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Prophetic Voice III: The Culture of Prosperity

Roger Sandilands

SOMETIMES it pays to "listen" to what people are doing rather than what they are saying. As Henry George noted in *A Perplexed Philosopher* (1892: 217):

> That thought on social questions is so confused and perplexed, that the aspirations of great bodies of men, deeply though vaguely conscious of injustice, are in all civilized countries being diverted to futile and dangerous remedies, is largely due to the fact that those who assume and are credited with superior knowledge of social and economic laws have devoted their powers, not to showing where the injustice lies but to hiding it; not to clearing common thought but to confusing it.

The United Kingdom has been one victim of this process of power being deployed to cause confusion. A century ago, however, a window of opportunity appeared, and it was opened in 1884 by Henry George. He had arrived from America to address a packed audience in Glasgow's City Halls. He decried the shameful poverty and squalor that existed side by side with so much evidence of growing wealth in the Second City of the Empire. Why was this? George proffered the answer, which resonated with the people of Scotland. They, in turn, gave a mandate to the Liberal Party, which secured a landslide victory in the general election of 1906. The Liberal MP for Stirling, Henry Campbell Bannerman, was confirmed as Prime Minister, followed in 1908 by Herbert Asquith, the MP for East Fife. Glasgow Corporation was also dominated by Liberals who campaigned strongly for land value taxation. A petition in 1906 was signed by 518 local authorities calling for reform that led to a land valuation bill in 1908 and to Lloyd George's "People's Budget" of 1909. Both bills were blocked by the landlord-dominated House of Lords. This led in 1911 to the removal of the Lords' power to

[1] In Fred Harrison (ed.), *Rent Unmasked: How to save the global economy and build a sustainable future. Essays in honour of Mason Gaffney.* London: Shepheard-Walwyn, 2016, pp. 245-58.

block finance bills. The process was begun to value the land of the United Kingdom, which had to be halted by outbreak of war in 1914 (see Paul Mulvey 2002).

We shall never know how the UK economy might have evolved over the 20th century, if the 1909 Budget had been enacted and further developed in line with the logic of the new fiscal philosophy. But we can derive an idea of what might have happened to transform people's personal lives and the fabric of their communities if we undertake an exercise in counterfactual history.

What would have happened if the rent-revenue policy had been adopted back in the 1970s? How much richer would the people of the UK have been, if the growth rate had been higher by (say) 2% per annum? This is a reasonable but cautious assumption to take as the starting point for analysis. But is it a realistic hypothesis? To avoid indulging in fantasy speculation, we need to be sure of the realism of our speculations. Take, for example, the case of Singapore. Following the departure of the British and the achievement of sovereignty for the island in 1965, Singapore adopted a growth model which delivered an annual average growth rate of 7.6% between 1970-2012 Set against that achievement, it is not unreasonable to suggest that the UK might have grown by an additional 2% per annum if she had adopted measures similar to those that were deployed in Singapore. What was the secret of the former British colony's prosperity?

According to Phang Sock Yong, PhD Harvard and a professor of economics at Singapore Management University (previously my colleague at the National University of Singapore), the city state flourished because the economic model contained "elements of [Henry] George's land value tax capture". She explained:

> Soon after independence, the Land Acquisition Act was passed in 1966, which gave the state broad powers to acquire land. In 1973, the concept of a statutory date was introduced, which fixed compensation values for land acquired at the statutory date, November 30, 1973. State land as a proportion of total land grew from 44% to 76% by 1985 and is now around 90% (Phang 2015).

Rents that accrued from growth were ploughed back into funding yet more and improved infrastructure. Taxes that damaged the economy were held down. Thus, we are entitled to take Singapore's performance as a comparator, to gain some sense of what the UK could have achieved – and might still achieve – if she had enjoyed similar fiscal and land-use policies (Sandilands 1992, 2015).

Singapore's annual growth eclipsed the UK's because a far greater proportion of government revenue was derived from the rent of land or from the leasehold sale of public land. This laid the foundation for the nation's stellar annual average growth at a rate triple that of countries like Britain that employed disincentive taxation.

- In real terms, Singapore's per capita income in constant US$ (base year 2011) rose from US$6,708 in 1970 to $48,630 in 2011, a real increase of 625%. See http://www.indexmundi.com/facts/singapore/gdp-per-capita together with World Bank 2011 data: http://data.worldbank.org/country.
- The comparable figures for the UK were US$19,198 in 1970 and $41,680 in 2011, a far more modest increase of 116%. This meant that the UK, initially nearly three times richer than Singapore in 1970, ended up 17% poorer by 2011.

In Singapore in FY2013, more than a third of all current government revenue of about £28bn (about 16% of GDP[2]) came from levies on the use of space and fixed property. A further £5bn (18% of current revenues) came from sales of government land. In addition, there was undoubtedly much rental income in the corporate income taxes that accounted for 22% of all revenues. The Port of Singapore Authority's revenues, for example, amounted to nearly £2.4bn in 2013, mostly from docking charges. Its "profits" amounted to about £836m or 36% of revenues, and it paid around £150m in taxes.

Singapore residents pay for the use of land in various other explicit and implicit ways. For example, one cannot buy a new car without first bidding, in a monthly auction, for a "certificate of entitlement" (COE). The certificates are issued strictly according to the estimated increase in the carrying capacity of the road system – about 1% a year. A COE for a 1600cc car may cost £33,000 on top of the world price of the car plus 31% import duty. So, a car whose world price is £15,000 would cost around £53,000 in Singapore. Also, there are steep parking charges and charges for entering the Central Business District. These are all effectively charges, or rents, for the use of road space. For those who do not wish to pay such prices, Singapore provides a world-class public transit system that is funded out of the rents of land.

So Singapore obtains a substantial fraction of all government revenue from property taxes, with correspondingly low taxes on earned incomes and expenditures. As a result of this greater dependence on land-based revenues, Singapore's taxes on personal incomes account

[2] This is less than half the proportion of total tax revenues in the UK's GDP.

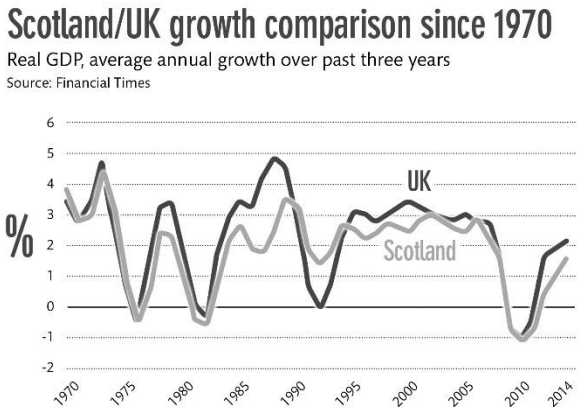
for only 13.4% of all government revenue. In the UK, the proportion obtained from personal income taxes in FY 2012-13 was 26.9% plus another 16% in national insurance contributions. The resulting dynamism of the Singapore economy has naturally engendered a self-sustaining virtuous circle of buoyant land values and associated state revenues alongside the personal prosperity of its citizens.

Singapore did have its ups and downs, because her fiscal revolution was incomplete. But with her 7.6% average annual growth (6% per capita) since 1970, *Singapore was able, from a base income only one-third that of the UK, to catch up and overtake the UK within less than 40 years.* So what might the fate of the UK have been, if she had switched her fiscal policies to something resembling Singapore's?

A Vision for the UK

The 1970 real UK GDP (in 2008 prices) was £575.7bn. With the UK population at 55.6m, this represented an average income per head of £10,555 in 2008 pounds. Over the period 1970-2012, the UK's annual average growth rate was 2.52% (2.2% in *per capita* terms). By 2012, UK GDP stood at £1,414.8bn. With a population that had grown by 14.6% to 63.7m, average income per head had slightly more than doubled to £22,211 (again in 2008 pounds). If the overall growth rate average had been just two percentage points higher over the period, at 4.52%, the real UK GDP in 2012 would have been more than 6 times greater, at £3,768.4bn. *Income per head, instead of doubling, would have risen nearly six-fold, to £59,158.* The difference is £36,947 per head. Such is the dramatic effect when people are freed to realise their full economic potential.

Figure 13:1



The gap between Singapore's achievement, and the performance of regional economies within the UK, was even wider. We may illuminate this outcome with the case of Scotland, for two reasons.

(1) Historically, Scotland has been one of the most innovative regions within the UK: yet her growth rate has consistent fallen behind that of the UK, as indicated by the trends since 1970 (Figure 13:1).
(2) When power was devolved to a Parliament in Edinburgh, Scotland acquired the option to abolish the Income Tax and raise additional revenue from an annual ground rent (AGR) in place of existing property taxes. If those fiscal powers are exercised, might this change the prospects for the people of Scotland?

Holyrood, the Scottish parliament, now has the tools to double Scotland's secular growth rate, re-lay the foundations of the labour market on principles of equity and natural justice and attract entrepreneurs who wish to establish businesses in a labour-friendly environment. To understand why this is a politically feasible strategy, we need to review the relevant historical events that culminated in the Holyrood elections of May 2016.

Embedded Inequality

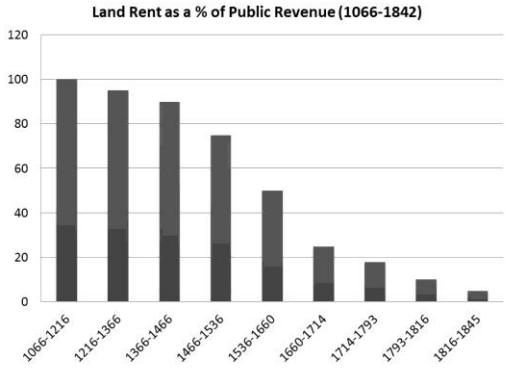
Scotland is tied to "an economic model that has exacerbated inequalities". [Fred: can you give the source of the quote? Otherwise delete the inverted commas.] Of the 34 OECD countries, the UK ranked 29th in terms of income inequality. *The disparity in the distribution of income is the logical outcome of the way in which government fiscal policies favour the activity which economists call rent seeking*.

The original rent seekers were the lords and lairds who enclosed the common and clan lands so that they could capture the rents produced by people whose status was converted to that of tenants while their overlords often migrated to the big cities like Edinburgh and London to live off those clan rents, with a diminishing sense of *noblesse oblige*.. Since then, rent seeking has been extended to include those with power in the banking sector, and those who are able to influence public policies in a way that privilege them against their fellow citizens. .

This outcome does not square with the vision of a society that was grounded in fair treatment of everyone as equals. In a fair society, the incomes of the producers of new value would remain in the hands of those who worked for their living. But the net income – the economic rent that exists after wages and profits have been paid – would be treated as unique.

Economic rent is a composite value that reflects the services of both nature and society. Therefore, as the Scottish moral philosopher Adam Smith pointed out, this was the proper source from which to fund public services (Smith 1776: Bk V, Ch. II, Pt. II, Art.I).

Graph 13: 2



Source: Harrison (2012:87).

Historically, under the feudal and pre-feudal forms of social organisation, the State was funded out of that net income produced by the working population. In England, for example, we have the data which demonstrates that the state created by William the Conqueror in the 11th century was wholly funded out of the rents generated by the agriculture-based economy (Figure 13:2). It all started to go wrong as the feudal aristocracy decided they had a special entitlement to that rental revenue. They embarked on a historic transformation of the English Constitution so they could take control of the public finances away from monarchs. Their intent was to reduce the revenue collected by the land tax, so that they could pocket the rents themselves. The reciprocal was the invention of new taxes which were directed at the peasants.

The outcome was not just the theft of state revenue. It was also a strategy that suppressed the productive potential of the people. Taxes on wages and consumption, and on the capital that was created by working people, distorted people's incentives to work, invest, and innovate.

- Taxes such as those on salt and beer, and on the windows of people's homes, had a corrosive effect on both personal psychology and the fabric of communities.
- The privileged accumulation of rents enabled the aristocracy and gentry to evolve a culture that separated them from the rest of the people (Thompson 1991: Ch.2).

Today, the Scottish government asserts that "everyone has a right to participate fully in society". It notes the growing concentration of income at the top end of the distribution scale, with what it calls the "highest *earners*" receiving a greater share of the income in recent years. The problem with this analysis is with the way it analyses the top incomes. In common with all governments and academic analyses of income distribution, such as the widely acclaimed investigation by Thomas Picketty (2014), no attempt is made to differentiate between earned and unearned income.

- High incomes that are *earned* imply that the beneficiaries added value to the sum total of wealth. Why penalise them with taxes?
- Those who get rich on *unearned* income, wittingly or otherwise, damage the welfare of others. Why should they keep what they do not earn?

The inequality between the rich and the poor which Scotland's government says it opposes was, and remains, the logical outcome of conventional modes of governance. The outcome of the privatisation of socially-created rent is the economics of apartheid. This was not what Adam Smith envisaged for his native Scotland (see Box 13:1).

Box 13:1

Adam Smith's "Peculiar Tax"

"Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. *The annual produce of the land and labour of the society, the real wealth and revenue of the great body of the people, might be the same after such a tax as before*. Ground-rents, and the ordinary rent of land, are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax imposed upon them." (Smith 1776:Bk.V: 370; emphasis added).

The Democratic Deficit

During the UK general election campaign of 2015, the Scottish National Party focused attention on its determination to abolish inequality by administering a "tax system that is fit for the 21st century" (Scottish Government, 2015:14). The puzzle, however, is that it proposed to retain the existing way of raising revenue, along with some amendment to the locally-administered property tax and piecemeal "land reform" in the guise of community buy-outs (largely at the general taxpayers' expense). On the basis of this strategy, the SNP could not realistically expect to change the course of Scotland's social and economic development. This conclusion holds, even if the SNP government achieved "full fiscal responsibility".

Table 13:1

Scotland's Finances Under Competing Scenarios: £ billions

2013–14	*2014-15*	*2015-16*	*2016–17*	*2017–18*	*2018-19*	*2019-20*
Net Fiscal Balance, 2013–14 (outturn), 2014-15 to 2019-20 (IFS Projections)[1]						
-3.8	-5.9	-7.6	-8.2	-8.5	-8.9	-9.7
Net Gain from Zero-rating Scotland's Income Tax						
11.5	11.5	11.5	11.7	11.9	12.2	12.4

[1] David Phillips, "Full fiscal autonomy delayed? The SNP's plans for further devolution to Scotland", London: IFS, 21 April 2015. **http://www.ifs.org.uk/publications/7722**

The SNP called the devolution of fiscal power "a fairer approach to taxation". The implications were examined by the Institute for Fiscal Studies (IFS). It concluded that Scotland would endure a fiscal deficit every year up to 2020. The shortfall of revenue in 2020 would be nearly £10bn. That projection is shown in the top row of forecasts in Table 13:1.

The IFS projections are seriously misleading. They do not include the offsetting gains that could be achieved from fiscal reform. To properly evaluate the SNP claims, the people of Scotland needed a full audit of the fiscal implications. They were entitled to an idea of the full costs associated with current funding policies. Those costs are technically called the "excess burden" of taxes. The more meaningful term used is "deadweight losses". Economists can measure the wealth and welfare which people *forego* as a direct result of the way government chooses to raise revenue. The IFS failed to provide estimates of those losses for Scotland (Box 13:2).

Box 13:2
Measuring Deadweight Losses

In the general election of 2015, all four major political parties declared they would have to increase taxes if given the power by the electorate. The IFS compared those increases, and concluded: "None of these parties has provided anything like full details of their fiscal plans for each year of the coming parliament, leaving the electorate somewhat in the dark". Furthermore, IFS researchers said they had to make many assumptions about the parties' real intentions in order to crunch the numbers (Crawford 2015).

However, the IFS, though hailed as Britain's authoritative independent assessor of tax policies, failed to provide estimates of the deadweight losses of those proposed tax increases. It declines to calculate the deadweight losses because it would have to estimate the damage inflicted by all the *marginal* tax rates (Adam 2014).

Offering deadweight estimates, no matter how proximate (after all, the IFS *was* willing to indulge in guesswork in order to pronounce verdicts on the work of others), would at least draw attention to the fact that elected representatives use revenue tools that cause losses, compared to those financial instruments which do not inflict losses on the working population. This, of course, would then highlight in people's minds the possibility of collecting revenue without damaging the economy.

The scale of the damage caused by taxes remains controversial. HM Treasury claims that the deadweight loss is equal to 30p for every £1 raised (Harrison 2006:155, 156). The 0.3:1 ratio suggests that the Treasury is only taking into account their costs of administering the tax regime, and the costs of administrative compliance by taxpayers. This makes no allowance for the distortions to behaviour that arise from the disincentives created by taxes. Some US economists claim that the total damage is as high as 1.5:1 – that is, a loss in wealth and welfare of $1.50 for every $1 collected by such taxes. The ratio that is recommended by Mason Gaffney is 1:1 (see Ch 6 in this volume, pp.==?==).

If the losses inflicted by "bad" taxes were eliminated, society would enjoy a net gain if it raised the revenue to fund public services out of socially-created economic rent. Productivity would be improved in a million and one ways.

- When people are not taxed on earned incomes they may choose to earn more because the additional income does not attract the attention of the taxman. Alternatively, they may choose to receive the benefit in the form of more leisure time.
- Investment in capital goods would increase and be employed more efficiently. Under current taxes, capital is diverted to "tax efficient" projects which may not maximise the satisfaction of consumers, but which minimise the taxes paid by corporations.

Under the rent-revenue formula for public finance, labour and capital resources are devoted to optimising the satisfaction of people who want the goods or services that are made available in the economy. Consumer satisfaction is synchronised with the objectives of the producers. Here, we identify two of the virtues of the rent-revenue strategy.

- ❖ The abolition of harmful taxes is a self-funding strategy.

As taxes that damage the nation's health and wealth are reduced or terminated, *the rentable value of "land" in all its forms rises by corresponding sums*. This is explained by the ATCOR thesis – All Taxes Come Out of Rent. The political implications of this are of major significance: in abolishing harmful taxes, *current public services do not have to be sacrificed*. This contrasts with the austerity programme pursued by governments post-2008 in which, to cut budget deficits, taxes were raised or services reduced.

- ❖ The rent-revenue policy democratises the public's finances.

People exercise the power over when, why and how they fund the services they want to use. This is the case today, for example, in the housing market. When someone chooses the location where she wishes to live, she selects a home on the basis of two criteria.

1. The merits of the building are evaluated: whether it has the required number of bedrooms, for example, and the condition of the amenities.

2. Proximity to the desired public services, such as transport, schools and parks. These are stressed by estate agents as essential information, because their quality and accessibility affect the price of the property.

The anomaly in this arrangement is that the part of the "house" value which is paid to access the public services is not paid to the public agencies that provide the amenities. Instead, that value (the rent of location) is paid to the vendor of the dwelling. *That payment exposes the pathological character of the tax regime.*

Now consider what would happen if a Scottish government chose to exercise its devolved power over taxation?

- ❖ As a first step, Scotland could zero-rate the Income Tax.

The net gains are shown in the bottom row in Table 13:1. Replacing the Income Tax with rental charges would deliver an annual net gain to Scotland of *circa* £11bn. Over the five years from 2016 to the Scottish elections of 2021, the people of Scotland would be enriched by nearly £60bn! This contrasts with the outcome under the existing funding arrangements, in which the people of Scotland would continue to accumulate a debt burden that has to be serviced. By eliminating the deadweight losses caused by current taxes, *the projected net gains from re-socialising rent revenues would be able to convert large annual deficits to large annual surpluses*.

If Scotland achieved "full fiscal autonomy", her government could also decide to get rid of regressive taxes such as VAT, National Insurance Contributions, Customs Duties – all the exactions that distort people's decisions on spending and investing. This would *transform black holes into pots of gold*.

In 2014, the revenue from those taxes levied in Scotland which caused serious damage to the economy added up to about £33bn (in an economy of around £115bn). This calculation excludes those charges that fall directly on rent (such as oil rents). Also excluded are the "sin taxes" that people may choose to retain, if they wish to deter private activities that impose social costs on others (such as taxes on tobacco and alcohol). If Scotland abolished the damaging taxes and replaced the revenue with rents, the *net gain* in wealth and welfare from this transitional switch would be *circa* £33bn. Thereafter, the economy would operate at a more dynamic growth rate that could conservatively be expected to be double the cramped historic rate.[3] [Fred: It's notable that in the early years following independence, 1966-73, the annual average growth rate was almost 13%. (The average from 1974-80 was 7.8%; and from 1981-90 it was 6.9%.)]

But would there be sufficient rent to replace the bad taxes so as to retain the current level of public services? This is not a valid way of putting the question. The ATCOR thesis explains that *all taxes come out of rent*. In other words, *existing taxes are already derived from*

[3] It is notable that in the early years following Singapore's independence, 1966-73, the annual average growth rate was almost 13%. (The average from 1974-80 was 7.8%; and from 1981-90 it was 6.9%.)

the nation's rents, but they are collected *indirectly*, and misleadingly labelled "income" tax or "value added tax". By scrapping this indirect way of raising revenue, the "savings" would resurface as rents, the payment of which has no damaging economic effects. By swapping the indirect for the direct way of collecting the rent, Scotland would rationalise the fiscal system and emancipate her people to achieve ever higher levels of productivity. Through the private and public sectors, the population would share the bonus of the ensuing *increase* in total income.

The first practical step in the direction of this reform was taken in December 2015 when the commission appointed by the Scottish Government identified land value taxation as a potential replacement for the residential property tax. The SNP decided to seek re-election in May 2016 without adopting the option to restructure the tax regime. But that option now remains with the people, if they choose to exercise their democratic right to assert control over their public finances.

The switch to funding policies that draw revenue directly from rent would frame the national budget within the principles of integrity, transparency, accountability and, indeed, natural law (Sandilands 1986). Revenue from North Sea oil rents may diminish to zero over the next 40 years. But Scotland is rich in its educated labour force, which means that she will produce social rents *at an increasing rate* as the productivity of the economy rises under the influence of liberating tax reform.

The people of Scotland have a unique opportunity to scope out the strategies that will actually work for their personal and common good, if they empower their elected representatives to initiate the appropriate fiscal reforms.

If Scotland did once again take the lead, the other nations of the UK would follow suit, as they did in the lead-up to the People's Budget of 1909 (see https://www.youtube.com/watch?v=XtZ-uOaLZdA). This time, assuming the absence of the intervention of a world war, the outcome would be a material prosperity and quality of life greater than the sum of the divided parts.

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