

Taxation Housing and Social Mobility

presentation for Fringe meeting, Liberal Democrat Conference, September 2008, Bournemouth.

Dr. Adrian Wrigley

fiscalreform@fmail.co.uk

Today I'm going to talk about some ideas we've been thinking about up in Cambridge. We've called these ideas "Systemic Fiscal Reform", or SFR for short. It's our name for a mixture of existing concepts and their application to contemporary problems. I'm going to give you a flavour of these ideas, particularly in relation to housing and the Credit Crunch, poverty and social mobility.

So what is the *system* that our systemic reform speaks of? It is the current system of taxation, welfare, money and land. It is in fact the *capitalist* system! It is a system that has arisen by the use of conquest, revolution, force and finally the so called "democracy" of today. It is a complex system of interacting components and flows of money, value and power. In spite of its many strengths, the flaws of modern capitalism are becoming increasingly apparent. We believe the reforms we propose will *strengthen* the existing system while overcoming its problems.

And we find the necessary reform delivers little short of the emancipation of the people and of the planet. For without such reform, we are condemned to the immorality not only of financial slavery and economic instability, but environmental catastrophe. At the heart of this reform is a new relationship between money, the state and the people – the Fiscal System of tax, benefits and money creation.

The current tax and welfare system is a complete mess. It's not efficient. It's not fair. It's barely comprehensible and certainly not simple. It fosters tax avoidance and cheating. And sadly, the Liberal Democrats' response is to accept it broadly as it is, just like the conservative parties.

The whole group of taxes which focus on economic transactions, such as trade of labour, goods, houses or shares, including gifts, inheritance and profits, I will call Transaction Taxes or TransTaxes. Just like *trans* fats, the TransTaxes are wholly bad for you. There is *no* minimum requirement of TransTaxes for a healthy society. So what kind of tax *isn't* a TransTax? A levy on digging up fossil fuels or dumping waste. A tax on land ownership or radio spectrum allocations. A charge for access to the roads, rails or runways – even the poll tax and TV license are not TransTaxes.

What is it about TransTaxes that makes them so bad? We start from the basis that transactions are fundamentally good! We don't want to block them! Transactions in the general sense are key to improving human welfare. And the TransTaxes gum up the very arteries of the economy. They are "welfare negative". In economics terms, they have a deadweight cost – a pure waste of economic resources and potential. But it goes deeper than that.

TransTaxes have become complex and expensive because people are devious and their transactions are complex. People become companies, partnerships, charities, or non-doms. Transactions are masked, hidden or restructured for the tax-man. Transactions are extremely numerous, and virtually every one of them now is covered in two or three *layers* of corrosive TransTaxes.

Under the current TransTax system, the benefits of effective government are delivered on a plate to the landed few. It's no wonder then that ordinary voters have lost interest in politics! They can plainly see their taxes channelled away for the benefit of others and rightly conclude that their interests are being ignored. The tax system is at the heart of the democratic deficit.

So if TransTaxes are so bad, why are there *so many* of them? Paradoxically, the answer is that there are so many because they *work so badly!* You simply cannot *collect* enough from any one of them to fund modern government. In the current economy, VAT, for example would have to be about 120% in order to supply all the funds. Corporation Tax would have to be 300%. Income Tax would have to be nearly quadrupled! The main transaction taxes are now working flat-out as they are. The greater the TransTaxes, the greater is the loss to society.

Income Tax and Means Tests are the statist solution to raising revenue and poverty protection. They are cumbersome, bureaucratic, highly intrusive. But most of all, they place the self-interest of the government machine above the interests of the people. It becomes clear why government policy is so work-obsessed. It is because *their* income is derived from the wages paid and *price* of goods consumed – and it is lost through benefits paid. And government has become oblivious to the *value* in the economy.

Now it seems people are resigned to having an intrusive system. They have become compliant in the face of a wall of regulatory changes. As politicians and the public see the symptoms of the TransTax disease, they demand state remedies. Farm subsidies to ensure a Basic Income for farmers. Transport subsidies to address underinvestment. And housing subsidies to address high house prices. We end up with public acquiescence to a system spiralling out of control.

We have been duped into thinking this is the only way. That taxes on work, creativity and success are not only fair and efficient but necessary. And means-tests on pensioners and the unemployed create the right incentives to save and to work. But standing back a few moments it becomes obvious we have become brainwashed by rhetoric without substance.

The task of managing this hideous beast has become a major focus of political debate. Those mandarins in The Treasury know that it has become a futile task of fire-fighting the flux of fixes to a failing system.

And widespread use of Transaction Taxes is necessary for efficient implementation of a totalitarian state. By abolishing these taxes, the shift to totalitarianism can be stalled.

Corporate power is granted by the government through the controls and inefficiencies of the tax system. The tax system imposes a heavy penalty on small business, self-reliance and entrepreneurship.

I suggest that the transaction taxes have become so complex, divisive and problematic, that they have enveloped almost the entirety of political debate and legislative time, pushing out the simple, effective solutions. In effect, we are simply chasing our tails trying to solve problems of our own creation.

We should leave the Statists in Labour and the Tories to fight over 10p tax bands and stamp duty holidays. What is at stake here is much more important. The long term solution has to be to rid the world of TransTaxes altogether.

So what is Systemic Fiscal Reform? It is a programme of abolishing TransTaxes one by one and replacing them with a system of charges for consumption of government services, and the collection of unearned scarcity rents. It replaces means-tested and conditional welfare payments with a universal Citizens' Income. And it restores the role of the state as the exclusive issuer of the currency – removing the ability of banks to create new money.

The biggest scarcity rents are those of land and of fossil fuels. Both are essential for modern life, both already command high prices. The land scarcity rent is collected as a Land Value Tax – hence my appearance today at ALTER. And the fossil fuel scarcity rent is collected as a Carbon Tax on importation and mining of coal, oil and gas.

Europe desperately needs the Carbon Tax – VAT however is needed like a hole in the ozone. layer Surely in this time of global emergency a swap can be achieved?

And what of the user charges? In the case where the state is taking care of you – such as in a prison, care home or school, part of the cost of the care is charged to your Citizens' Income. In the case of access to road space, a fuel duty or toll is charged.

There is a historical issue here for us LibDems. Why did the party drop the policy of a Citizens' Income? Because you *cannot* begin to deliver such a policy with a hopelessly inefficient tax system. You simply cannot collect enough transaction taxes to pay out a credible Citizens' Income. By failing on tax reform, we *had* to ditch the Citizen's Income. Lord Russell was right to call for the parties old Citizen's Income policy to be dropped, but failed to provide a viable alternative.

It is surprisingly expensive to collect tax from one group of people, and hand it out to another group of people. Both groups are seen squirming to play the system, either to under-pay, or over-collect. Effectively, the costs of the two activities are compounded. Is it not so much better simply to cancel out benefits and pensions with any tax liability and settle the difference?

So where does housing fit in? The first and most important thing to understand is that there is *no housing shortage* in this country. None whatsoever. Access to housing has been squeezed out by the speculative aspirations of the wealthy. You can tell when you have a housing shortage because the average occupancy rises sharply. It has done the exact opposite. Home rents would have surged too. They haven't.

Land is now the biggest tax haven of all. Consistently, British governments have pursued the perverse policy of pumping the price of houses! What more could you do if you wanted to boost poverty and widen inequality? If that was the aim, Britain has been *exceptionally* successful. The wealth gap has widened, not only under Conservative governments, but under the Labour which asserts addressing inequality is a priority! And now that wealth gap is matched by a corresponding health gap. Did our leaders sleep through their economics classes? For the politicians today clearly fail to grasp even the *basics* of Political Economics.

The pumping of house prices is from two sides. First they have strengthened land's role as our local tax haven. Secondly and more subtly, they work with the banks who are the beneficiaries of the money they create to buy the houses. The banking subsidy alone is worth in excess of £70bn/annum in the UK. The housing crisis and credit crunch are a predictable result of little more than a giant money laundering scheme for banks creating new money passing through the property market to the wealthy. If *any* sector deserves windfall tax, it is the banks.

There is a long tradition of supporting Land Value Tax in the Liberal Party since Churchill in the 1900s and before. Such support however is not confined to the Liberals – The Fabian Society is founded with Land Value Taxation at its core – a fact that seems to be very poorly understood by its current members. Labour was right to drop Clause 4 and the common ownership of the means to production, but wrong to leave a philosophical vacuum in its place. Had the membership read Henry George's *Progress and Poverty*, I have little doubt that Labour would have adopted a Georgist constitution.

Until you understand the key relationships in the economy – that government spending in general delivers tax-free income and windfall gains for landowners, you will not grasp the profound significance of the Land Value Tax. Every time the tax on *workers* is spent on improving transport links, schools or hospitals, it is like a shot in the arm for the land and homeowner. *Progressiveness* of the tax system is largely a smokescreen! Poverty is caused by the *regressiveness* of the spending system and the perverse effects of targeted welfare.

Society must recognise that we are not discussing a fringe issue like drugs policy or even a major issue like education. We are discussing the *central* issue in politics as well as the delivery of our core values. We must be working towards a comprehensive and radical development of party policy.

So how does this fit in with the question of social mobility? There is much to be said here. Firstly, the right to all you produce yourself is immensely powerful. It gives you access to the full value of your education, your unique skills and your diligence – in effect, you retain your own economic rent. This is a powerful driver to self-investment and to entrepreneurship. At the other end of the spectrum it denies the *idle* rich the opportunity to maintain their position simply by charging the poor for access to natural monopolies. It clears the way to improve your circumstances. Only by eliminating the poverty trap can we achieve social mobility.

These reforms should not be contentious! Opinion polls show that Income tax is reviled, Inheritance Tax is abhorred. And benefits cheats are hated. But beyond that, abolishing the system of state oversight and tariffs over everybody's lives is the real political win.

The tax system must be robust against being undermined by narrow political interests. This is an immense challenge which Transaction Taxes comprehensively fail. They are adjusted annually for political expediency, and are the subject of political vote buying. Systemic Fiscal Reform has a uniform, ultra simple and consistent approach and by aligning political and financial interests, it should be much more robust.

Also, being much *simpler*, with fewer moving parts, there is much less to go wrong than in an economy bound by Transaction Taxes, welfare, fixes and subsidies. The principle of Occam's Razor is paramount; we must keep it simple.

Land Value Taxation goes a long way towards broadening access to land because there is no need for a bank to create large sums of money to lend to a prospective land purchaser. Anybody with an appropriate plan will have land available to them, essentially debt free.

So what about banking? Most money created in this economy is *not* issued by the government and used to invest in businesses or public facilities, but is issued by banks as debt to be used to buy land at speculative prices. But we are not here to bolster the interests peculiar to the banking industry. And none of this unseemly scramble to own land is *economic investment* at all – for every buyer investing, somebody else must be selling their investment.

The two main taxes in Systemic Fiscal Reform, Land Value and Fuel have an overwhelming catalogue of reasons for supporting, and essentially no valid reasons to oppose. It is not a question of balancing the “legitimate interests” of different groups, nor of carefully comparing costs and benefits. It's what you might call "a no-brainer". And likewise, for welfare policy the Citizen's Income is an absolute "slam-dunk" – there is no alternative that even comes close. I looked.

I examined alternative schemes to improve tax efficiency or annihilate poverty. The Flat Tax, The numerous “Fair Tax” proposals, and others. Their advocates promote their solution based on how much *less* damaging it is compared to the present system. They are generally correct in having found less bad systems. But positive benefits are few and far between. We have seen The TUC call for an expansion of this failed system backed by journalists and the public apparently completely blind to the basic economics.

If you had Land Value Tax with Citizens Income, who would want to abolish it for TransTaxes? Certainly not the workers who would have their earnings curtailed. Nor the poor who get a significant fraction of their income from Citizen's Income. Nor the businesses who would have to administer the alternatives. The lazy owners of large tracts of land will have already sold out or started using it, so even they wouldn't be so keen.

Just as Universal Healthcare has won hands down against other models such as in the US - in spite of concerns about affordability, *Universal Welfare* will win decisively against a mean, vindictive "us and them" model of selective and conditional welfare. The conditions imposed on claimants such a ban on working *create* poverty.

In countries without universal healthcare, access to medical help is a constant worry. The elderly are advised that a substantial proportion of their retirement savings will have to be allocated to health. This worry and stress has been entirely eliminated in the UK by universal healthcare. But people still face financial worries. Will they be able to afford the basic necessities of life? This is where *Universal Welfare* must be a priority of a Liberal Democrat government.

Some people will say that Citizen's Income will introduce a something for nothing culture. We already *have* a something for nothing culture – the banks with their unfettered credit creation rights, the owners of land collecting *our* civic amenity value, and most importantly, the government with its baseless TransTaxes – little more than legalised extortion. We must turn the tables on the government by making *it* work for *us*, not the other way round. This can only be done through *value* taxation for the amenity it delivers to the community, not *price* taxation on transactions we do between ourselves.

But note that something for nothing is an economic fact of life – economists call it "economic surplus" and "economic rent". *Somebody* has to get it! The only question is how we share it! The current system of sharing economic rent on the basis of wealth is the crux of the matter. It explains the paradox of poverty amid plenty and the shortage of housing amid under-occupancy. And it is *the* major cause of an entrenched social divide.

How do we go about introducing Systemic Fiscal Reform?

Let me make it clear. The economy is in grave peril. But we must not let short-term fixes impair future stability and we *must* not let house price inflation resume. For that is certain to lead us further down the road of inequality, inefficiency and instability. The best solution is to use Land Value Taxation to block house price rises while abolishing TransTaxes one by one.

We must carefully unwind the the house price inflation of the past thirty years. To achieve this, we need a powerful *combination* of policy steps that are extremely sensitive to existing interests. You cannot expect support by attempting a massive programme of redistribution.

We must reject the notion of windfall energy taxes when they are driven the deeply flawed European carbon policy. Phasing out VAT across Europe for the carbon tax is fair on business, fair on consumers and fair on the planet.

Systemic Fiscal Reform is scrupulously impartial and non-discriminatory in its approach. The Citizen's Income is available to *all* resident citizens. The land value tax does not try to select some *owners* for punishment or favours. The Carbon Tax does not seek to reward coal or some other fuel because is is "fuel of the month". It is an *amoral* system. This strength will help ensure widespread appeal.

In conclusion Systemic Fiscal Reform is ambitious, yes. Does it have technical challenges? yes. Can it win universal support? Probably not - but I have found support coming from right across the political spectrum – including those who find themselves unable to support existing parties. People hear the basic concept and ask who they should vote for.

For the Liberal Democrats, this is key. Unless we have revolutionary policies effectively presented, we will *never* see Vince hold the keys to number 11.

And revolutionary policy is needed. Wealth is all around us. Persistent poverty is unnecessary. Access to housing must be restored. Finance must be tamed.

We should Restore the Citizen's Income policy linked to a full Land Value Tax! We should scrap VAT for a Carbon Tax. We should phase out these cancerous Transaction Taxes.

This is real change through real economics. This is Systemic Fiscal Reform.

On Local Taxation in Scotland

The issue of local taxation in Scotland illustrates much about what is wrong with politics today. Consultations amounting to little more than opinion polls and popularity contests. Diligent reviews by those in the wrong profession. Media takeover by childish name calling. But LibDems should bow their heads in shame for shunning reason and analysis...

Scottish homeowner's instant £50bn windfall from LIT are unearned and will be rapidly reflected in higher prices than otherwise. It is a wholly irrational policy.

Scotland should do exactly the *opposite* of the Local Income Tax Plans; there should be a 3p *reduction* in Income Tax and a substantial Land Value Tax in place of Council Tax.

Dr. Adrian Wrigley, Bournemouth, September 14th 2008.