is not actually sold or rented without its buildings and other improvements.

Response. This is not a great practical difficulty. Developers know very well how to assess the price at which it will be economic for them to buy particular sites for development. They do it every day. Experience in other countries, and pilot assessments in Whitstable in England in 1964 by the Rating and Valuing Association and in 1974 by the Land Institute, show that land-rent valuation is quite feasible.

An opinion from the Valuation office in 1987 was that the assessment of land-rent values would be no more difficult than assessing property values under the old rating system in the UK.[19] It would lead to the development of a nationwide register of land uses and land values - a component part of a national resource inventory which is becoming increasingly necessary in the context of sustainable development. Seeing how quickly it has been possible to introduce the new Council Tax, it should be perfectly feasible - given the political will - to start bringing in a new land-rent tax after a three-year preparatory period, and then to phase it in fully over ten years.

(2) Effect on Rural Areas

It is sometimes suggested that land-rent tax would bear particularly hard on farmers and rural areas.

Response. This is simply not so. Housing land (£66bn), commercial land (£l9bn), land held by public services (£10.2bn), industrial land (£9.3bn.), and mineral land values (£5.8bn) all had 1990 rental values much higher than farm, wood and forest land (£2.4bn).[20] Marginal farming land, not suitable or required for other purposes, will have very low rental site values.

(3) Findings of Post-War Enquiry Committees

Arguments against land-rent taxation have been accepted by various enquiry committees since the second world war.

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[19] See Ronald Banks, ed., op. cit. (Note 10), page 143.

[20] David Richards, *The LandValue of Britain, 1985-1990* (see Note 13).

These arguments, and the findings of the enquiry committees, have been convincingly demolished by V.H. Blundell.[21] They include the following.

- The accuracy of site-value assessment might sometimes be subject to imperfections. *Response*: These would be no greater than many imperfections which we take for granted now in the assessment of other taxes. In practice, as noted above, developers are perfectly capable of assessing the value of sites.
- Site-value rating is generally used in countries of extensive land area. *Response*: But not necessarily. This does not apply to Denmark, which uses it. In any case the problems that land-rent taxation would help to solve are more serious for countries with limited land.
- Assuming that the aim was to tax development gains (i.e. realised increases in land values arising from changes in planning status), some post-war enquiries have argued that legislation already existed for that purpose, others that it could be achieved by other taxes, such as a capital gains tax or by taxing buildings as well as land (as under the old rating system or the new Council tax). *Response*: The Community Land Tax 1975 and the Development Land Tax 1976 have been repealed, because they didn't work. This leaves the way clear to introduce a land-rent tax and recover land-rent value for the community. Values created by the potential for development, not just actual development gains, are what should be taxed.
- Site-value tax would encourage maximum development of land, leading to overdevelopment and the loss of amenities which would be priced out of existence. *Response*: Not so. Site-values would continue to reflect planning status. Only when planning procedures had decided a site should be developed, would tax on the higher site-value penalise failure to develop it.

In short, the adverse findings of these enquiries were not justified. They failed to understand the land-rent tax and the arguments for it. They considered it on the assumption that it would be a local tax, additional to existing national taxes, not

[21] V.H. Blundell, op. cit. (see Note 13).

replacing them. They were unaware that it could help to deal with deep-rooted national problems of social welfare and economic efficiency. That, sadly, was not in their terms of reference.

Will A Land-Rent Tax Erode Its Own Base?

To what extent and how quickly will a land-rent tax erode its own base? Will the imposition of the tax reduce annual rental site values? If so, will that reduce the total revenue from the tax?

The land-rent tax will clearly reduce the capital value of land for landowners. The annual worth of the land to them will drop by the amount of the tax as it rises each year to its eventual maximum level. Its capitalised value will drop accordingly. But land users will still need land. They will be prepared to continue to pay rental charges in accordance with the level of profit or benefit they can get from their use of a site. So rental values will not fall nearly so much.

They are likely to fall to some extent, however. By prompting owners of unused and inefficiently used land to sell it or rent it out, the tax will bring more land on to the market. Some fall in rental site-values is likely to follow. This is desirable in order to make land available to people who will make good use of it but cannot afford it now. However, since the supply of land is limited, any fall in its value is likely to be limited too. And, as land previously unused is designated for economic use by the planning system, the resulting increase in land-rent tax revenue is likely to offset, at least in part, any overall fall in rental site values.

How much that fall is likely to be, and what the effect on revenue from the land-rent tax is likely to be, are two of the questions for further discussion and study.

The Right Rate For A Land-Rent Tax

Most supporters of a land-rent tax have proposed that rental site-value should accrue in full to the community. In other words, they have proposed a tax rate of 100%. Some have shown, at least theoretically, that the total annual value of land rent is equal to the annual cost of public services, and have argued therefore that a land-rent tax of 100% could replace all other taxes. They also argue that, in a free-market economy, a 100% land-rent tax would create conditions for full employment and adequate incomes for all.

100% may be the theoretically optimum rate in terms of the effect on economic efficiency. However, the illustrative scenario in Section V assumes an eventual maximum rate of 75%, together with the existence of other taxes.

IV. AN ENERGY TAX

The proposed energy tax will fall on coal, oil, gas and nuclear power at the point of production. It will then cascade down through the economy, raising the embodied energy cost of all materials and equipments used at every level of manufacture, distribution, consumption and waste disposal, and also the energy cost of all the activities involved in all those processes.

The tax will not apply to energy from renewable sources, at least for many years. It will be based on the calorific value of energy extracted from the earth. The maximum rate assumed in the illustrative scenario is about £10 per gigajoule. This would add nearly 4p per kWh to the present price of 1.5p for household gas and about 10p per kWh to the present general tariff price of 7.3p for household electricity. The difference reflects the different thermal efficiencies of the two fuels.

This proposal differs in certain respects from other energy tax proposals, such as a carbon tax.[22] It would encourage the most efficient use of energy, and help to minimise the whole range of pollution effects which result from energy use. By contrast, while certainly encouraging improved energy efficiency, a carbon tax, being based on the carbon content of fossil fuels, would be aimed at reducing carbon emissions, the form of pollution particularly associated with global warming.

The European Commission's 1991 proposal was that a carbon/energy tax (half levied on the calorific content and half on the carbon content of fuels) should start at $3 per barrel of oil equivalent (boe) in 1993 and rise to $10 per boe in 2000. This may be compared with our scenario, in which the energy tax is assumed to rise to something like $90 per boe at its eventual maximum. The size of the difference reflects the fact that in our

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[22] On carbon tax see:

Terry Barker, Susan Baylis and Peter Madsen: *A CarbonlEnergy Tax: The Macroeconomic Effects*: Energy Policy, 1993.

Paul Ekins: *The Impact Of Carbon Taxation On The UK Economy*: a paper presented in December 1993 at a London conference on Environmental Economics In Practice.

Victor Anderson, *Energy Efficiency Policies*, Routledge, 1993.

Robert Repetto et al., op. cit. (see Note 11).

scenario revenue from the energy tax is a replacement for, not an addition to, existing taxes.

The calorific-value tax has the virtues of simplicity. Moreover it would apply to nuclear power - the use of which, though comparatively carbon-free, should be minimised for other reasons. However, this is not a question to be pursued further here. Either form of tax would encourage energy efficiency, energy conservation, a shift to renewable energy sources, and a shift to labour-intensive and skill-intensive forms of production in contrast to energy-intensive forms. If, in practice, it were decided that the tax should be specifically biased against carbon, that would not greatly affect the economic and social implications of the package of policies as a whole.

Background

A tax on the calorific value of energy has been proposed for many years by a handful of forward-looking thinkers.[23] Now, as commitment to sustainable development has begun to crystallise, a great deal of work is in hand around the world on the practicalities of energy taxation and ecological tax reform of one kind another. Bodies such as the European Community and OECD, political parties and established research groups are all involved.[24] Energy taxation is well and truly on the agenda.

Arguments In Favour Of An Energy Tax

An energy tax would encourage energy efficiency, energy conservation, a shift to renewable energy sources, and a shift to

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[23] I am thinking particularly of Farel Bradbury, whose proposal for UNITAX was taken up some years ago by Professor Malcolm Slesser of Edinburgh University. See Malcolm Slesser, *UNITAX: A New Environmentally Sensitive Concept In Taxation*, 14-page booklet (1989) from Hydatum Publishers, P.O. Box 4, Ross-on-Wye, HR9 6EB.

[24] See, for example:

Ernst U. von Weizsacker and Jochen Jesinghaus, op. cit. (see Note 12).

Robert Repetto et al., op. cit. (see Note 11).

David Gee and Ernst U. von Weizsacker, *Eco-Tax Reform*, New Century, September/October 1993. A fuller version of this article is available from David Gee (WBMG, Room 610, Linen Hall, 162-168 Regent Street, London WlR 5TB).

labour-intensive and skill-intensive forms of production in contrast to energy-intensive forms.

The much publicised calculation of the International Panel on Climate Control that a global reduction of 60% in CO_2 emissions should be made over the next fifty years, indicates tfie need for such changes - and their order of magnitude - on environmental grounds. It requires the populations of countries like Britain to accept a reduction of up to 90%, in order to bring ourselves down to a per capita level that will be sustainable worldwide.

Less attention has been paid so far to the argument that taxing energy instead of labour will reduce unemployment. But that too is a powerful argument in favour of energy taxation.

Arguments Against Energy Taxation

Von Weizsacker and Jesinghaus[25] deal with a number of objections that have been made to ecological, including energy, taxation.

Some of these we can dismiss briefly.

- Energy taxes are a burden on the economy. *Response*: Not if they replace more economically burdensome taxes.
- Revenue from energy taxes should be specifically earmarked for environmental purposes. *Response*: Not necessarily. This raises the more general question of "hypothecation", under which every tax would be earmarked to meet specific expenditures. There are arguments for and against this. Support for it may be growing.[26] But this paper is not about it.
- Environmentally harmful behaviour is better discouraged by other measures such as legal prohibition, mandatory standards, environmental impact assessment, and strict legal liability. *Response*: Of course these are important. But they are complementary to energy taxation, which will have environmentally beneficial effects right across the

[25] Ernst U. von Weizsacker and Jochen Jesinghaus, op. cit. (Note 12).
[26] See Geoff Mulgan and Robin Murray, op. cit. (Note 10).

economy. And energy taxation is one of the least economically damaging ways to raise government revenue.

The following objections are more important.

(1) An Energy Tax Will Erode Its Own Base
An energy tax will have the effect of reducing energy consumption. That, after all, is one of its main purposes. As this effect takes place, the amount of energy used - i.e. the amount to be taxed - will fall. For a time, increasing the tax rate may increase or at least maintain the amount of revenue. But not for ever. Eventually there must be a limit.

Response (1): it is true that, in the long-term, the energy tax will reduce energy use. But people will always need to use energy. So there will always be a substantial base for an energy tax. Furthermore, the speed with which a gradually increasing tax on energy will reduce energy consumption should not be exaggerated. In the seven years between 1973 and 1980 OPEC increased the price of oil by a factor of four, with some - but not very great - lasting effects on energy use. The price has now subsided again to about $15 per barrel. At its maximum, the tax assumed in our scenario would raise the price by a factor of seven, and the abolition of other taxes would mean that more money would be available for spending on energy.

Response (2): When revenue from an energy tax does begin to fall, that will be part of a larger picture. Lower costs of human work (owing to the removal of taxes on it) will also be part of it. In Section VII the possibility is discussed that the proposed package of changes might encourage a shift of priority from the generation of higher incomes and revenues to the reduction of expenditure and costs as the main financial driving force in the economic system. In that event, falling tax revenues - being matched by falling public expenditure costs - might not be quite so serious a problem as now appears.

Response (3): Even if the revenue from an energy tax did fall off somewhat towards the end of the coming half century during which the shift to sustainable development must take place, that would be no argument against the need for it now.

(2) Energy Taxation Would Be Unfair, Unpopular, And Disruptive
An energy tax (like VAT today) would fall proportionately more heavily on poorer than on richer people, because energy takes a larger proportion of poorer people's annual spending than richer people's - and also because poorer people's houses are less energy efficient than richer people's. UK pensioners' response to VAT on energy shows how unpopular an energy tax would be.

Response (1): Yes, indeed. An energy tax at a high enough rate to provide a big stimulus to energy conservation and a big source of government revenue will have to be accompanied by other measures to correct its regressive effects. The proposed Citizen's Income will be one such measure. But an effective programme to tackle fuel poverty will be necessary too.[27]

Response (2): As regards the disruptive effects, the shift to sustainable development is bound to mean big changes in economic life. Disruption will be minimised by reaching a broad consensus that a package of changes including the energy tax is necessary and acceptable, by planning its introduction carefully, and by phasing it in over a period of years.

Administering The Energy Tax

The assessment and collection of the tax at the comparatively few relevant sources of energy production - coal mines, oil and gas wells, and nuclear power stations - within the UK, and on coal, oil, gas and electricity imported into the UK, will be straightforward.

So far as the energy content of imported and exported goods and services is concerned, there will be a strong argument for ignoring the effect of the energy tax on imports and exports.

[27] The term "fuel poverty" refers to the fact that there are currently 7 million low-income households in UK, which - even with present energy costs - do not have enough income to afford proper heating nor the capital needed to improve the energy efficiency of their buildings, their energy systems and their energy appliances. See, for example, Brenda Boardman et al.: *The National Right To Fuel Campaign's Response to the Department of the Environment's Climate Change Discussion Document*, March 1993.

Other countries may be expected to make similar changes in their tax systems. Until they do, any country which has made the change will enjoy a competitive advantage in the wide range of labour-intensive and skill-intensive goods and services which have been freed from taxes on work, profit and added value. At the same time, it would encourage its energy-intensive industries to improve their energy efficiency.[28]

This links with the question, discussed in the Introduction, whether the proposed package of changes, including an energy tax, would be adopted unilaterally by one country at a time or multilaterally by international agreement, e.g. by the European Community as a whole.

Either way, once a decision was taken, a 3-year preparatory period, followed by a 10-year period of phasing this tax in, should enable any administrative problems to be ironed out.

The Right Rate For An Energy Tax

Economic theory suggests that, when certain activities externalise social or environmental costs, i.e. inflict them on other people, those costs should be transferred back to the activities concerned, i.e. re-internalised, in the form of tax. Calculations for West Germany in 1985 have suggested an estimate of 10% of GNP for the externalised costs of environmental damage (which is largely due to energy-intensive activities).[29] To that must be added the externalised social costs of the unemployment (and all the ills connected with it) which is due to the present bias towards energy-intensive, as opposed to labour-intensive, methods of production.

[28] Alternatively, arrangements could be made to assess and collect the tax in respect of the energy content of imports from countries which do not have a comparable tax, and assess and rebate it in respect of the energy content of exports to those countries. This need not present insuperable practical difficulties. Customs officers would be given a code (as they now have for the whole range of imported and exported goods) showing the estimated taxable energy content and the duty to be collected or rebated on various different categories of imports from and exports to various different countries.
[29] Ernst U. von Weizsacker and Jochen Jesinghaus, op. cit. (Note 12), page 24.

On that kind of calculation for what it is worth, and given the need to raise tax revenue from one source or another, it does not seem unreasonable to look for revenue from an energy tax rising towards a maximum of something like 20% of GNP - broadly in line with the tax rate of £10 per gigajoule assumed in the illustrative scenario.

V. AN ILLUSTRATIVE SCENARIO

The previous sections have suggested that there are good arguments for all four proposals, and that they support one another in important respects. We now need to put some numbers on the proposals. This section outlines a scenario. Fuller details are in the Appendix.

The scenario is a useful starting point for further analysis and discussion. It helps to bring out important issues that are likely to arise. But it cannot provide a realistic projection, let alone an accurate detailed plan.

In the first place, it is based on 1990 figures, with projected changes shown in 1990 values, because 1990 is the latest year for which figures are available in all the relevant fields. When the time comes to draw up a programme of implementation, the calculations will have to be brought up to date.

More importantly, the combined changes will introduce new dynamic effects into the economy. What the consequences of these may be and how they may interact on one another is discussed in the following sections. But the consequences cannot be accurately established in advance.

To take one example, how much will wage and salary levels tend to come down because Income Tax and National Insurance Contributions are abolished and because people receive the Citizen's Income? Against that, to what extent will the Citizen's Income encourage people to stay out of the labour market, thereby - in combination with the shift to labour-intensive methods of production - increasing the demand for labour and therefore keeping wage and salary levels up?

In aggregate, these imponderables make numerical projections very slippery. As a follow-up to this report, computer modelling will be needed to explore a range of assumptions about these dynamic effects, and to simulate the effects of varying the suggested levels of Citizen's Income and of revenue from land tax and energy tax.[30] But even the most sophisticated modelling could only be expected to project a feasible series of year-by-year changes a short way into the future. In real life, as the changes are phased in and their effects begin to be felt, the actual programme will have to be continually adjusted.

Three Years Preparing Followed By Ten Years Phasing-In

The scenario assumes a three-year preparatory period followed by a ten-year phase-in programme. At the end of that time a full Citizen's Income would have been introduced and the burden of taxation would have been shifted largely on to land and energy.

In drawing up the scenario the following principles have been kept in mind.

1) The changes should be introduced gradually, giving people time to adjust to them.
2) The changes should be "revenue neutral" in the sense of not creating a large revenue deficit or surplus in any year. In real life, of course, a programme of this kind would be adjusted year by year in accordance with the revenue/expenditure balance that was desired, e.g. to reduce the borrowing requirement (PSBR).
3) At no stage should the overall impact of the changes be regressive, in the sense of favouring richer against poorer citizens - nor, on the other hand, so radically progressive as to alienate influential opinion.
4) The level of public services should not be reduced below the 1990 level, unless such reductions can be clearly justified by other features of the scenario.
5) The additional administrative burden should be minimised. Ideally, no new tax would be introduced without abolishing an existing tax to offset it.

Unfortunately, principle (5) conflicts with principle (1) and has not been observed. As regards principle (4), the scenario

[30] I much appreciated the initial modelling work done by Professor Peter Roberts on an earlier version of the illustrative scenario. At a later stage in the study I learned of modelling done quite independently by Owen Ephraim on a similar proposal to limit taxation "to the taxing of the two basic resources: Land and Energy".

assumes that the cost of public services will fall as a result of the lower wages and salary costs that the changes will bring. It also assumes that some real reduction in public services will be justified, because the Citizen's Income and the abolition of existing taxes will enable people and businesses to do without some existing public services and subsidies.

The scenario assumes, then, that after the ten-year period:

1) A Citizen's Income would have risen to (in 1990 values):
   a) pensioners £77 p.w.,
   b) adults £55 p.w.,
   c) children £15 p.w.

   This would require an increase of £108bn. above 1990 social security expenditure.
2) National Insurance Contributions, Income Tax, VAT, and Corporation Tax (and all related allowances and reliefs) would have been phased out, together with certain existing taxes and charges related to energy. This would result in lost revenue of £160bn.
3) A land-rent tax would have risen to 75% of annual rental site values, bringing in £90bn. in revenue.
4) An energy tax on coal, oil, gas, and nuclear power would have risen to £10.04 per gigajoule. This would be reflected in tax of:
   a) £26 per tonne on coal;
   b) £42 per tonne on crude oil;
   c) £105 per hundred therms on gas; and
   d) £0.104 per kWh. on nuclear power.

   This energy tax would replace existing taxes on energy, and existing licence fees, charges, etc., on oil, gas and hydrocarbons. It would bring in revenue of £l00bn.

   Two further items (explained below) round out the scenario.
5) Revenue from other new taxes or charges on the use of "commons". in addition to the land-rent and energy taxes, would have risen to £25bn.
6) Non-social-security public expenditure would have been reduced by £54bn., without involving real cuts in public services. But some real cuts would also have to be made, to match the liability of public services to pay the new land-

rent and energy taxes. These real cuts are not quantified in the scenario.

So the summary outcome at the end of the ten years is:

(1)	Citizen's Income	Additional Cost	- £108bn.
(2)	Taxes Abolished	Lost Revenue	- £l60bn.

			- £268bn.
			----------
(3)	Land-Rent Tax	Additional Revenue	+ £90bn.
(4)	Energy Tax	Additional Revenue	+ £l00bn.
(5)	Other "Commons" Taxes	Additional Revenue	+ £25bn.
(6)	Public Expenditure	Savings	+ £54bn.

			+£269bn.

The Appendix sets out the calculations on which these financial magnitudes are based, and shows the implications for government revenue and expenditure as a whole, and for the overall revenue/expenditure balance, year by year over the ten years.

Brief explanatory comments on items (5) and (6) follow.

Other Taxes And Charges On "Commons"

One of the principles underlying land-rent and energy taxes is that payment should be made to the community for the use of natural and other resources, the value of which is not due to the activity and enterprise of the user.

So far as natural resources are concerned, the concept applies to all the various elements of the factor of production that the classical economists called "land". In addition to land and energy, these include the communications capacity of airwaves, the fishing capacity of seas and oceans, and the pollution-absorbing capacity of climate, ozone layer, atmosphere, air and water. In

Green Fees Robert Repetto and his colleagues include - in addition to carbon - household waste, congested highways, effluent emissions (land, air and water), ozone-depleting substances, agricultural chemicals, and recreation in National Parks and other public lands, as possible subjects for taxes and charges[31].

The same concept extends beyond natural resources to include payment for the use or enjoyment of non-natural facilities and values created by society as a whole - such as development near a particular site, in cities and elsewhere, which helps to determine its value. Other man-made "commons" of this type include the monetary system and the telecommunications system, the value of which to any particular person depends on the use that other people make of them. In *Reconnecting Taxation* Mulgan and Murray argue for an extension of the classical economic concept of rent to the fields of knowledge, information and culture. They suggest, for example, that the monopoly element in profits made from patents, copyrights, and international blockbuster films and videos should be seen as a prime candidate for fiscal reform.[32]

Once the principle is accepted that taxation should bear on land and energy (rather than on work and incomes and value added), then the rationale for other ecological and "commons" taxes and charges becomes very strong. The scope for these is an important subject for further study. But it is not the subject of this paper. For our present purpose we hypothesise, as part of the illustrative scenario, that by the end of the thirteen-year preparatory and phase-in period revenue from new ecological and commons taxes and charges would have risen to £25 bn. a year.

Savings In Public Expenditure

The total of £54bn. is based on assumed savings from the following three sources:

- reductions in public sector wages and salaries costs;

[31] Robert Repetto et al., op.cit. (Note 11).

[32] Geoff Mulgan and Robin Murray, op. cit. (Note 10).

- reductions in the private sector wages and salaries element in other public expenditure; and
- greater cost-effectiveness and efficiency.

In addition, some reduction in the level of public services, justified by the socially and economically beneficial effects of the combined package of changes, will be needed to offset the public sector's new liability to taxes on land-rent, energy and other "commons".

The fall in wage and salary levels assumed in the scenario, following the abolition of Income Tax and National Insurance Contributions and the introduction of a Citizen's Income, will have to be positively negotiated as an aspect of public policy. By themselves, market forces may not be enough to produce it.

VI. THE IMPACT ON INCOMES AND PRICES

This section raises a number of questions that need further discussion and clarification.

Incomes

(1) Wage and Salary Levels

Receipt of a Citizen's Income and abolition of National Insurance Contributions and Income Tax will make it generally worthwhile for people to work for lower pre-tax wages and salaries than now. It will also allow a freer labour market to operate. Negotiations might be expected to reduce average gross pay

1) by something like the equivalent of the Citizen's Income (£3,000 in our scenario), and
2) by some further amount, reflecting the abolition of taxes on income, etc. on the one hand, offset by the liability to pay the new taxes on the other.

Abolishing the unemployment trap and the poverty trap will allow many people now excluded from the labour market to enter it, especially in the casual, part-time, self-employed and low-paid sectors. This may also tend to reduce general wage and salary levels.

On the other hand, the Citizen's Income is likely to encourage people to insist on higher pay for unpleasant work. It may allow some people to be more choosy about taking on paid work of any kind, which - given a growing preference on the part of employers for labour-intensive as against capital-intensive and energy-intensive methods of production - could raise demand for labour. That might limit the fall in general wage and salary levels.

Pay in energy-intensive industries and in concerns whose income depends on site values now untaxed is likely to fall, relatively to pay in labour-intensive and skill-intensive industries.

(2) Dividends

Similarly, dividends from energy-intensive industries and from concerns whose income depends on site values now untaxed will tend to fall, relatively to dividends from other industries. But there could also be more general pressure on companies to reduce the level of gross dividend payments. This would reflect the abolition of Income Tax on dividends, and would match the lower level of gross wages and salaries which companies may need to pay. (There are, of course, other factors affecting dividend levels. Prevailing demand for capital is one, but that seems as likely to fall as to rise, given the expected shift in favour of labour-intensive production.)

(3) Rental Income

Rental incomes from land ownership will fall by the amount of the land-rent tax. This will reduce the incomes of many rich people, landowning organisations (such as the Church of England and the richer Oxbridge colleges), and commercial and financial organisations owning valuable city centre sites. A knock-on effect is likely to reduce incomes in the sectors affected, including the sale of luxury goods and services.

The land-rent tax (into which our scenario merges Council Tax in Year 5 of the phase-in period) will also add to the costs of house-owners, but it will be offset by the abolition of existing taxes. It will affect house-owners in proportion to the value of their sites, which will in general be broadly proportionate to their means.

(4) Income From Private Pensions

Insofar as private pensions reflect previous earnings levels and current dividend levels, they could be expected to fall (or rise) in line with them.

(5) Income From Capital Appreciation

The land-rent tax will reduce potential gains from rising land values. The land-rent tax and the Citizen's Income will both help to smooth out the economic cycles, reducing the scope for profitable trading in volatile asset values. Lower incomes from other sources (see above) and lower prices (see below) may reduce the levels of cash flowing through the economy, thereby reducing capital values based on cash flow. In general, incomes from capital appreciation seem more likely to fall than to rise.

(6) Other Effects On Incomes

The Citizen's Income will raise the incomes of state pensioners and children, and provide all adults with a base level of income. Forthose earning, it will be at least somewhat offset by a fall in pay. It will not directly benefit poor people who are already receiving high social benefits, but it will allow them to earn additional income which would now be clawed back.

Abolition of NIC and Income Tax may initially raise net incomes for many people, but this is soon likely to be offset by lower gross wages and salaries. People with high incomes may benefit disproportionately. Poor people, not now paying NIC or income tax, will not benefit directly, but they will benefit from the abolition of the poverty trap. The marginal tax cost of earning will fall to zero.

Prices

The effects of the proposed changes on incomes (outlined above) should not have an inflationary effect on prices. Nor should the land-rent tax. Nor should the energy tax. It will be offset to some extent by the abolition of VAT, and people will be able to reduce their liability to it by greater energy efficiency and by purchasing more energy-conserving goods and services.

Lower labour costs should make lower prices possible for many goods and services, and a general reduction in levels of pre-tax pay and dividends (see *(1)* and *(2)* under Incomes above) would add political force to market pressures on companies to reduce prices. Within that general context, prices of energy-intensive goods and services may be expected to rise, and prices of labour-intensive and skill-intensive goods and services may be expected to fall.

The combination of Citizen's Income and tax changes could have a moderating effect on prices in another way too, by enabling people to spend more time working on unpaid productive and household activities for themselves and their families, thereby reducing demand for marketed goods and services.

What all this will mean for particular ranges of goods and services needs to be studied in depth. Take food prices for example. How will the combined effect of Citizen's Income, land-rent tax, energy tax and abolition of other taxes affect the need for agricultural subsidies? What differences will it make to organic and chemical farming, hill farming and cereal farming, small farming and agribusiness? How will it affect the economics of different crops? How will it relate to possible future changes in the Common Agricultural Policy of the European Community? Such questions, for this and other industries, need to be studied in depth.

Progressive Or Regressive?

Is the overall impact on incomes and prices likely to be progressive or regressive? Is it likely to transfer purchasing power from richer people to poorer people, or vice versa?

(1) Direct Effect On Incomes
The Citizen's Income will be progressive, with the exception - as noted - that people now receiving the highest levels of benefit will not gain directly from it. The abolition of Income Tax will be regressive in two respects: it will give nothing to people with no taxed income; and it will give back most to people with higher incomes now taxed at the higher rate. The land-rent tax will be progressive, hitting rich people's incomes harder than poor people's. The energy tax will hit the incomes of workers and shareholders in energy-intensive industries.

(2) Indirect Effect On Incomes
The combined package will provide opportunities for everyone to earn additional income at zero marginal cost, in terms of benefits currently clawed back and earnings currently taxed. In absolute monetary terms this may increase rich people's incomes more than poor people's. But the increase may be more significant for poor than rich.

(3) Direct Effects On Prices
The abolition of VAT may be progressive; poor people will notice the price reductions that follow from it more than rich people will. The energy tax will be regressive, insofar as the costs of heat, light and power are a larger proportion of poor people's essential household expenditure, and swallow up a larger proportion of their spending power, than rich people's. A big energy efficiency and "fuel poverty" programme will be necessary to correct this. To the extent that a larger proportion of rich people's spending than poor people's is on other energy-intensive goods and services - road travel, air travel, etc. - the energy tax will also have other more progressive effects.

(4) Indirect Effects On Prices
People will be able to reduce the prices of what they buy by shifting their consumption patterns over time to less energy-intensive goods and services. Where this requires investment, as in the purchase of energy-saving equipment, it will be more difficult for poorer people to do it. Where it does not, poorer people may be able to benefit proportionately more.

(5) Effect On The informal Economy
The changes will enable people to widen the range of goods and services they provide for themselves by unpaid work. This is unlikely to be of interest to the very rich. Nor may it be easy for the very poor, who may not be able to afford the equipment and facilities needed for household production. But for many others it could provide a significant source of financial saving.

Some Necessary Correctives
The general effect seems likely to be progressive. Many enterprising poor people are likely to benefit, and the land-rent tax will penalise many rich. But even if the general effect may be progressive, some specific regressive features will have to be corrected.

The need for a crash programme against fuel poverty has been mentioned several times. Other measures will be needed to enable and encourage people to take up the new opportunities to escape the dependency trap. Education for self-managed living and working, and not just for employment, is one. Encouraging local initiatives like community enterprises is another.

But there remain important questions about disparities in income and wealth. The new set of taxes will not bear directly on high money incomes as such. And, although it will bear on wealth held in the form of land and in the form of investments in energy-intensive industries, it will not bear on other forms of wealth. If, after the first few years of phasing out Income Tax and company profits tax and phasing in the energy tax, it appeared that the regressive effects were not being sufficiently corrected by the phasing out of VAT and the phasing in of Citizen's Income and the land-rent tax, there would be two possible responses.

The first would be to keep open the option of retaining Income Tax on high incomes.

The second possibility would be a once-for-all capital levy (or a wealth-tax raised annually for a given period of years). James Meade[33] has recently proposed this, partly in order to restore the progressive effect of Income Tax (which he proposes to replace by an expenditure tax) and partly in order to pay off the National Debt and then build up a substantial National Asset - from which a National Dividend could contribute to a Citizen's Income. This should be seriously considered as part of the proposed package of changes. If introduced, it could be accompanied by the abolition of the existing Capital Gains Tax and Inheritance Tax.

[33] J.E. Meade, Ibid. (see Note 4).

VII. EFFECTS ON THE ECON0MY

Stabilising.

Both the Citizen's Income and the Land Tax will have a stabilising effect, smoothing the troughs and peaks of economic cycles.

Decentralising

One of the themes in new economic thinking is the need for greater local economic autonomy and self-reliance. Although this paper is about restructuring taxes and benefits at national government level, the changes it discusses fit into that theme.

By raising the costs of travel and transport, the energy tax will discourage long-distance commuter travel to work and unnecessary long-distance transport of goods. It will encourage repair, reconditioning, recycling and reuse of equipments of all kinds, and more labour-intensive methods of production, including farming. The Citizen's Income is likely to reinforce the already existing trend towards home-working. So will increased office costs arising from taxes on land-rent and energy. Combining land-rent tax with Citizen's Income will transfer money from high site-value cities and other central areas to peripheral regions, thus providing a built-in corrective to the present tendency for people and resources to drain from periphery to centre.

More precisely what the effects will be on urban and rural economies needs further discussion and study. They may be necessary effects. There is already a question mark over the sustainability of cities in their present form.[34]

[34] See:
Herbert Girardet, *The Gaia Atlas Of Cities: New Directions For Sustainable Living*, Gaia Books, 1992.
Tim Elkin and Duncan McLaren with Mayer Hillman, *Reviving The City: Towards Sustainable Urban Development*, Friends of the Earth, London, 1991.

Decentralisation of economic activity would support the case for enlarging the role of subnational and local levels of government at the expense of the national level. As this happened, local government could enlarge its share of the land tax to meet a greater share of public expenditure. Localising the energy tax might raise more problems.[35]

Towards A Cost-Saving Economy

The effect of the Citizen's Income and the abolition of NIC, Income Tax and VAT might be to give increased spending power to sections of the population with a higher propensity to spend. The land tax might tend to reduce the incomes of those with a higher propensity to save. Might the combined package therefore be inflationary?

It seems more likely that, as a whole, the proposed changes will help to strengthen the disinflationary pressures that seem already to be evident in some industrialised economies. The financial emphasis throughout the economy may tend to shift towards saving expenditure and reducing costs, as opposed to increasing incomes and revenues. The cost of employing people will fall and, as it becomes economic for employers to provide some kind of paid work for many more people than now, the costs arising from high unemployment will fall too. The Citizen's Income will enable more people to choose to do useful unpaid work, leading to some reduction of demand for marketed goods and public services. The energy tax, though raising short-term costs, will not only encourage people to reduce energy costs over the longer term. It will also reduce the costs of remedying the damage to health and the environment which is generated by energy-intensive activities. The land-rent tax will tend to reduce land costs for land users. The Citizen's Income and the land-rent and energy taxes will cost less to administer than the social security benefits and taxes they replace. All these reductions in costs and expenditure will mean reductions in the incomes of

[35] However, Malcolm Slesser and Farel Bradbury have argued for it as a local tax. See Malcolm Slesser, *ULITAX*, 10-page paper from the Centre For Human Ecology, Edinburgh University, July 1992.

those to whom they were previously paid, who will therefore come under further pressure to reduce their own costs.

It can, of course, be argued that saving labour costs has been a key feature of "developed" economies for a very long time and that, if the emphasis were now to shift to saving costs of other kinds instead, that would not necessarily be a momentous change. But, if the financial drive to save costs becomes relatively more pressing than the hitherto dominant drive to generate higher incomes and revenues, there would be more to it than that.

Shifting to an economy in which progress depended more on finding ways to save expenditure than on ways to increase income would, in fact, be a profound change. But a shift to sustainable development may call for a change of that kind. A drive to save costs may be a necessary feature of the transition to sustainability that must take place over the next fifty years. It will reflect the recognised need to internalise costs now externalised, in order to get them saved. It will reflect the need to prevent ecological and social damage before it occurs, in order to avoid continually rising remedial costs of dealing with the results of environmental destruction, ill-health, poverty, ignorance and crime.

If cost saving does become a key feature of economic progress over the next fifty years or so, it will, as it happens, improve the feasibility of the package of proposals we are discussing. A cost-saving economy will be more easily able to accommodate taxes which erode their own base than an income- or revenue-generating economy. As the tax revenue falls, the costs of government which that revenue has to support will also be falling. These will include the cost of the Citizen's Income, the level of which will fall as the cost of living falls.

If this financial shift does take place, away from generating more income towards incurring less expenditure, its economic consequences will have to be managed very carefully. If cash flows generally fall, capital asset values that depend on them will also fall. Contingency planning may be needed to to avoid the damaging effects of an uncontrolled deflationary spiral. This is an important point for further study.

International Competitiveness

The impact of the proposed changes on the general international competitiveness of the economy seems likely to be beneficial. The most obvious possible exception is energy-intensive industries, which would be at a disadvantage against their competitors in countries without a comparable energy tax, unless a system of rebates on exports and tariffs on imports were introduced. Lower labour costs would be likely to make other products and services more competitive.

However, the effect on the international competitiveness, as on other features, of particular industries needs to be studied in depth. So do the possible implications of shifting to a cost-saving economy for the import/export balance, exchange rates, and closer European economic and monetary integration.

VIII. WINNERS AND LOSERS, SUPPORTERS AND OPPONENTS

The proposed changes are likely to benefit most people, at least in the medium and longer term. They will enable many people to find ways to benefit themselves, who are now prevented from doing so. They will reduce environmental damage and damage to health. By enabling people now excluded to participate in economic and social life, they may even contribute to the reduction of crime. They should help to create a new consensus about the rights and obligations binding citizen and society together. These things will benefit most people.

Women, particularly, will benefit from the Citizen's Income.

Other definite winners will be people who work in - or otherwise derive income, status or benefit from involvement with - labour-intensive and skill-intensive industries and activities, as contrasted with capital-intensive and energy-intensive ones. These include the whole range of sunrise industries - information, computing and communications, biotechnology, environmental control, pollution monitoring and control, energy-saving and renewable energy technologies, recycling and materials technology, and so on - as well as more traditional people-intensive service occupations such as teaching, nursing and the arts. Even in today's coal, gas, oil and nuclear industries, scientists, engineers and entrepreneurs will be well placed to take advantage of the shift of emphasis from the provision of energy supply to the provision of energy services.

However, as a general rule, the support of probable gainers from proposals for radical change tends to be weaker than the resistance of probable losers, even if there are many more of the former than the latter. The probability of gain seems to be less compelling than the probability of loss. Resistance to the proposed changes must not, therefore, be underestimated.

More detailed studies of their impact on a wide range of industries and professions are needed. But opposition could come from the following.

Sectoral Interests

Civil Servants and Public Officials. The proposals will involve big changes in tax and social security, a simplification of tax and benefit administration, and a need for fewer civil servants to deal with unemployment. The encouragement the changes will give to personal initiative and the commercial provision of services may lead to a more general reorientation of public services and some decline in their overall level. Opposition within the public sector could therefore outweigh the new opportunities the changes will offer to innovative public officials, including experts on land valuation, energy, environmental protection and sustainable development.

Trade Unions and Employers. Some trade union officials may feel threatened by the greater negotiating power which the Citizen's Income will give to individual people vis-a-vis employers, and also by the justification which that will provide for moving to a freer labour market. They may not see that this could offer opportunities for trades unions to provide new forms of service and support to members. Employers may welcome the prospect of a freer labour market and the abolition of company profits tax, Income Tax and VAT. But they may not welcome the prospect of people - and society as a whole - becoming rather less dependent on employers to provide and organise work.

Economists And Social Scientists. Initially, some conventional economists may view with incredulity and alarm the prospect of unemployment ceasing to be a relevant variable - not to mention the possibility that, if income growth becomes relatively less significant than expenditure saving, economic progress might have to be measured by indicators other than conventionally measured economic growth. The concepts of unemployment and economic growth have, after all, been among the most important tools of the conventional economist's trade. But, even if the proposed combination of changes fails to attract the serious attention of many established economists and social scientists in universities and professional institutes for some years, it will offer pioneering opportunities to increasing numbers of younger and more adventurous people in these disciplines.

Tax, Accountancy And Other Financial Professions. Many existing staff in the Inland Revenue and Customs and Excise Departments are unlikely to welcome the proposed shift in taxation, even if it were decided that the Inland Revenue should be responsible for the land-rent tax, and Customs and Excise for the energy tax. Private sector accountants, for whom Income Tax returns are now a significant source of income, may also be unenthusiastic. But a new tendency in the economy to give relatively higher priority to the saving of expenditure and costs than to the generation of revenue and income may provide new opportunities for cost accountants, investment advisers and other financial professionals. Many in these professions may welcome the proposed abolition of Income Tax and company profits tax.

Financial Institutions. For similar reasons, the response of financial institutions - and especially prestigious ones owning high-value sites in the City of London - is likely to be divided. They may welcome the abolition of Income Tax and company profits tax, both on ideological grounds and also because it will reduce their personnel costs, relieve their profits of tax, and encourage more people to save and invest - knowing that income from their savings and investments will no longer be taxed. But many of their richer clients may suffer from the land-rent tax, and a cost-saving economy may have little appeal for them.

Landowners and Developers. Landowners and developers may be expected to oppose the land-rent tax. In addition to putting forward the arguments rejected in Section III, they may claim that reducing the scope for windfall profits and speculative capital gains will damp the "animal spirits" not just of developers but of entrepreneurs generally, making the economy as a whole less innovative and competitive.

Energy Industries and Energy-Intensive Industries. The initial reaction of many in these industries will be to oppose energy taxation on the scale proposed. But many new opportunities will open up in these industries, connected with energy saving, energy efficiency, and renewable energy technologies. And, once it is accepted that rising energy taxation in one form or another is almost certain to be a feature of the coming years, many people in these industries may see little reason to oppose its combination with other changes discussed in this paper.

Conventional Political Groupings

The Right. Sympathetic aspects of Conservative thinking include the desirability of replacing a dependency culture with an enterprise culture, and allowing people the opportunity to work and save for themselves and their families without being taxed on the fruits of their endeavours. The danger is that many Conservatives may reject the Citizen's Income as a handout from the state to those who do not need it or deserve it, rather than as the launching pad for enterprise and useful work that it will actually be. The proposed land-rent and energy taxes may fall foul of Conservative Party links with landowners, developers, and the energy and energy-intensive industries. And the City may persuade its Conservative friends that the combined changes are likely to be financially destabilising.

The Left. There are aspects of current Labour Party thinking sympathetic to the need for radical changes to achieve a fairer, more efficient and ecologically more sustainable economic future.[36] But those may be offset by Labour's traditional links with the organised labour movement and its commitment to big government. Many Labour supporters will be instinctively suspicious of proposals for a Citizen's Income and tax cuts on incomes and profits. They may favour a land-rent tax, or at least a land tax of some kind, but many will be inclined to reject the energy tax out of hand, as unacceptably regressive.

The Centre. The Liberal Democrats have come out in favour of a Citizen's Income, at least in principle. For many years the land-

[36] The Labour Party's Commission on Social Justice is considering the future of the welfare state. The author submitted a short note to it early in 1993, outlining the strategy discussed in this paper.

rent tax (site-value taxation) has been a plank in Liberal platforms. Libdems have been in favour of energy taxation - though opposed to the way VAT is being extended to household energy consumption. Their top priority in the economic sphere, however, appears to be to present themselves as a respectably conventional alternative to Conservative and Labour. This may make it difficult for them, at least for the time being, to give wholehearted support to the combined package of proposals. It may seem too radical.

Strategy

Not much is likely to be gained at this stage by direct efforts to persuade opponents of the proposals to change their minds. It will be more useful to identify which sectoral interests and which strands of political opinion are likely to be favourable, to involve them in discussion, and to build a cross-sector and cross-party coalitin of support.

APPENDIX - AN ILLUSTRATIVE SCENARIO

The scenario envisages a 3-year preparatory period and a 10-year phase-in programme. At the end of that 13-year period a full Citizen's Income would have been introduced and the burden of taxation would have been shifted largely on to land and energy.

The scenario assumes that by the end of that period the following changes would have been made (1990 values).

1. A Citizen's Income, replacing all tax allowance and reliefs and most existing social benefits, would have risen to:
    pensioners £77 per week
    adults £55 per week
    children £15 per week

2. National Insurance Contributions, Income Tax, VAT, and Corporation Tax (and all related allowance and reliefs) would have been phased out.

3. A new land-rent tax would have risen to 75% of annual rental site values.

4. A new energy tax on coal, oil, gas, and nuclear power would have risen to:
    coal £26 per tonne
    crude oil £42 per tonne
    gas £105 per 100 therms
    nuclear power £0.104 per kWh

This energy tax would have replaced all existing taxes, licences, etc on oil, gas, and hydrocarbons.

5. Revenue from other new ecological taxes and charges on the use of other 'commons', in addition to the land rent and energy taxes, would have risen to £25bn.

6. The cost of non-social-security government functions would have been reduced by £54bn, without involving cuts in public services. But some actual cuts are also assumed, to offset the new liability of public services to the land-rent and energy taxes.

The following sections explain each of these changes and set out their financial implications. Finally, Table 7 shows what the changes would mean for government revenue and expenditure as a whole, and for the overall revenue/expenditure balance year by year over the 10-year phase-in period.

In drawing up the scenario, certain principles were observed.

1) The changes should be gradual, giving time to adjust.
2) The changes should be 'revenue-neutral', ie they should not create a large revenue deficit or surplus in any year. (In practice, the programme could be adjusted to change the overall balance between revenue and expenditure if that was desirable, eg to reduce the public sector borrowing requirement (PSBR) in particular years.)
3) At no stage should the overall impact of the changes be regressive, in the sense of favouring richer against poorer citizens - nor, on the other hand, so radically progressive as to alienate influential opinion.
4) The 1990 level and standard of public services should not be reduced, unless reductions can be justified by other features of the scenario.
5) The additional administrative burden should be minimised. Ideally, no new tax would be introduced without phasing out an existing tax to offset it. But in practice this conflicts with principle 1) above.

The scenario is arbitrary in almost all respects. It could be varied by changing the suggested levels of Citizen's Income, of revenue from land tax, energy tax and other proposed taxes, and of savings in government expenditure. That should be done in computer modelling, as the main paper suggests. In its present form the scenario does no more than provide a starting point for discussing the implications of the proposed changes. One of these, as discussed in the main paper, concerns the dynamic effects on economic behaviour which the proposed changes will have. These are one of the factors that invalidate the scenario as a projection as a possible actual future.

1. Citizen's Income

A Citizen's Income (CI) will be a regular weekly or monthly income paid unconditionally as an entitlement to all citizens. It will replace all tax allowances and most social benefits. Rates will be adjusted from year to year upwards or downwards in accordance with changes in the cost of living. There will be different rates for children, adults and pensioners. In practice, there might be different rates for younger and older children and younger and older pensioners.

Existing social benefits (1990) are shown in Table 1.

TABLE 1

SOCIAL SECURITY EXPENDITURE, 1990-1991	£bn
Retirement Pension	23.0
Invalidity Benefit	4.5
Unemployment Benefit	1.0
Widows' Benefit	1.0
Sickness Benefit	1.2
Other NI Benefits	0.9
Income Support	8.7
Housing Benefit / Community Charge Rebate	3.5
Family Credit	0.5
Child Benefit / One Parent Benefit	4.8
Attendance Allowance	1.4
Mobility Allowance	0.9
War Pensions	0.7
Other	0.7
Administration	2.8
Total	55.6

The Citizen's Income Group has assumed that a Transitional Basic Income would be brought in first, and then a Partial Basic Income, before finally a Full Basic Income. Accordingly, in showing the additional cost (1990 values) of the proposed CI, Table 2 (next page) suggests estimates for each of these. (1990 population figures are from the CSO Monthly Digest of Statistics, September 1992. Pensioners means over 65, adults 18-65, children 0-18.)

TABLE 2: ADDITIONAL COST OF CITIZEN'S INCOME

	Assumed CI £pa [£pw]	Number mn.	Cost pa £bn
		A. Transitional CI	
Pensioners	4000 [77]	9	36
Adults	728 [14]	34.5	25
Children	520 [10]	14	7
Sub-total		57.5	68
Add	1. Existing benefits not withdrawn (eg invalidity, mobility, housing), say		35
	2. Administrative cost at 3.5%		3.5
Subtract	Actual 1990 social security expenditure		(55.6)
Additional Cost			**51**
		B. Partial CI	
Pensioners	4000 [77]	9	36
Adults	1716 [33]	34.5	59
Children	780 [15]	14	11
Sub-total		57.5	106
Add	1. Existing benefits not withdrawn (eg invalidity, mobility, housing), say		20
	2. Administrative cost at 2.5%		3
Subtract	Actual 1990 social security expenditure		(55.6)
Additional Cost			**73**
		C. Full CI	
Pensioners	4000 [77]	9	36
Adults	3000 [55]	34.5	103.5
Children	780 [15]	14	11
Total		57.5	150.5
Add	1. Existing benefits not withdrawn (eg invalidity, mobility, housing), say		10
	2. Administrative cost at 2.5%		3
Subtract	Actual 1990 social security expenditure		(55.6)
Additional Cost			**107.9**

2. Taxes To Be Abolished

Table 3 shows the taxes to be abolished and calculates the effect on 1990 revenue figures. (Figures are taken from the 1992 Blue Book and CSO Financial Statistics, October 1992.)

TABLE 3: 1990 TAX REVENUES

Taxes To Be Abolished	£bn
1. National Insurance Contributions	34.6
2. Income Tax	53.7
3. Value Added Tax	30.5
4. Corporation Tax	22.0
5. Development Land Tax	-
6. Petrol, Hydrocarbon, Oil Royalties/Licences	10.7
7. Gas Levy	0.3
8. Community Charge	8.6
Total	**160.4**
Taxes Not To Be Abolished	
9. Capital Gains Tax	2.0
10. Inheritance Tax	1.3
11. Stamp Duties	1.8
12. Car Tax	1.5
13. Tobacco	5.5
14. Spirits, Beer, Wine, Cider	4.8
15. Betting	1.0
16. Customs Duties. Other Customs and Excise	1.8
17. Motor Vehicle Duties	3.0
Total (9-17)	**22.7**
Total 1990 Taxes (1-17)	**183.1**

3. Land-Rent Tax

Total rental site-value of land in Britain in 1990 is shown in Table 4. (See *The Land Value Of Britain, 1985-1990* by David Richards, Economic and Social Science Research Association).

TABLE 4: RENTAL VALUE OF LAND IN BRITAIN, 1990 (£bn)

Public Services	10.2
Farm, Wood and Forest	2.4
Housing	66.4
Commerce	19.0
Industry	9.3
Mineral Rents	5.8
0.35 x Local Rates*	7.3
Total Rental Value	**120.4**

*This is the assumed rental element in local taxation.

The principles of land-rent taxation are discussed in Section III of the main paper. A tax rate of 75% would raise annual revenue of £90bn (75% of £120bn). Advocates of the tax have argued that 100% is the optimum level of tax for economic efficiency. With a 75% tax landowners would continue to enjoy 25% of the annual rental site value of their land.

4. Energy Tax

The proposal is to tax the calorific value of coal, oil, gas and nuclear power at the point of production. Table 5 is based on a private communication from David Cooper, Human Ecology Centre, Edinburgh University, and HMSO Digest of Energy Statistics, 1992.

TABLE 5: PROPOSED RATES OF ENERGY TAX (1990 figures)

Total taxable energy used in UK in 1990 was:

Coal	2.81 billion GJ (gigajoules)
Oil	3.83 bn GJ
Gas	2.57 bn GJ
Nuclear	0.75 bn GJ
Total	**9.96 bn GJ**

A tax of £10.04/GJ would raise £100 bn annual revenue and would translate into

Coal	£26	per tonne
Oil (crude)	£42	per tonne
Gas	£105	per hundred therms
Nuclear	£0.104	per kWh*

*Taxing nuclear power at £0.104 per kWh would reflect the weighted mean additional cost of electricity from coal-,oil-, and gas-fired power stations due to the energy tax.

5. Other New Ecological and 'Commons' Taxes

Revenue of £25bn is assumed from new ecological and 'commons' taxes, in addition to the land-rent and energy taxes, by the end of the phase-in period. See Section V of the main paper.

6. Savings In Public Expenditure

The scenario assumes that by the end of the phase-in period it would have been possible to make savings of £54bn (1990 figures) in public expenditure, and then some more as explained below.

The figures in Table 6 are taken from *Public Expenditure Analysis*, Cm.2219 of January 1993. They exclude some Miscellaneous Expenditure and Accounting Adjustments. Adding those in, but continuing to exclude expenditure on social security and the National Debt, the resulting total is about £133bn.

TABLE 6: GOVERNMENT EXPENDITURE 1990-1991 (£bn)

Defence	21.8
Overseas Aid	2.7
Agriculture, Food, Fisheries, Forestry	2.9
Trade, Industry, Energy, Employment	7.8
Transport	8.3
Housing	5.0
Other Environmental	7.0
Law, Order, Protection	11.5
Education	26.5
National Heritage	2.5
Health	27.7
Personal Social Services	5.4
Total	**129.1**

The total of £54bn savings is based on the following calculation.

Public Sector Pay Costs	£23bn
Private Sector Pay Costs	£18bn
Increased Cost-Effectiveness	£13bn
Cuts in Services, Subsidies and Grants	(see below)
Total	**£54bn**

The details are as follows.

(1) Expenditure on Public Sector Pay

The total pre-tax pay of the 5.1million public sector employees in 1990 was £64.5bn - an average of £13,000. The scenario assumes that by the end of the ten-year phase-in period the average cost of employing them will have fallen by £4,500 - made up of £3,000 to offset the Citizen's Income and a further average of £1,500 to offset the abolition of Income Tax and NIC. (The full saving on Income Tax and NIC would average £3,280 per employee, but the scenario assumes that £1,780 of this will be paid to employees to meet their liability to the new taxes on land-rent, energy, and other 'commons'.)

On this basis, the saving on pay for the existing number of public sector employees would be about £23bn - ie 5.1 million x £4,500. That represents a saving of about 35% on the total public sector pay bill.

(2) Expenditure Not on Public Sector Pay

Most of the remaining £68.5bn of public spending - ie that which is not on public sector pay - reflects wage and salary levels in the UK private sector, from which the public sector is purchasing goods and services. The scenario assumes that reductions in 1990 levels of private sector pre-tax pay costs (offsetting CI and the abolition of Income Tax and NIC) will lead to a saving of £18bn - about 26%of the total.

(3) Increased Cost-Effectiveness

The scenario assumes savings of £13bn under this heading. Lower adminstrative costs for tax and social security will alone save several £bn.

(4) Cuts in Services, Subsidies and Grants

Since £23bn + £18bn + £13bn add up to £54bn, it might seem that the scenario assumes no real cuts in the 1990 level of public services, subsidies and grants. But the public sector will, like everyone else, have to pay the new land-rent, energy and other ecological and 'commons' taxes. It is reasonable to assume that the public sector will keep its liability to these taxes low enough to be balanced by at most a 20% cut in the actual 1990 level of public services and subsidies - and also to assume that, given the new opportunities which the package of changes will create for the personal and commercial sectors to provide services now provided by the public sector, few of the functions listed in Table 6 - with the exception of Overseas Aid - would be unable to bear a 20% cut by the end of the 13-year preparatory and phase-in period.

7. The Scenario for the Ten-Year Phase-In Period

Table 7 (page 69) shows the changes which the scenario implies for government revenue and expenditure, and for the overall revenue/expenditure balance, year by year over the ten-year phase-in period.

Significant points include the following.

1) Citizen's Income is brought in as follows: Transitional in Year 4, Partial in Year 7, Full in Year 10.
2) NI contributions will have been merged with Income Tax during the 3-year preparatory period. Then Income Tax/NIC, together with Tax Allowances, will be phased out by progressively raising the tax threshold. By Year 7 only incomes above £20,000 (1990 figures) would be taxed, and by Year 9 only incomes above £30,000 - in both cases at 40%. (This calculation is based on Inland Revenue statistics, 1992, Table 2.5. In 1990 the total number of incomes above £30,000 was 1.57m. Their total amounted to £78.2bn, and thus the total taxable income above £30,000 amounted to £31.2bn, on which tax at 40% would bring in revenue of £12.48bn. Above £20,000 there were 4.29m incomes in 1990. Their total amounted to £143.2bn. The total taxable income above the £20,000 mark was thus £57.4bn, on which tax at 40% would bring in £23bn.)
3) All existing Oil, Hydrocarbon, Petrol, Gas, taxes, licences, levies, etc, would be abolished in Year 4, as the new energy tax began to bite seriously.

4) VAT would be progressively phased out, first by abolishing it on goods and services (like energy) subject to new taxes, and on the more essential categories of goods and services.
5) The existing Council Tax, having replaced the Community Charge that existed in 1990 would itself be replaced in Year 5 - by enabling Local Authorities to raise local revenue from the land-rent tax over and above the revenue raised from it by Central Government. (In due course, this local government element in the land-rent tax might grow at the expense of the central government element, and so replace a significant proportion of the grants now made by central to local government. This would encourage local government accountability. It would also go with whatever decentralisation of government functions became necessary, as the land-rent and energy taxes encouraged more decentralised patterns of economic activity.)

TABLE 7: TEN-YEAR SCENARIO

Year	1	2	3	4	5	6	7	8	9	10
New Revenue (£bn) Phased In										
Land tax	13	13	13	34	48	50	62	65	70	90
Energy Tax	13	13	13	34	49	51	62	65	75	100
Other Taxes	2	2	6	10	12	12	13	20	20	25
Total	28	28	32	78	109	113	137	150	165	215
Existing (1990) Revenue (£bn) Phased Out										
Income Tax	10	10	10	10	10	22	33	33	44	54*
NI Contribs	7	7	7	7	7	14	21	21	28	35
Corpn. Tax	-	-	-	-	-	-	-	15	15	22
Oil, Gas, etc	-	-	-	11	11	11	11	11	11	11
VAT	7	7	10	10	20	20	20	23	27	31
Council Tax	-	-	-	-	9	9	9	9	9	9
Total	24	24	27	38	57	76	94	112	134	160

*Figures in this column have been rounded, so do not sum to the total.

	1	2	3	4	5	6	7	8	9	10
Net Increase In Revenue (£bn)										
New Revenue	28	28	32	78	109	113	137	150	165	215
Lost revenue	24	24	27	38	57	76	94	112	134	160
Surplus	4	4	5	40	52	37	43	38	31	55
Net Increase in Public Expenditure (£bn)										
Cit. Inc.	-	-	-	51	51	51	73	73	73	108
Savings	-	-	-	6	9	13	28	36	45	54
Extra	-	-	-	45	42	38	45	37	28	54
Revenue/Expenditure Balance (£bn)										
Surplus	4	4	5	40	52	37	43	38	31	55
Extra	-	-	-	45	42	38	45	37	28	54

[END of Paper on "Benefits and Taxes: A Radical Strategy"]