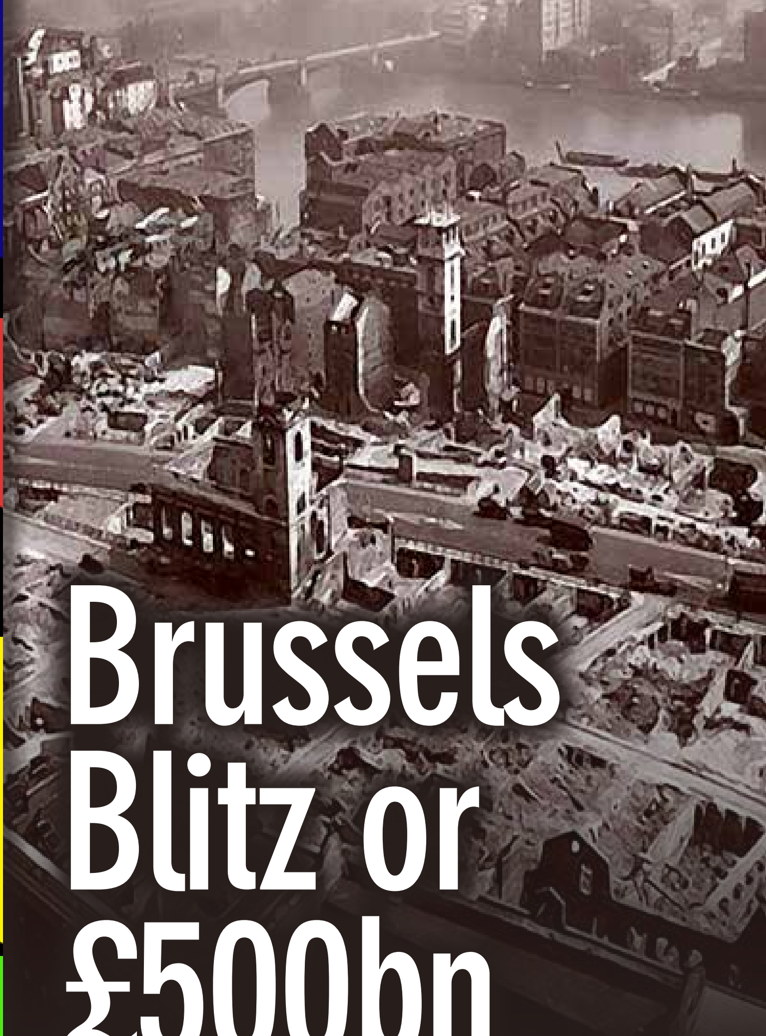

Brussels Blitz or £500bn Dividend

Fred Harrison & Ian Kirkwood

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Land Research Trust

SCOTTISH LAND REVENUE GROUP

Brussels Blitz or £500bn Dividend
By Fred Harrison and Ian Kirkwood

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THE last time Britain was blitzed was 1944. As the bombs rained down, the people of the United Kingdom remained steadfast in adversity.

They would not yield to threats. London was devastated. The Luftwaffe dropped over 18,000 bombs on the capital, destroying 2m homes and killing 60,000 civilians. Scholars at the London School of Economics have now calculated the outcome.
They conclude:

"It is with great discretion that one should attempt to cast the deliberate bombing of civilians in a positive light. However, the results of this study do beg the distressing questions, 'Did the Luftwaffe brave the Channel crossing and hostile fire only to rain down future lucre on 'lucky' London landowners?"[1]

1. http://spatial-economics.blogspot.com/2018/06/did-blitz-enhance-londons-economy.html

Their answer: "Yes." The uplift in property value, according to the scholars, was a windfall of £4.5bn (Knapton 2018).

Today, the Brussels blitz on the UK in the Brexit negotiations threatens to devastate vulnerable sectors of the British economy. But there is an alternative: one that would deliver an annual dividend of £500bn. That's the extra value that people would produce if they dismantled the barriers that now exist within the UK.

Historic opportunity

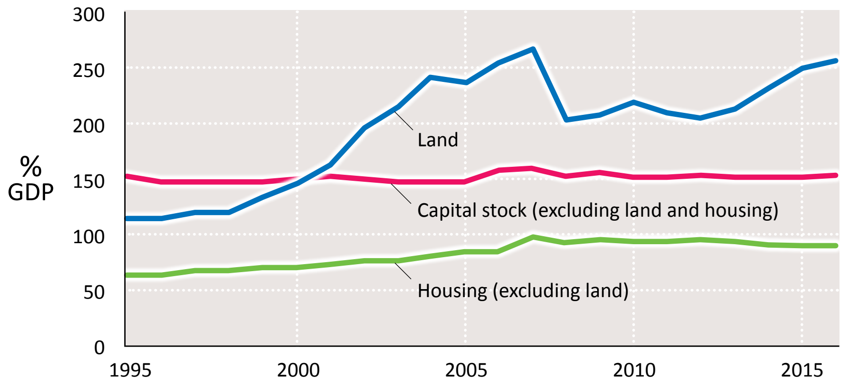
The four nations of the United Kingdom now have the historic opportunity to build the inclusive society that empowers everyone to enjoy a new kind of prosperity.

The only viable model for achieving this entails *dismantling the barriers to production and trade within the British Isles*. These barriers are far more disruptive than anything that the European Union could impose post-Brexit.

These internal barriers are invisible, but – one way or another – they cramp the daily lives of every person within the UK. Those barriers were *created* and are now enforced by the tax system. They

- curb investment
- reduce productivity
- cause poverty, and
- thwart people's hopes for themselves and their families.

Non-financial assets as % GDP in the UK



Source: ONS Blue Book National Balance Sheet 2017, Table 9.2

The annual cost can be quantified. We estimate that it amounts to **£500bn**. That is the value which is *wilfully* lost in income, *every year*, because of the tax policies enforced by Westminster.

There is one viable alternative. All that the UK has to do is switch the tax-take from earned wages and profits back to the system that operated in the British Isles ever since the people who occupied these islands decided they needed some form of organised governance.

We already pay that revenue for the benefits of the locations that we occupy. In economic parlance, it is called the rent of land.

£5 trillion +

The value of land exceeds £5 trillion. And as the graph above reveals, that source of wealth is increasing at a pace that eclipses the value of the capital we invest in production. The rate of increase also eclipses the value of bricks and mortar. *That is why increasing numbers of people are unable to own their own homes*.

The £5 trillion reflects a flow of income that is the starting point to empower all layers of government to scrap all the bad taxes and relaunch the UK onto a new evolutionary growth path.

Introduced carefully, and correctly, the UK would become the world leader in renewing communities and protecting the natural environment.

What would this take?

Democratically elected representatives need to agree on the wisdom of a restructured revenue system. Such a consensus would lead to the package of strategic reforms that would deliver fairness and efficiency for everyone. As it happens, all of the political parties are already interested in this approach, in one form or another, and to a more or less degree (see Appendix 2).

Backed by a popular mandate, politicians would have no difficulty in implementing the reform. *This would amount to the only viable post-Brexit strategy for prosperity*.

Rent-Seeking

Taxes in their current form were inherited from a bygone age when the landed aristocracy ruled Britain. They were designed to conform to the anti-social behaviour that economists call *rent-seeking*. Today, these taxes yield annual revenue of about £500bn.

Scrapping them would lay the foundations for a new kind of responsible governance that really was answerable to the electorate.

- **GONE:** barriers that create poverty
- **GONE:** inflation of house prices
- **GONE:** low wages that force people to endure the indignities of relying on state handouts.

People with special needs would receive an income that was legitimately theirs – a rent-based Social Dividend.

At the same time, the blots on the social landscape would be abolished. Housing would become affordable to every working household. Involuntary unemployment would be a thing of the past. And much more.

Over half the UK net worth is now in land

Non-financial assets increased by £477bn in 2016, with £280bn of that growth coming from rising land value. Land is worth £5.0tn, equivalent to 51% of the total value of the UK.

Daniel Groves of the ONS said: "Since 1995 the value of land has increased more than fivefold, making it our most valuable asset. At £5tn, it accounts for just over half of the total net worth of the UK at end-2016."

Anna Isaac (2017).

https://www.telegraph.co.uk/business/2017/12/05/uk-worth-10tn-half-land-value/

Here's how it would happen

The value of UK land now exceeds £5 trillion, reports the Office of National Statistics. That represents the capital value of just urban and farm land. A full assessment of the rents generated by the UK must include all of the other natural resources, like petroleum and the spectrum we use for our smartphones, as well as the rents generated by social assets that contribute to the formation of location values (like schools and the transport infrastructure).

Even so, that £5 trillion is sufficient to enable Parliaments at all layers of governance to begin to abolish the "bad" taxes – such as the regressive EU-ordained VAT – and replace the revenue with rent.

Using 5% as the relevant rate of interest, that £5tn translates into an annual income of £250bn. So the rents from location values alone are sufficient to dismantle half of the barriers within the United Kingdom. The remainder of the bad taxes would be replaced by rent from other UK-based sources.

Achieving political consensus

Parliament was on the verge of implementing this reform after World War 2. Labour governments acknowledged the need to fund the emerging institutions, like the NHS, out of land rents. If they had adopted the rent-based policy that was enacted in the 1931 budget, the Tories – still led by Winston Churchill – would have supported Labour. *Churchill would have joined a cross-party consensus because he championed this reform when the Liberals enacted the policy in their 1909 People's Budget*.

Tragically, that post-war consensus on tax reform did not emerge, because Labour chose socialist measures that were never going to run with the grain of the market economy (Blundell 1994).

The post-Brexit era is the first realistic chance since 1945 for all of the political parties to unite behind the one financial reform that really would forge a new start for the United Kingdom.

Churchill on budget day

Already on the agenda

The reform is already on the political agenda. The UK political parties are focusing on how to harness for public benefit the vast socially produced wealth that is locked up in land (see Appendix 2).

That this unearned wealth is generated by society, and largely untaxed, and is harvested by a single privileged sector of society, makes the rental value of land a logical subject for examination in a country afflicted by drastic shortages of public funds.

Austerity is a contrived abuse of the nation, based on the wilful shortfall in revenue.

The politics of austerity need closer democratic scrutiny.

In Scotland, First Minister Nicola Sturgeon is supporting one step in that direction by obliging public agencies – does this include the Scottish Parliament? – to assess the negative impacts of their decisions (see box).

The Scottish Government's pledge:

'We will place a new duty on public bodies to consider the impact their decisions could have on poverty and economic disadvantage.'

https://www.snp.org/our_plan_to_build_a_fairer_scotland

Brexit settlement

An exit settlement that does not serve the best interests of both the UK and the European Union should not cause despair. Failure of negotiations with Brussels need not render the UK vulnerable. It could "go it alone" with spectacular results, because the tax shifting strategy is the only problem-solver with the power to achieve the desired outcomes.

Take the issue of the UK's financial sector. Chancellor Philip Hammond has revealed that France is intransigent on the terms of the divorce, because it wants to grab as much business from the City of London as possible. This represents a grand opportunity for Britain, in terms of solving the demographic crisis.

HSBC economist James Pomeroy predicts that the working-age population will peak in 2027 and fall to dangerous levels in the following decades (Wallace 2018). *Britain is about to become a labour-short society*.

This does not mean the UK is hostage to the "freedom of

The tax shifting strategy would secure and boost the UK economy at both centre and margin.

movement" policy to which the EU is wedded. The people and skills are already available. They need to be reallocated.

New financial architecture

One new source of workers are the people currently locked up in the City of London, in giant ("too big to fail") banks. Some of these banks need to be redesigned to serve the home market rather than the hedge funds and the financiers who speculate on "making money out of money".

A new fiscal architecture would emancipate employees from the City to serve the emerging needs of post-Brexit Britain.

- Rebalancing the financial system is an integral part of a plan to rebalance the UK economy in ways that re-empower the regions.

German lessons

Germany's devolved banking system serves the most productive economy within Europe. Lessons can be learnt from its model of regional and community-based banks. That model is close to what the UK enjoyed in the 19th century when regional economies thrived and had access to all the credit they needed from local banks.

Rebalancing the pricing mechanisms that operate in both private markets and the public sector would facilitate organic adjustment to the financial sector. Banks would, by osmosis, turn into pro-social entities that served the small and medium-sized enterprises that provide the greatest scope for new jobs, higher productivity and the innovations that would expand British exports.

This model of sustainable growth would become the world-beater. One outcome would be a rebalanced distribution of the population. At present, house prices are driving people out of rural towns and hamlets into over-crowded cities where houses are also unaffordable. Tax reform would begin to correct the demographic imbalance and solve the shortage of employees, solving a crisis that is less than a decade away.

North-South Divide

Britain is disunited by the deadweight taxes that act as economic barriers between London and the rest of the country. But the equalisation of economic activity – and life chances – does not require detailed programmes formalised in Whitehall and Westminster. Many have been tried, by governments of all hues. And they have failed. *The problem would be resolved by tax reform*.

With Brexit, the expectation is that the North-South Divide will get worse in the long term, according to the Centre for Cities think-tank (Kirby 2018). The process of discrimination in favour of south-east England pre-existed the UK's membership of the EU, and the London-centric bias would, indeed, continue under the privileges ordained by the current fiscal system.

By naming the barriers so that they could be perceived by everyone – the deadweight taxes that distort work, saving and investment – people would mobilise themselves behind a democratic mandate for change.

Tax shift would secure and boost the North

The IPPR North think-tank reports that about 10% of northern England's GDP is dependent on trade with the EU. But even if all of this trade was lost (which it would not be), the tax shift that dismantled the artificial trade barriers within the UK economy would result in an expansion of northern incomes that exceeded anything that was lost in trade with Europe.

https://www.ippr.org/files/2017-11/1510217653_state-of-the-north-2017-november-2017.pdf (Page 13).

Another disaster that would be eliminated is the destructive land-led boom/bust cycle. Under current monetary and fiscal policies, *there is nothing that government, the Treasury or the Bank of England can do to smooth out those cycles*.

By transferring the revenue system off the value-adding part of the economy and onto rent-seeking activity, the rewards for speculating in land would automatically disappear like mist in the morning sun.

- **GONE:** the mania that drives house prices above affordable levels.
- **GONE:** the mortgage defaults that leave families homeless.
- **GONE:** the rise in unemployment created by boom/bust cycles.

Dismantling the barriers

The list of unfinished business – the issues that have not been resolved, despite a century of universal suffrage – is a long one. Now would be the time to deal with them, aided by the dynamic transformation of the fiscal system.

1. Devolution of power

The present emphasis on electing mayors cannot address stresses that originate in the structure of society.

Under the reformed fiscal system, more of the locally generated rents would be reinvested in local communities.

2. Reskilling

Persistent budget deficits prevent sufficient resources becoming available to meet such needs.

Under the reformed fiscal system, more than sufficient would be raised to pay for necessary services as artificially high costs (from the welfare budget) are organically reduced through declining need.

3. Infrastructure

Regional railways are needed, but sovereign debt keeps rising to bias investments in favour of the South-east.

Under the reformed fiscal system, infrastructure becomes self-funding. If a project is not a "white elephant", it produces sufficient rents to pay for itself.

4. The property market

The consensus view is that it is "broken". But experts are entranced by the "build more houses" syndrome!

Under the reformed fiscal system the output of new dwellings would be coupled with the adjustment in house prices to equate supply with demand at affordable levels.

Post-war programmes

Since World War 2, governments have invented all kinds of programmes in attempts to close the North/South divide; industrial policies to create jobs (such as "picking the winners") ...and they have all left disappointment in their wake.

In policy terms, there is nowhere left to turn under the terms of the existing socio-economic model. It is bankrupt. And there are no blueprints on the horizon. Which means that catastrophes like the implosion of the retail sector in the high streets up and down the country will take their logical course. Until, that is, policy-makers wake up to the reality: the grievous problems faced by the four nations of the United Kingdom can all be traced back to the internal barriers to prosperity and social cohesion.

By dismantling those barriers, it becomes possible to re-establish the kinds of freedoms for which people yearn – one of the reasons why so many voted for Brexit.

Implementation

Fiscal reform would need to be implemented with care, over the lifetime of two Parliaments, so that no-one is disadvantaged during the transition. This programme is a quest for justice: to correct the many terrible misdeeds that were inflicted on generations of families over the past half millennium.

To create the basis for a new start, politicians need to work together rather than engage in the fake contests required by the adversarial style of politics that was bequeathed by the landed aristocracy.

We believe that an informed national conversation would result in the emergence of a mandate to authorise the dismantling of the barriers that prejudice people's life chances.

If the people decided to stick with the current tax regime and all of the consequences, that would be their choice. But we know from how they had voted to support what became the People's Budget (1909), that the people of the United Kingdom wanted to change the balance of power. Parliament failed to honour the law that was enacted then, and again the "rule of law" was set aside when Parliament failed to implement the land tax provisions of the 1931 budget.

What now?

The time has come to consult the people on whether, after Brexit, they wish to be liberated from the taxes that impose £500bn worth of damage to the wealth and health of the nation.

Appendix 1

Keep what you create, pay for what you receive

The £5 trillion capital value of land in the British Isles yields an annual income of £250bn, based on the 5% rate of interest. But why use 5% to impute this revenue?

Five percent has been the long-term interest rate for 2,000 years, according to Bank of England chief economist Andy Haldane (see graph). In modern times, there were two exceptional periods of volatility (one in the 16th century, the other late in the 20th century). Otherwise, investors expected an average of 5% on their capital.

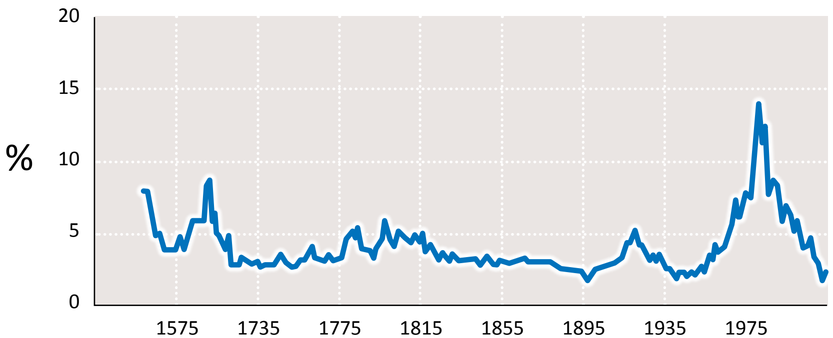
The 5% rate of return was enshrined in the Usury Law (1714). But back in the 1580s, 5% was the return that investors expected when they purchased land in the property market that emerged in the middle of the 16th century (Harrison 2005:77).

The Copyright Act 1710 gave authors 14 years to recover the value they had invested in writing a book. Fourteen years created a property right that was equivalent to a return of 5%. In the late 18th century, the 14-year period shaped the terminating societies (precursors to the 19th century not-for-profit building societies). People clubbed together and invested in the purchase of land and construction of dwellings for each member in the society. The timescale to complete the construction of the last house was 14 years, the period set by the cost of borrowing money at 5%.

Wars disturb the price of borrowing money, but since 1870 "In most peacetime eras [the interest rate] has been stable at about 4%–5%" (Jorda *et al* 2017).

The 5% rate, applied to the capital value of UK land, equates to half of the revenue raised by the deadweight taxes that damage the economy. The other half of the bad taxes could be abolished by raising revenue from the UK's other rent-yielding assets.

Long term interest rates



Source: *Stuck,* speech by Andrew Haldane, Chief Economist, Bank of England (2015).

The calculations must allow for the fact that the numbers are fluid. They adjust dynamically for a variety of reasons.

Part of the £5tn, for example, is speculative value (or "hope" value, as it is known). This would evaporate if the rewards for rent seeking were eliminated by adhering to a simple fiscal principle: *Keep what you create, pay for what you receive*. But does the loss of hope value mean that the UK's rents are insufficient to cancel all of the bad taxes? No, for reasons that include the following.

1. Eliminating the tax barriers would result in higher wages and full employment. So the annual welfare bill of £264 bn would decline organically as fewer people needed support out of the public purse.
2. Rents which surface from other sources equate to at least £250bn. These rents flow from North Sea petroleum; the radio spectrum (most of those rents are untaxed, which explains the high share values of "platform" corporations like Amazon and Google); highways; airport landing slots – the list is a long one (Gaffney 1998).

In estimating total rents, we need to take into account a financial phenomenon that is seriously neglected in debates over tax policy. *Even today, most of government revenue comes out of rent*. This is confusing, but if it is correct it provokes two questions:

1. How does this happen?
2. Why bother to change the way revenue is collected?

Paul Johnson, director of the Institute for Fiscal Studies, answered the first question when he addressed the claim that reducing business rates would offer relief to high street retailers. Campaigns to save shopping centres by reducing the financial stresses caused by competition from on-line retailers like Amazon are misinformed. Reducing the tax on business properties was pointless, explained Johnson, for this reason:

"I'm not only paying a business rates bill; I'm also paying rent to the owner of the shop and of the land on which it sits. Because there is only a limited amount of land for shops…cutting business rates will largely simply lead to higher rents" (Johnson 2018).

At the first opportunity, under the terms of their leases, retailers would be told by landlords: "The cut in the property tax means you can pay higher rents!"

But why bother to collect rent directly if it is already being collected indirectly as Income Tax or taxes on profits?

The deadweight taxes were invented by the landed aristocracy, going back to the 18th century. The intent was to shift the tax away from rent and onto the peasants. Their Lordships in Parliament refused to listen to John Locke, who warned (in *Some Considerations of the Consequences of the Lowering of Interest and the Raising the Value of Money*, 1691) that a tax on wages would be deducted from rents paid to landlords.

The landlords tested the theory and invented devices like taxes on salt, on beer and on windows, all of which created havoc in the labour and capital markets. Their way was the hard way, the circuitous route to raising revenue that was pockmarked with hazards. The net effects were an artificial ceiling on productivity that remains with us to this day; the quest for "tax-efficient" ways to invest capital; and the concealment of cash in tax havens (you can't hide land in a tax haven!).

The outcome is the annual loss of wealth and welfare equal to £500bn. That is the *extra* value that would be produced, if the leaders of mainstream political parties banded together to collect revenue directly, out of the rents of land and natural resources.

Appendix 2

The tax shift is already on the agenda

Conservatives

Theresa May intends to capture land value by reducing what councils must pay for housing land to pre-planning permission values. "We will reform Compulsory Purchase Orders to make them easier and less expensive for councils to use and to make it easier to determine the true market value of sites."

The Conservative and Unionist Party Manifesto 2017

https://www.conservatives.com/manifesto

Labour

"We will initiate a review into reforming council tax and business rates and consider new options such as a land value tax, to ensure local government has sustainable funding for the long term."

The Labour Party Manifesto 2017

https://labour.org.uk/manifesto/

Scottish National Party

Scotland's First Minister, Nicola Sturgeon, announced that the Scottish Land Commission (SLC) will be "reviewing tax and fiscal arrangements, including the potential for introducing some form of land value based tax in Scotland"

A Nation With Ambition: The Government's Programme for Scotland 2017-18

https://www.gov.scot/Publications/2017/09/8468

To fulfil its remit the SLC is commissioning various studies on rent-as-revenue, such as *An assessment of historic attempts to capture land value uplift in the UK*.

https://landcommission.gov.scot/wp-content/uploads/2018/05/Historic-Approaches-to-Land-Value-Capture-in-the-UK-Final-report-9Apr18.pdf

Liberal Democrats

"We will also consider the implementation of Land Value Taxation."

The Liberal Democrat Manifesto 2017 (Section 4.2 Fair taxes).

https://d3n8a8pro7vhmx.cloudfront.net/themes/5909d4366ad575794c000000/attachments/original/1495020157/Manifesto-Final.pdf?1495020157

Greens

"A system of Land Value Taxation (LVT) will be introduced to replace the Council Tax and the National Non-Domestic Business Rates. LVT rates will be set at a local level, and will be based on the annual rental value of the land."

https://policy.greenparty.org.uk/ec.html

The APPG on Land Value Capture

In 2018 an All Party Parliamentary Group chaired by Sir Vince Cable MP was established at Westminster "to discuss and develop innovative proposals to capture increases in land value, for the public benefit."

http://www.c4ej.com/appg

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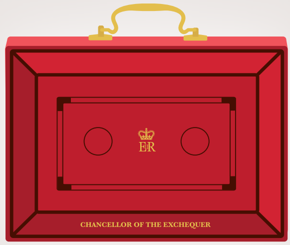

BRITAIN AFTER BREXIT can flourish as never before. Over the past 300 years, the peoples of the four nations laboured under a tax regime which imposed an artificial ceiling on productivity. Those taxes continue to create havoc in people's lives.

The only viable strategy for the UK is a fiscal reform-led programme that organically restructures the economy to replace rent-seeking with value-adding enterprise. This would re-balance relationships between the regions by eliminating the bias that now favours London. And it would transform the City of London to secure prosperity across the kingdom.

A national conversation is needed to create the democratic mandate that authorises the re-design of the public's finances. And the leaders of all political parties must agree to work together to eliminate the internal barriers that rupture people's health and wealth.

The annual damage caused by the tax regime amounts to at least £500bn. The palliative policies that are supposed to mitigate that damage have failed.

Twice in the 20th century the people of Britain mandated the structural reform of their finances. Twice the law was enacted. Twice, Parliament failed to honour the "rule of law". Will Parliament now grasp the opportunity offered by Brexit to unite the nation in a new kind of prosperity?

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