People's Budget
THE PEOPLE
Land Research Trust
A budget for the people
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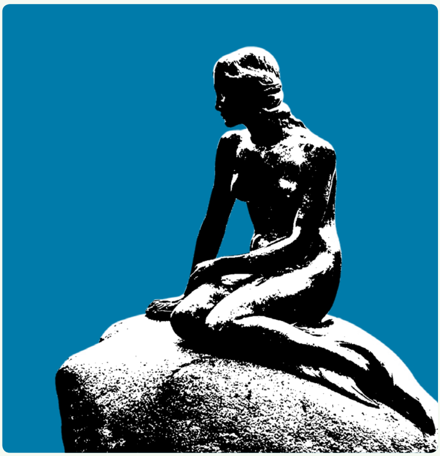
Something is rotten But not in Denmark

Scottish Nationalists want to govern an independent country. But the SNP continues to levy taxes that degrade the life chances of the people of Scotland.

That is their political choice: under powers devolved from Westminster, Holyrood could rebalance its revenue to elevate the fabric of people's lives. One country with which Scotland is compared is Denmark. Shakespeare said there was something rotten in that state. The evidence now shows that, today, while something is rotting the fabric of communities, it is not to be found in Denmark.



The Fate of Scotland

The SNP government wants Scotland to remain in the European Union. If it succeeds, the fate of Scotland can be gauged from plans like those championed by a new high-profile group of campaigners led by French academic Thomas Piketty, author of *Capital in the Twenty-First Century* (2013).

THOMAS PICKETTY

They want more powers for a European assembly to raise €800bn a year. That is equal to 4% of the EU's GDP – four times the current budget – raised by

- a 15% levy on corporate profits
- tax increases on individuals earnings more than €100,000
- a wealth tax on personal fortunes exceeding €1m, and
- a tax on carbon emissions.

These campaigners, like the governments they seek to instruct, do not distinguish between earned and unearned income, or between wealth that is earned and wealth gained through monopoly power. They offer no estimates of the deadweight losses that they would inflict by their choice of taxes. So we do not know whether people would suffer a net loss from the plan to bolster the powers of the Brussels bureaucracy.

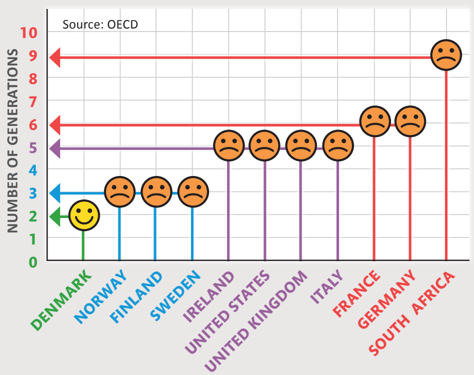
This edition of *People's Budget* reviews the viable alternative: raising Scotland's revenue with a new charge on the rents produced within Scotland. This policy challenges the courage of politicians.

- Can the SNP Government immunise itself against attempts to influence it into opting for a second-best solution?
- Will the experts who advise politicians learn the wisdom that created the culture of Denmark?

The OECD graph below reveals that families on the lowest incomes in Denmark take two generations to move up to median income (60 years). In the UK it takes five generations (150 years). In France and Germany, six generations – a record of serious social immobility.

When will the experts seek out Denmark's secret?

The number of generations it would take for those born in low income families to approach the mean income in their society



People's Budget No. 2

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Land Research Trust

A Raw Deal

SCOTLAND is ill-served by the UK's fiscal system. The transfer of revenue from London to Edinburgh does not acknowledge the full contribution made by Scotland to the UK's taxable income. Scotland suffers a net loss because of Westminster's tax policies.

But although fiscal power was devolved to Edinburgh, the SNP government has not begun to narrow the gaps that divide Scotland between those who enjoy long and prosperous lives, and those whose lives are cruelly cut short by poverty.

At the heart of the pathologies created by a dysfunctional constitution is the price of residential land and its appropriation by the owners of real estate. Derek Mackay, in his budget speech on December 12, offered no remedies for the institutionalised poverty that blights Scotland (see box).

For the SNP government to achieve its ambitions, it would have to implement a phased transition to a revenue system based on the rents generated within Scotland. According to one assessment of the Annual Ground Rent (conventionally known as Land Value Taxation), the uplift in Scottish GDP would be of the order of £12bn. This entails the reversal of the fiscal philosophy that currently directs policy in Holyrood (see table page 2).

Land reform

Scotland suffers from one of the most lopsided distribution of land in the world (Wightman 2015).

To advance the cause of land reform, the SNP created the Scottish Land Commission (SLC), which must be judged on the outcomes of its three strategic objectives:

- **productivity** – increase the economic, social and cultural value of land
- **diversity** – encourage a more diverse pattern of ownership
- **accountability** – ensure that decision-making takes account of those affected and that responsibilities in relation to land are met.

The Scottish Budget

DEREK MACKAY

Scotland's finance secretary, Derek Mackay, claims that his spending plans will protect public services and boost the economy. He contrasted this with the Westminster government's austerity policies. But the original architects designed taxes to impose permanent austerity on the majority of people, so that they could privatise the bulk of the UK's net (taxable) income as rent. And since Mr Mackay's fiscal philosophy does not reverse that ideology, he cannot "deliver on our commitments to the people of Scotland".

Instead, Mackay's government proposes to burden Scotland by spending over £400m on the environment, climate change and land reform. Under the correct public pricing system, these activities would be *self-funding*, and not in need of revenue raised by taxing the working population.

To assist its deliberations, the SLC commissioned a report on land taxation from five eminent scholars at Reading University (Hughes 2018). Their report is confined to recycling well-worn views.

The scholars acknowledge the virtues of rent-as-public-revenue from a theoretical point of view, but they catalogue a list of practical difficulties of the kind that provide risk-avoiding politicians with the excuses they need to avoid the politically challenging courses of action.


MARK WADSWORTH

The most egregious omission from the report is an assessment of the improvements to wealth and welfare that would follow from the adoption of a new fiscal doctrine for Scotland based on the rent of land. The gains would be significant. According to a report published by the Scottish Land Revenue Group authored by London tax consultant Mark Wadsworth, replacing taxes on earned incomes with revenue from rent would increase the Scottish economy by more than 9% (Wadsworth 2018).

Monopoly power

The social significance of a public charge on land values is indicated in this definition offered by the Reading scholars:

> **"Land value is...the price of monopoly: the scarcer and less substitutable a parcel of land is, and the more attractive the location in relation to the market (consumers) and factors of production (labour, raw materials), the more valuable the land."**

Monopoly power would not be tolerated in a civilised society that claims to treat all citizens as equals.

That is the moral starting point for a review of tax policy. Policy-makers need to ask themselves: "How much monopoly power – and, therefore, damage to people's lives and to the fabric of their communities – are we willing to tolerate to accommodate today's monopolists?"

To arrive at a conclusion that satisfies rational and moral criteria, a whole-of-society approach is required. The Reading authors fail to adopt this comprehensive approach, which is why they lend credence to one of the defences of the *status quo*:

> **"Political arguments against LVT centre on the windfall loss incurred by landowners, the difficulty in dismantling centuries of land ownership rights, the impact on other taxes and the potential that a LVT would tax individuals with property wealth but who are cash poor and may not have the ability to pay."**

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

Devolved Tax	Revenue £m (2016)	1:1 Deadweight loss £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+

Source: *A disaggregation of HMRC tax receipts between England, Wales, Scotland & Northern Ireland*, HM Revenue and Customs, October 2016. Note: AGR is immune to the deadweight losses listed here at the conservative estimate of £1 for each £1 of tax collected.

If such arguments had swayed events in Denmark, that country would still be marooned as a regional backwater in Europe today. Instead, Denmark is a beacon of hope for people who have been dispossessed of their rights.

Inclusive justice

In their review of the global evidence, the Reading scholars concluded that

> **"There was little evidence that LVT has any perceptible redistributive effect".**

Perhaps even more astonishing, they claim that

> **"with the possible exception of the Namibia case, it has not been possible to find conclusive evidence regarding the potential of a LVT to deliver the SLC's objectives in Scotland."**

These observations are made possible by their failure to "follow the money".

Compare Denmark with the UK and the events that evolved over the past 200 years.

In the 18th century, people in England were ejected from the commons, their land appropriated by the aristocracy and gentry. In Scotland, people were cleared from the clan lands.

...while in Denmark, Frederick VI emancipated the serfs and granted them security of tenure. Within 25 years, the concentration of ownership was transformed from a few hundred owners to one in which over 60,000 tenants became owners.

*In the 19th century***,** in the UK, regressive taxes were imposed on the wages and consumption of working people.

...while in Denmark, a tax (the Hartkorn) was levied on the rental income of manorial estates.

In the 20th century, Britain's Parliament refused to implement the land taxes that were enacted in the budgets of 1910 and 1931.

...while in Denmark, when the land value tax was enacted in 1926, the Danes embarked on the inclusive development of their society.

Today, Denmark has one of the lowest percentages of leased farmland in the EU: 27%, against an EU average of 53% and the UK's 43%.

But the benefits range beyond money to the moral and social fabric of society. Denmark is No 1, or near the top of, indicators such as the World Happiness Report and Transparency International's Corruption Perception Index. The UK lags far behind in the global rankings. On housing, Denmark's dwellings are the most spacious in Europe; and the rural environment benefits from an absence of urban sprawl.

These outcomes are ultimately attributable to a culture nurtured by the history of land tenure and its taxation, which united people by securing their welfare. This was not at the expense of income. In per capita purchasing power parity terms, Danes enjoyed an income of $49,900 in 2017, way ahead of the UK's $44,100.

Scotland would love a national profile that replicated the Danish record

Land valuation

Another objection to revenue raised directly from land's value that the Reading scholars reported was this:

> **"[T]here may be difficulties arising from any adopted definition of 'unimproved land'. For example, economic theory**

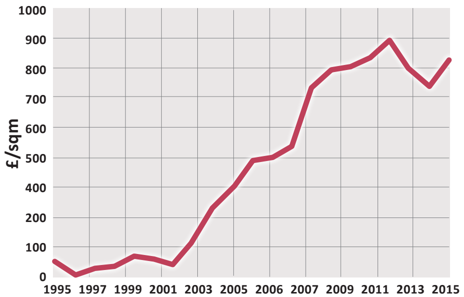
suggests that it should be land in its 'original unimproved state' i.e. 'prairie' or 'wild' land which has had no human labour mixed with it at all. However, it may in practice be very difficult to differentiate between land as it would have existed in its 'original unimproved state', and land which has been subject to improvements over many years..."

And:

" The technical difficulty of how to value unimproved land, while not insurmountable, is considerable".

So why would busy politicians bother with this policy, if it is so difficult to implement? Such pronouncements are music to the ears of those who prefer to opt for the easy life. And yet, in Scotland it appears that commercial interests have no difficulty in tracking the value of land (graph below).

Residual land values for residential development – Scotland 1995–2015



in 1910, following enactment of the People's Budget, a valuation was carried out by the Inland Revenue. Using pen and paper, it took five years to value the whole of Scotland. The books and maps are lodged in the Records Office in Edinburgh[1]. Today, it would take 12 months to undertake a similar valuation with the aid of computers and digitised mapping.

1. https://webarchive.nrscotland.gov.uk/10682/20170203093936/https://www.nrscotland.gov.uk/node/2005

TED GWARTNEY

The ease with which valuation can be undertaken was confirmed for Westminster law-makers and London think-tanks in November 2018 in discussions with visiting American assessor Ted Gwartney.

Gwartney explained what he achieved in Canada when British Columbia decided to collect a greater proportion of revenue from land and natural resources. He was hired to explain how this could be achieved. He recommended the creation of a province-wide Assessment Authority. The outcome: all of the land of BC, which is 3.9 times larger in size than the UK, was valued in 12 months flat.

British Columbia Assessment is rated as the most efficient assessment organization in the world. It set the standard for updating assessed values on an annual basis.

Gwartney explained that

- in 2017, $7.90 bn was raised in property tax revenue to fund benefits for BC citizens.
- $4 billion was raised from land out of total real estate value of $1.86 trillion.

Abandoning justice

The SLC report reviews evidence from other countries, but it fails to record the consequences for countries that *abandon* LVT. In South Africa, during the apartheid period, all except two towns levied municipal revenue with a land tax. The ANC government, instead of developing that revenue tool to achieve its land reform ambitions, switched to the traditional property tax that included the value of buildings. Now a desperate Pretoria government is resorting to changing the constitution to appropriate land without compensation in a bid to deal with continuing rural poverty and restless dwellers in the shanty towns.

Instead of imagining a future based on development of the rent-based revenue policy that is already in place, in countries like New Zealand, the Reading scholars resort to the claim that more pilot studies are needed. They suggest that

" It is possible that focused empirical work could provide firmer information as to the likelihood of the effectiveness of LVT to deliver the SLC's objectives".

This, despite the wealth of empirical evidence from fiscal jurisdictions such as Taiwan (it became the first Asian Tiger after adopting LVT) and Hong Kong (its pre-eminent market economy is due to the low tax regime that was made possible by the British government's decision to adopt the rent-as-public-revenue policy in the 1840s).

Instead of citing the success stories, the scholars offer this conclusion:

"...although extremely attractive in theory, the findings from discussions and international case studies point to a number of constraints and barriers to a full implementation."

It comes as no surprise to find that the report offers Scotland's policy-makers the cop-out clause they need:

" There are legitimate reasons for taxing improvements too. Occupiers of properties (i.e. improvements to land) consume local services and benefit from local amenities, so this consumption should be taxed."

This reveals a curious misunderstanding about the nature of land rent. It is a composite of the value of the services provided by society, and by nature. By also taxing improvements on the land, people are encouraged to duck and weave around the fiscal system. This inflicts the deadweight losses which the five Reading authors *fail to calculate* for the benefit of their client in Scotland.

If the SNP wants Scotland to be independent, it could start now – without the permission of Westminster – by empowering people to achieve their aspirations. That creates personal independence, by abolishing the fiscal constraints on earned incomes.

Australia

The Reading scholars discuss land taxation in the Australia state of Queensland, but they ignore the current programme of reform in the Australian Capital Territory. The ACT government is dumping taxes levied on property in favour of a land tax. The ACT Revenue Office explains that its land tax is efficient because it is

- **applied broadly across the community, either directly on property owners or indirectly through a tenant's rental costs**
- **entails low risk of tax evasion, as land is a fixed and visible asset**
- **discourages land banking**
- **is a stable source of revenue, allowing the government to make accurate budget forecasts and make long-term investments.**

https://www.revenue.act.gov.au/tax-reform

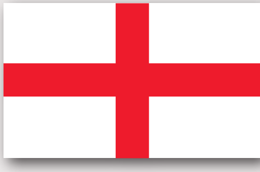
Sources

Hughes, Cathy, *et al* (2018), *Investigation of Potential Land Value Tax Policy: Options for Scotland*, Final Report, Inverness: Scottish Land Commission.

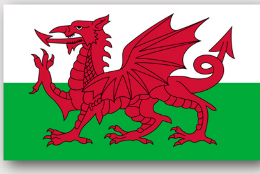
Wadsworth, Mark (2018), *Scotland's Path to Prosperity*, http://slrg.scot/wp-content/uploads/2018/02/pathtoprosperity.web_-1.pdf

Wightman, Andy (2015), *The Poor Had No Lawyers: Who Owns Scotland and How They Got it*, Edinburgh: Birlinn.

SCOTLAND, because of the fiscal powers which have been devolved to Holyrood, now has the power to champion an independent citizenry. It could fly this flag by leading the way to fiscal freedom for everyone within the United Kingdom.



The reforms explored in *People's Budget No 2*, if they were adopted by Edinburgh, would stimulate a democratic mandate to renegotiate relationships between the four nations. The precedent for this is the resolution passed by Glasgow Corporation in 1906, which inspired Britain's municipal governments to call for tax reform. The outcome was David Lloyd George's People's Budget (1910).



The new fiscal philosophy, which prescribes the collection of revenue for the public purse from socially created rents, authorises the social adjustments that evolve from enhanced self-confidence. That state of personal emancipation organically flows from the reduction in institutionalised poverty.

The components of a new settlement between the nations and regions of the UK have been assembled by the Independent Constitutionalists UK. http://www.icuk.life/declaration.html. Their Declaration reflects the advanced thinking that is being nurtured by a wide range of civil society organisations which appreciate the need to chart a new course for the UK.

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