HENRY GEORGE FOUNDATION

A Fiscal Policy For Healthy Economic Development

Through

Public Revenue Without Taxation

By
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INTRODUCTION

The national economy and economic life is a means to an end - it is not the end or purpose of a nation or of a human life. It is the means by which the needs and wants of people living in a civilised society may be met. Its success is not thus to be measured by whether or not it is growing but by how it contributes to the provision of a happy and satisfying life for the nation and its citizens.

In a modern economy the amount of public revenue collected from wealth producers represents a huge fraction of the wealth produced. How it is collected has a corresponding impact upon the wealth producers, how the wealth is produced, and how it is distributed throughout society.

Taxes in the UK are demonstrably unjust, inefficient, and ineffective. They discourage wealth-creation, positive economic activity and employment, and prevent people and the nation from realising their full potential. They involve theft, encourage dishonesty and environmental abuse and are unnecessary!

The current social, economic and environmental crises highlight how governments, worldwide, of every political

complexion continue to fail in this vitally important area of public policy. In their failure to collect sufficient public revenue they also fail to provide and maintain public services and the community's physical and social infrastructure or to protect the environment and common resources from abuse by individuals and corporations.

This paper offers an alternative whereby public revenue may be raised ethically, efficiently and economically without resorting to taxes that have consistently failed in the UK and throughout the world.

The Ethical Principle

The ethical principle 'not to steal' lies at the heart of civilised economic behaviour. It was not invented by human ingenuity but is inherent in the nature of man as a social creature. It is, however, necessary for human beings to acknowledge it, and such acknowledgement is a feature of the scriptures and laws of every known civilisation. Thus man-made law is required to respect and be in harmony with the nature of man and human society. If a nation's economic arrangements do not recognise this, the consequences for the economic wellbeing of the nation are bound to be bad.

Private Property

Implicit in the requirement not to steal is the recognition that some things are one's own, whilst other things are not (i.e. the concept of private property).

Every person born is by nature endowed with an individual life and body with physical, mental, emotional and spiritual attributes and powers that are, exclusively, their own. Private property in these powers is natural and necessary, since human nature is such that man is obliged to use these powers in order to survive. He must work with what nature provides, and the economic terms that refer to nature's provision and man's powers are 'land' and 'labour'. The economic term 'wealth' is used to refer to the product where 'land' has been modified by 'labour' in a manner that adds economic value.

What a person produces, using only their own powers and a resource that is equally available to everyone, is quite naturally their own and no one else's. To take it from them, as most current taxes do, is theft.

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Society and Trade

People, however, rarely work or live in isolation. They display what we might call a social instinct and benefit from the mutual assistance that comes with association with others. Living in a social community is nurtured by yet

another instinctive attribute – a tendency to exchange or trade. It was not necessary for anyone to invent exchange or trade. It arises naturally with the recognition that, by cooperating and specialising in certain aspects of production, individuals can be more secure and better satisfy their material, intellectual, emotional and spiritual needs. Trade and exchange does not need to be fostered by governments except where artificial barriers to it e.g. tariffs and taxes, have been erected.

Development and Location Value

With growth of population, settled communities, development, and specialisation, the provisions of nature and the benefits of association cannot be made equally available to everyone. In particular, land of equal quality cannot be made equally available to all who wish to use it. The consequence of this natural phenomenon is that those who are able to live or work on better locations benefit more from social development than those who do not. Recognising this, a business person is prepared to pay for the opportunity to occupy a location where, for a given input of their labour and/or capital, their net earnings will be more. Likewise, someone seeking a home will be happy to pay for the opportunity to live in a better location. Thus the economic phenomenon of land rent or location value arises naturally in every developed community. The obvious questions arising from this are:

Who Creates Location Value? To Whom Is It Due? The answers are equally obvious. Location value is created by the presence, protections and services provided by the whole community and it is thus due to the whole community. It is thus a natural source of public revenue. It does not involve theft!

Would Location Value Rent Yield Enough Public Revenue?

In conventional economic analysis, the distribution of wealth refers to that portion that goes to each of the three factors involved in its production, i.e. land, labour and capital. If payment due for the use of land is recognised as 'rent' and that which goes to the providers of labour and capital is recognised as their 'earnings', we may note a primary division of wealth between 'rent' and 'earnings'. When communities are small and widely dispersed, little or no rent arises. It then constitutes a small fraction of the value added by the economic community, whilst earnings represent a relatively large share. As communities develop economically and become more concentrated, rent naturally becomes an ever-increasing fraction of the value generated, whilst earnings, as a proportion (but not necessarily as an amount), naturally declines. (See also pie charts)

Thus, as the need for public services increases, the revenue to pay for them also increases.

As we have noted above, the phenomenon of rent arises when people, recognising the advantages of a better location, are prepared to surrender some of the fruits of their exertions for the benefit of its exclusive occupation. How much a person needs to pay for such a privilege is determined by the competition they encounter from other likeminded prospective tenants (i.e. the market) and the relative advantage the location in question enjoys compared with any site that may be occupied without payment (i.e. having nil rent).
The amount that a whole community can afford to pay in rent is a function of how much of their earnings they are left with after meeting other obligatory outgoings. Taxes represent an important item here, and it follows that the amount that an individual and their competitors can afford to bid in rent is reduced by an amount at least equal to their current tax burden. Other unavoidable outgoings would include any inflated prices they are obliged to pay to the monopoly suppliers of goods and services that they require, together with any losses they might suffer due to theft, fraud, corruption or waste, in their community.

From the above it is evident that, apart from any other advantages that might attend this method of collecting public revenue, it would raise more public revenue than is currently collected, without reducing returns to the providers of labour and capital.

How Collecting Location Value as Public Revenue in Place of Current Taxes Better Complies With Adams Smith's Cannons of Taxation

1. It does not inhibit production, so it does not check the increase of the general fund from which taxes must be paid and the community maintained.
2. It may be easily and cheaply collected, and falls directly upon the ultimate payers—so as to take from the people as little as possible in addition to what it yields the government.
3. It is certain—so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of the taxpayers.
4. It is fair – so as give the least incentive to evasion. It bears equally on all citizens, giving none an advantage or putting any at a disadvantage, as compared with others.

More advantages of collecting location value as public revenue in place of current taxes

1. Public revenue and the returns to the providers of labour and capital are all maximised.
2. Private property rights are respected – there is no theft.
3. Value produced by the community is collected for the community.
4. It supports economic growth, development and refinement by encouraging the efficient production of wealth and discouraging negative economic activity.
5. It does not conflict with the pursuit of other specific policy goals as existing taxes do, e.g.:
   - When employment is taxed (income tax and national insurance payments), employment policy is undermined.
   - When production, trade, adding value, or capital are taxed, industrial policy is undermined.
   - When labour is taxed and the use of labour saving, more energy intensive, and material demanding methods of production are encouraged, energy and environmental policy goals are undermined.
   - When industries and businesses in areas where location values are relatively low are taxed at the same rate as where they are relatively high, their disadvantage is magnified and their viability is compromised. This is critically important in connection with policies that affect national, regional and local land use planning and regulations, and international trade.
6. By collecting location value as public revenue the highest possible degree of security, justice and freedom may be assured.
7. Current taxes levied on production (e.g. agriculture, manufacturing and trade) and on labour or on capital stock or equipment are not able to distinguish between that which is marginal and that which is not.
8. Businesses, workers and capital equipment that would naturally be viable are rendered unviable by such taxes.
9. The value of a property right that is conferred by the community is not diminished by collecting it for the community. Neither is the use that can be made of it compromised.
10. In contrast, where such value is not collected for the community but is allowed to be retained or collected by an individual, the property may be held out of optimum use for speculative purposes - as is evident with land speculation. Alternatively, it may be underused and a business that is not actually adding value to the community may merely 'milk' the community created property value to cover its costs and profit.

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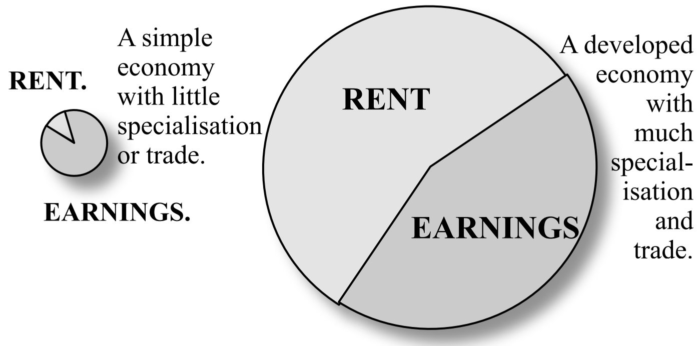
THE PRIMARY DIVISION OF WEALTH BETWEEN RENT AND EARNINGS

The pie charts below show how the wealth that is produced within an economic community divides between (a) the **Rent** which arises when people compete for a location and (b) the **Earnings** (i.e. wages + interest) which the suppliers of labour and capital receive for their endeavours and enterprise.

From this it may be appreciated how Rent is produced by the presence, protections, and services provided by the whole community and thus forms a natural source of public revenue in place of taxes on the wealth individuals and groups produce.



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