

from the Feasta conference 'money, energy and growth' March 2000.

**sharing the value of common resources through taxation and public expenditure**

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*Radical changes in the taxation system and the introduction of a Citizen's Income would help the move towards sustainability. Changes in government spending would assist, too.*

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**PART 1. A RESTRUCTURED TAX SYSTEM AND A CITIZEN'S INCOME**

'The earth shall become a common treasury to all, as it was first made and given to the sons of men.' Gerrard Winstanley (1649)

Pressures are growing for a general restructuring of taxation and welfare benefits.

- At present they encourage inefficient use of resources -
  - over-use of natural resources (including the environment's capacity to absorb pollution and waste), and
  - under-use and under-development of human resources.
- By failing to discourage environmentally damaging activities, they fail to encourage innovation for sustainability and a larger share of the growing world market for environmental technologies and services.
- They discourage both employment and useful unpaid work like parenting.

- Means-tested benefits discourage saving, as well as the earning of income. They create poverty and unemployment traps which reinforce social exclusion and raise costs for education, health, and law and order. The cost of the welfare state is already at crisis level in many countries.

**For the future, an ageing society will find it even more difficult to tax fewer people of working age on the fruits of their employment and enterprise in order to support a growing number of 'economically inactive' people.** In the medium term at least, a competitive global economy will exert pressure for lower taxes on personal incomes and business profits in order to attract inward investment.

That is the context for the proposal to combine:

- \* **ecotax reform** (i.e. a shift of taxation away from employment, incomes and savings, on to resource-depleting and environmentally damaging activities),
- \* the further replacement of existing taxes by another resource tax - **a tax on land site-values**, and
- \* the introduction of a **Citizen's Income**.

This combination would be phased in over a period of years. It would embody a new social compact for a new era of equitable and sustainable development, in which full employment of the conventional kind, a welfare state of the conventional kind, and economic growth of the conventional kind, had become obsolete goals.

### **1A. Ecotax Reform**

Environmental taxes have been seen as pollution taxes, reflecting the 'polluter pays' principle. In economists' jargon, they would 'internalise' costs previously 'externalised' by polluters.

**They are now coming to be seen more broadly as taxes on the use of natural resources - the capacity of the environment to absorb pollution and wastes being one such resource.** Energy taxes, water charges, and traffic congestion charges are other resource taxes. The principle is that people should pay for the benefits they get from using 'commons' of all kinds, meaning resources and values created by nature or society and not by themselves. For example, in its 1995 Report the British Government Panel on Sustainable Development supported **taxing people 'on the value they subtract' rather than 'the value they add'.**

Ecotax reform is concerned not just with ecotaxes themselves, but with how the revenue from them should be used. The European Commission's White Paper on Growth, Competitiveness, Employment of December 1993 proposed to use ecotax revenues to reduce taxes on employment. This approach has now been developed in many official and unofficial studies and reports, and has in some instances (as

in the UK's landfill tax) been put into practice.

But there is a serious problem. If existing taxes on incomes, profits and savings are simply replaced with environmental and resource taxes on consumers, they will hit poorer people relatively harder than richer. Regardless of the taxes they replace, ecotaxes are bound to have this regressive effect if they are applied 'downstream' at the point of consumption. For example, value-added tax (VAT) on household energy hits poorer households harder than richer ones, because they do not have the money to pay the higher cost of the tax or to invest in greater energy efficiency; and similarly, fees and charges to reduce urban congestion will hurt small tradespeople who need to use their vehicles for their work, but will be painlessly absorbed by users of chauffeur-driven limousines. If ecotaxes are to replace existing taxes significantly, this problem will have to be solved. How?

**First, ecotaxes should, as far as possible, be applied 'upstream'.** A tax on fossil fuels and nuclear energy, collected at source and cascading down through the economy, will raise the cost of the energy content of all goods and services. This will have three advantages.

- It will reduce pollution, because pollution mostly arises from energy-intensive activities.
- It will be seen to be fair because, by raising costs for producers as well as prices for consumers of energy-intensive goods and services, it will clearly hit the salaries, dividends, capital appreciation, etc. of big producer interests and not just the pockets of small consumers.
- And it will be simpler administratively and easier to understand than a proliferation of separate ecotaxes on individual consumers and polluters.

**Second, a tax on land will help to offset the regressive effect of ecotaxes.** A site-value tax is a resource tax that is progressive. It is the rich, not the poor, who become rich from the value of land.

**Third, the revenue from ecotaxes should be used progressively.** A German study (DIW (1994)) concluded that, if part of the revenue from an energy tax were distributed to households as an **ecobonus**, the change would have positive economic and employment effects, and would reduce the net tax burden on low-income households. A Swiss study (von Weizsacker (1994), p76) concluded that if the revenue from levying two Swiss francs per litre of petrol were distributed to all adults as an ecobonus, people driving less than 7,000 kilometres a year would benefit, while people driving more would lose.

So, could ecobonuses add up to a Citizen's Income? And could a Citizen's Income be financed from resource tax revenues? We'll explore that later on.

## 1B. Site-Value Land Taxation

The proposal is to tax the annual rental site value of land. That does not include the value of developments carried out by the owner and his predecessors (which should not be taxed). **It is the value of the land as provided by nature and as affected for better or worse by the activities and regulations of society.**

Estimates for Britain in 1990 suggest the relative size of these values (£bn) for various land uses: housing 66.4; commerce 19.0; public services 10.2; industry 9.3; farm, woodland and forest 2.4 (Taken from David Richards, *The Land Value of Britain, 1985-1990*, Economic and Social Science Research Association, London.).

This tax has attracted favourable comment from economists since Adam Smith. Ricardo (1817) pointed out 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'. In 1879, in *Progress And Poverty*, the American economist, Henry George, showed that **to shift the burden of taxation from production and exchange to the value of land would stimulate employment and the production of wealth; the selling price of land would fall; land speculation would receive its death-blow; and land monopolisation would no longer pay.** Leading economists since then have agreed that the tax on economic rent is the most neutral and most efficient of all taxes, inducing no distortions and generating no loss of welfare (Fred Harrison in Ronald Banks (ed) (1989)). Various political parties in Europe during the 20th century have included site-value taxation in their policies, and it provides a component of local taxation in a number of countries today. But mainstream policy analysts and economists in recent years have shown a strange lack of interest in it. Merely a case of professional groupthink? Or, as some suggest (Mason Gaffney and Fred Harrison (1994)) the result of an intellectual conspiracy originally inspired by landowning interests early this century?

Some past advocates of the site value tax have put people off by insisting that, as the 'single tax' needed to finance all public spending, it should replace all others. Today, its more forward-looking advocates present its claims as one resource tax among others. Their arguments for a system of public finance based on socialising (i.e. taxing) the rent of land and other natural resources, and privatising (i.e. not taxing) people's wages and savings, appear wholly convincing.

## 1C. Citizen's Income (or Basic Income)

The proposal is to distribute a Citizen's Income (CI) - often known as a Basic Income - as 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 CI will replace all existing benefits and tax allowances.

The amount of a person's CI will be unaffected by their income or wealth, their work status, gender or marital status.

The idea of a basic income goes back to Thomas Paine in the 1790s and to the Fourierists and John Stuart Mill in the first half of the 19th century. In Britain in the 1920s Major C.H. Douglas proposed **Social Credit** as a response to unemployment. More recently, support has come from distinguished economists, including Samuel Brittan and James Meade. **Most contemporary CI supporters have assumed that CI would be financed out of income tax, but opinion within the CI movement is now shifting towards financing it from 'sources reflecting a 'common endowment''.**

Support for CI continues to grow, especially in Britain and Western Europe. A recent study (Clark, C. and Healy, J. (1997)) showed that a full Citizen's Income could be introduced in Ireland over a period of three budgets. It would result in nobody receiving less than the poverty line of income; all unemployment and poverty traps being eliminated; and it always being worthwhile for an unemployed person to take up a job. The principle underlying the proposal was that 'Nature and its resources are for the benefit of all'.

#### **1D. Targeting or Universality?**

At first sight, it seems more sensible and less costly to target benefits strictly to those who really need them, rather than to distribute them to everyone. But targeting involves means testing. There is no other way to establish need and eligibility. And **means testing has serious disadvantages:**

- it is experienced as demeaning and socially divisive;
- to avoid it, many people fail to take up benefits to which they are entitled;
- it tightens the unemployment and poverty traps, by reducing incentives to earn and save; and
- people who have earned and saved enough to disqualify themselves from means-tested benefits, feel resentment against those who have not - creating more social divisiveness.

The universality of a Citizen's Income avoids these disadvantages. But the total direct cost of CI to government will be much higher than the cost of selective benefits based on means-tested need; and it is argued that poor people should not be given an unearned income as a hand-out from the state. However, these objections can be met by combining a CI with a restructured tax system, whereby the CI's value (or more) will be clawed back from better-off people via taxes on their use or monopolisation of common resources, and CI will be seen as everyone's share of the value of those resources.

The result will be doubly progressive. The CI will be progressive because the same amount of money is worth relatively more to poor people. The taxes will be progressive because richer people will pay more for the disproportionately large financial benefits they now enjoy (in terms of salaries, dividends and capital appreciation) from the ownership of land and the use of common resources.

### **1E. Towards A New Social Compact**

Part of the transition, then, to a people-centred, environmentally sustainable future will be a package of reforms based on:

- the introduction of taxes and charges on the use of common resources and values, particularly including energy and the site value of land;
- the reduction, and perhaps the eventual abolition, of taxes and charges on employment, incomes, profits, value added, and capital; and
- the introduction of a Citizen's Income, to which ecobonuses will contribute, paid to all citizens as of right in place of all tax reliefs and many existing welfare benefits.

The ecotax reform movement has been gathering strength in mainstream policy-making and academic research but still faces serious problems. The movements for site-value taxation and Citizen's Income are growing stronger but yet have to mobilise mainstream momentum. Over the next few years the potential synergies between the three will become clear. Beyond the practical arguments for treating them as a package, an integrating vision will emerge.

It will be a vision of a people-centred society - less employer-centred and state-centred than today's -

- which does not tax people for what they earn by their useful work and enterprise, by the value they add, and by what they contribute to the common good;
- in which the amounts that people and organisations are required to pay to the public revenue are based on the value they subtract by their use or monopolisation of common resources; and
- in which all citizens are equally entitled to share in the annual revenue so raised, partly by way of services provided at public expense and partly by way of a Citizen's Income.

The citizens of such a society will be more equal with one another in esteem, capability and material conditions of life than now. They will find it easier to get

paid work, but they will no longer be as dependent as they are now on employers to provide them with incomes and organise work for them. The modern-age class division between employers and employees will fade - as the old master/slave and lord/serf relationships of ancient and medieval societies have faded. It will be normal for people to work for themselves and one another. It will become an aim in many fields of policy to enable people to manage their own working lives.

The social compact of the employment age is now breaking down. The time is passing when the great majority of citizens, excluded from access to land and other means of production and from their share of common resources and values, could nevertheless depend on employers to provide them with adequate incomes in exchange for work, and on the state for special benefit payments to see them through exceptional periods of unemployment. A new social compact will encourage all citizens to take greater responsibility for themselves and their contribution to society. In exchange, it will recognise their right to share in the value of the 'commons', enabling them to become less dependent than they are today on big business and big finance, on employers, and on officials of the state.

## **PART 2. PUBLIC EXPENDITURE PROGRAMMES**

In prehistoric times there might have been some parliamentary control over public expenditure, but there certainly has not been in my parliamentary experience. Arthur Balfour, 1905.

The need to transform the major part of welfare spending into a Citizen's Income has been discussed. What about the rest of public spending?

### **2A. Perverse Subsidies and the Market Economy**

The need to remove perverse subsidies in many areas of the economy was noted above. The UK Government's Panel on Sustainable Development has estimated (January 1997) the total value of environmentally damaging subsidies in Britain at more than £20 billion a year. Estimates of the worldwide value of perverse subsidies range between \$500bn (Wuppertal 1997) and \$1500bn (Myers 1998). Perverse subsidies are worse than merely a waste of citizens' money. They skew the price structure of the economy in favour of socially and environmentally undesirable activities, just as perverse taxes do.

But how are subsidies defined? What do they include? In addition to subsidies in the narrow sense, there are other forms of de facto subsidisation which artificially improve the competitive position of some products and activities against others by influencing market prices in their favour. Examples include:

- discriminatory taxes, such as the de facto subsidy to energy consumption due to its lower rate of Value Added Tax than on energy-saving equipments;

- higher public spending on R & D in one field than in competing fields, as on nuclear power against energy efficiency and energy conservation;
- higher public spending on one type of transport infrastructure than on others, such as road against rail; and
- the de facto subsidy given by today's tax system to energy-intensive production and distribution, against employment and useful unpaid work.

The point is that the whole array of public spending programmes and taxes existing at any one time, together with the non-existence of public spending and taxation on other things, moves market prices in favour of certain kinds of activities against others. As we have said, some such framework has to exist. It should be designed to encourage social equity, environmental sustainability, and economic efficiency and enterprise, and to minimise the need for ad hoc government interventions in the workings of the market.

Democratic control over the nature of this framework and its effects is virtually non-existent. At the least, parliaments should insist on governments publishing a comprehensive annual statement on the social and environmental impacts of subsidies provided under each spending programme. If representatives of NGOs and pressure groups were included in the teams drawing up these statements, their effectiveness would be enhanced.

## **2B. Should There Be Any Subsidies At All?**

Should subsidies be given to activities and products that positively contribute to people-centred sustainable development?

In the short term there is probably a case for this. For example, the favourable tax treatment recently introduced in the Netherlands for environmental investment funds may encourage some savers to consider green investments sooner than they would otherwise have done, and may help to stimulate banks and other financial concerns to provide environmental investment services. As a temporary measure, it and other comparable subsidies, for example to support conversions to organic farming, may serve a useful purpose.

**But, if introduced at all, such subsidies should be seen as strictly temporary.**

In each case the same questions need to be asked:

- What are the distortions in the economy that make it necessary to subsidise this desirable activity?
- How can those distortions be removed?

In almost every case the answer will be that price distortions arising from perverse subsidies or perverse taxes bias the economy against the activities desired. It is better to remove existing perverse taxes and subsidies than to introduce additional subsidies to counteract their effects. Environmental investment and organic farming, for example, will both get a bigger boost from ecotax reform than from subsidies.

In today's business-centred, employer-centred, government-centred economy, the use of public funds to encourage the provision of goods and services and jobs by businesses, employers and government rather than by citizens for themselves and one another, may be understandable. But, in a more people-centred economy that offers citizens greater freedom of choice and enables them to take more responsibility for themselves and one another, it will be increasingly questioned. It will become obvious that much existing expenditure on government programmes would more appropriately finance a Citizen's Income.

## **2C. Lower Total Public Spending?**

That is one reason to look for a reduction in conventional public spending programmes over the coming years. There is another.

**A high proportion of public expenditure now is remedial.** It deals with the after-effects of crime, unemployment, social exclusion, ill-health, environmental damage, humanitarian disasters, breakdowns of law and order, and so on. Reorientation of public policy and public spending towards the creation of conditions leading to less crime, social exclusion, ill-health, environmental damage, and so on is a high priority.

To take one of many possible examples, there is growing evidence that diets, deficient in certain vitamins and trace elements and containing certain additives and other chemical substances, are a significant cause of attention deficit and hyperactivity in children, which can develop into anti-social and criminal behaviour as they grow older. But few professionals in the police, prisons and other law-and-order services, in the education and employment services, in the medical and health (i.e. sickness) services, or in the drug companies, are interested. How a dietary approach might help such children, their families and society in terms of improved quality of life, improved education, improved economic capacities and improved life prospects, and what existing costs it might save, is still largely unexplored.

In general, a new approach to public spending is needed, to identify possibilities for re-orientating it toward prevention instead of cure. But, to be realistic, the professions which have grown up in remedial fields of public service, and the

bureaucracies and commercial interests which support them, are likely to be unenthusiastic. How many health practitioners and health officials, for example, can we expect to contribute to health-creating innovations in transport, energy, employment, planning, taxation, welfare benefits, or food and farming? The initiative to reorientate public policy from cure to prevention will have to come mainly from outside today's remedial professions.

As the changes in taxes, benefits and public spending proposed here are phased in over the years, they will help people and localities to meet for themselves many needs now met by government programmes. This will bring phased reductions in total public spending. That will allow corresponding reductions in the overall burden of taxation. So we should not worry too much that resource and pollution taxes may be so effective in reducing resource use and pollution that the revenue they are able to raise will eventually decline.

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## **Biographical Sketch :**

James Robertson's early career was as a British civil servant; he accompanied Harold Macmillan on his prime-ministerial 'Wind of Change' tour of Africa in 1960. After setting up and directing the Inter-Bank Research Organisation, and contributing to enquiries on government, civil service, parliament, and London's future as a financial centre, he became an independent writer and speaker in 1974.

Since 1975 he and his wife, Alison Pritchard, have circulated the twice-yearly *Turning Point* (latterly *Turning Point 2000*) newsletter - final issue, January 2000. In 1984/85 they helped to set up *The Other Economic Summit (TOES)* and the *New Economics Foundation*. He is a patron of *SANE (South Africa New*

Economics Foundation), which was set up following his visit there in 1996.

His recent books include *Creating New Money: A Monetary Reform for the Information Age* (New Economics Foundation, 2000) co-written with Professor Joseph Huber, *Beyond The Dependency Culture* (Adamantine/Praeger, 1998), *The Transformation of Economic Life* (Schumacher Briefing No 1, Green Books, 1998) and *A New Economics of Sustainable Development*, a 'Briefing for Policymakers' written for the European Commission in 1997 (Kogan Page, 1999). He lives in Oxfordshire.

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