# The making of a new Scottish Enlightenment

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Thank you for asking me to come and present the Scottish Land Revenue Group's proposal on how best to increase much needed state revenue.

## More state revenue

Discussion at Holyrood – as elsewhere – is focused on how to increase state revenue in order to to cast off Austerity and properly fund our public services.

To this end Nicola Sturgeon recently made two committments:
1. to open discussions with parties keen for her to increase Income Tax.
2. that her government will explore "some form of land value based tax".

Option one would be a grave mistake. Option two is the way to go.

## The SLRG message

1. Currently, at least £36bn of deadweight losses are inflicted on the Scotiish economy by deadweight losses.

2. Holyrood can immediately cancel one third of this damage (£12bn) by swapping devolved taxes for a single locally collected Annual Ground Rent.

SCOTTISH LAND REVENUE GROUP

## Our message...

1. **£36bn of 'deadweight Losses' are inflicted on Scotland each year**

   That is wealth that would have been created by enterprises, but which is *missing* from the Scottish economy because of the ill-effects of poorly chosen taxes (on incomes and trade).

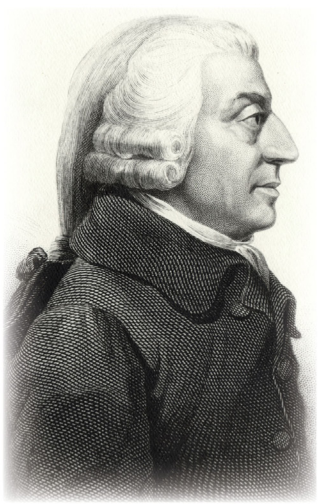
2. **The Scottish Government can recover £12bn**

   Devolved tax varying powers allow Holyrood to reduce tax damage in Scotland by one third *today* – by transfering revenue to a locally collected Annual Ground Rent (AGR/LVT).

## Why raise revenue with AGR/LVT?

Please consider pointers from four sources, to validate the move to "some form of land value based tax". And to whom policy makers must listen if they hope to address –

– starved public services
– deepening inequality, poverty and the housing crisis
– social dislocation
– premature death by up to 20 years
– low growth and perpetual deficits
– £36bn of *avoidable* Scottish Deadweight Losses



"The wealth ...of the people might be the same after such a tax as before.

...Ground rents ...can best bear to have a peculiar tax imposed upon them."

**Adam Smith discussing AGR in *The Wealth of Nations* Book V, p.370**

## 1. Adam Smith

Of how many current UK taxes can the following be said: *People will be as well off after its collection as before*? William Pitt is styled a devotee of Adam Smith; but he certailny took no heed of Smith when choosing taxes. In 1799 he enacted Income tax. A tax which today reduces the size of the UK economy by at least £178bn every year. 241 years ago Smith showed the way ahead. Westminster is yet to listen to Adam Smith.

## From the IMF
(last week)

“Taxes on real estate or land are both equitable and efficient and remain underused in many countries.”

International Monetary Fund
*Tackling Inequality* (October 2017) p28

## 2. IMF

Last week the IMF published *Tackling Inequality*. The author notes, “Taxes on real estate or land are both equitable and efficient and remain underused in many countries.”
Far from claiming Smith’s insight a wild idea, the IMF echoes and endorses it.

## Frank Ramsey
1903–1930

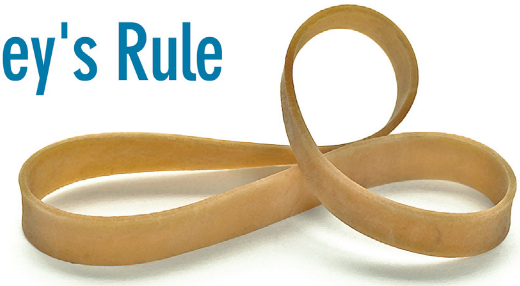
Important contributions in Mathematics, Philosophy and Economics

## 3. Frank Ramsey

By the time of his premature death at age 26, Frank Ramsey had, at Cambridge, made important contributions in the fields of Mathematics, Philosophy and Economics.
To Econimics he bequeathed *Ramsey’s Rule*.

Ramsey’s Rule is the guide for choosers of taxes to ensure they don’t choose any that inflict deadweight losses. Ramsey’s Rule is the $E=MC^2$ of state revenue.
He identified that each commodity that might be taxed displayed a different level of what he labelled its *elasticity* (either of demand or supply). He insisted that to prevent undesireable consequences, taxes be applied only to inelastic commodities, i.e. land.

# Ramsey's Rule



**"If there is any commodity for which either the demand or supply is absolutely inelastic ...the whole of the revenue wanted must be raised on that commodity." [i.e. land]**

**Arthur Pigou, Professor of Political Economy, Cambridge**
**describing 'Ramsey's Rule' in *A Study in Public Finance* (1928) p. 105**

If his rule was observed, there would be no unintended suppression of such elastic commodities as employment, trade or wealth creation by enterprises.

To be clear – Ramsey's Rule allows choosers of taxes to perceive how
- – taxes on employment (e.g. Income Tax) *reduce* employment
- – taxes on consumption (e.g. VAT) *reduce* consumption and trade
- – a levy on *inelastic* site rental values is *immune* to deadweight losses

Nobel Laureate opinion from inside Holyrood's
Council of Economic Advisers today...

**"...it is highly efficient to tax rents because such taxes don't cause any distortions... A stiff tax on all such rents would not only reduce inequality but also reduce incentives to engage in the kind of rent-seeking activities that distort our economy and our democracy."**

***The Price of Inequality* (2012) pp 212-213.**

**Joseph Stiglitz**
Professor of Economics Columbia University,
former chief economist at the World Bank,
Nobel Prize winner, member of Scotland's
Council of Economic Advisers

## 4. Joseph Stiglitz

There is clear advice from *inside* Holyrood's Council of Economic Advisers. Professor Stiglitz is an influential Nobel prize winning economist retained by Holyrood to help them in such questions as how to choose the best taxes for Scotland. He advises the same as did Adam Smith: "Its is highly efficient to tax rents because such rents don't cause any distortions...[rest of quotation above].

*The SLRG strongly suggests that Holyrood ask its retained adviser whether Scotland would be better off by £36bn a year with AGR.*

Despite clear guidance from these sources, deadweight losses remain ignored at the highest level. Do those responsible for choosing taxes take deadweight losses into account, for example, here at Westminster?

## Spreadsheet Phil's missing spreadsheet

| Revenue 2015–16 | Revenue UK (£m) | Option to migrate to revenue from AGR/LVT | Revenue UK (£m) |
|---|---|---|---|
| Income Tax | 168,451 | Annual Ground Rent | 466,813 |
| Capital Gains Tax | 7,060 | | |
| National Insurance | 113,701 | | |
| VAT | 115,415 | | |
| Corporation Tax | 43,872 | | |
| Corporation Tax Offshore | 538 | | |
| Bank Levy | 3,392 | | |
| Inheritance Tax | 4,650 | | |
| Stamp Tax on Shares | 3,320 | | |
| Insurance Premium Tax | 3,293 | | |
| Customs Duties | 3,089 | | |
| Swiss Capital Tax | 32 | | |
| **Total revenue** | **466,813** | **Total revenue** | **466,813** |
| **Deadweight Loss** | **466,813** | **Deadweight Loss** | **0** |
| **Net position of economy** | **0** | **Net position of economy** | **£466,813m** |

Source for 2015-16 figures: *A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland*, HM Revenue and Customs, October 2016.

Spreadsheet Phil's missing spreadsheet illustrates today's taxes – after the collection of which, the people are decidedly *not* as well off as before – because they are raised on what Frank Ramsey identified as 'elastic' commodities (incomes and trade).

Sadly the DW Loss data is absent from Spreadsheet Phil's spreadsheets. Were that data available to a Chancellor of the Exchequer, would he or she not be obliged, in the interests of the country, to adhere to Ramsey's Rule and immediately migrate as much state revenue as possible to AGR?

*The price to the UK for this omission of deadweight loss data is half a trillion pounds a year.* To place that sum in context, it is 1000 times as much as the £500m the Labour party and others are searching for to add to the NHS budget. And remember, this conservative estimate could easily be doubled according to economists such as Harvard's Martin Feldstein.

All of which begs the question: why – when a better alternative is available – is Holyrood about to open discussions on increasing Income Tax?

Holyrood *today* has the power to swap four devolved taxes for a **locally-collected Annual Ground Rent (AGR)** to reduce deadweight losses by 1/3, boosting the Scottish economy by **£12 billion a year**.

## Devolved taxes Holyrood could now swap for AGR/LVT

| Devolved Tax | Revenue raised (£m) | Deadweight loss at 1:1 (£m) |
|---|---|---|
| Income Tax | 12,195 | 12,195 |
| Business rates | 2,800 | unquantified losses from land banking and urban sprawl |
| Council Tax | 2,050 | |
| Land and Buildings Transaction Tax | 200 | |
| **Total** | 17,245 | **12,195+** |

**Note:** AGR/LVT is *immune* to deadweight losses (Smith, Ramsey, Stiglitz)

Holyrood has control over four devolved taxes. Income Tax incurs the highest deadweight costs, inflicting at least £12bn of losses each year on Scotland.
The Scottish Government should immediately swap all of these for a locally collected Annual Ground Rent. This is the recipe for boosting state revenue in Scotland and at the same time reducing economic damage currently being inflicted by Westminster's Income Tax.

"...possible tax and fiscal reforms, including the potential for some form of land value based tax."

**Nicola Sturgeon**
***Programme for Government 2017–18***

Nicola Sturgeon, in the same speech in which she discussed increasing Income Tax, came face to face with the solution to Scotland's wider problems. In the context of Land Reform she committed the Scottish Government to investigating "...some form of Land value based tax".

We wish to impress upon the First Minister that the scope of that levy extends far beyond its positive effects on concentrated land holdings and land banking.

Allowing the owners of sites to pocket the socially-generated rental value of sites is the heritage of a Westminster controlled historically by landlords. It is a UK indulgence. An indulgence that comes with far too high a price for any country:

– starved public services
– deepening inequality
– poverty
– homelessness
– social dislocation with all its mal-adaptive coping mechanisms
– premature death by up to 20 years (depending on where you live)
– low economic growth
– perpetual annual deficits
– and £ billions of *avoidable* deadweight Losses

Site-rent-as-revenue is the way to go, to address each of these seemingly intractable issues – and more.

## The scale of the political challenge faced by wise policy-makers


*The Scottish Mail on Sunday*
October 1, 2017

There is a political challenge to be faced by responsible choosers of taxes from protesting vested interests who will continue to charicature the collection of any levy on land as punitve and unfair, e.g. *The Scottish Mail on Sunday* front page earlier this month branding it a 'garden tax'.

Our message to Holyrood is I hope clear: Be bold. Use your devolved tax varying powers now to boost the Scottish economy by £12bn a year. Listen to Smith, Ramsey, Stiglitz and the IMF. Address social dislocation and inequality by rejecting Westminster's Income Tax. Instead enact a locally-collected Annual Ground Rent to set Scotland on a path out of the fiscal stone age.