

Collecting the Economic Rent For The Benefit of All

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Henry George is mostly remembered for his recognition that the systems of taxation employed in his day, and which continue to dominate fiscal policy in the UK and throughout the world, are unjust, inefficient, and ineffective. They discourage wealth creation, positive economic activity, and employment, and prevent people and nations from realising their full potential. They involve theft, they encourage dishonesty, and they fail!

The extent of the failure is however seldom realised. The poverty that is now suffered does not manifest so much as outright homelessness and deprivation (though there is plenty of that) but rather in the degree of dependence that has become normal. A large proportion of the population being unable to earn sufficient to take care of themselves and their dependents are obliged to depend upon benefits and social services provided by the state. To qualify for many of these people are obliged to suffer ‘a means test’ which at best is not an ennobling experience and for many is accompanied by a sense of shame or failure before it becomes their ‘normal’ state. In short we have a pauperising fiscal system of taxes and benefits. Both the taxes and the benefits are justified by the plea that there is no alternative – we know there is, but do we really appreciate the full extent of the alternative that we seek to promote.

In summarising Henry George’s ideas for an alternative that would suffer none of defects of current fiscal policy I would invite consideration of the following:

Everyone is obliged to live and earn a living somewhere. In times past people would often fight for possession of the best sites, today we are more refined but we do still compete with each other. Today working people and firms compete with each other through the price they are willing and able to pay for the best places to live and undertake their businesses. Each pays as much as they can afford from the wealth at their disposal to rent (or buy) the best place they can.

All wealth is the product of the factors of production, land, labour and capital and distributed to the providers of those factors as rent, wages and interest. If we use the term Earnings to refer to the sum of wages and interest combined we see that Earnings represent the wealth people and firms receive in return for providing the enterprise, labour and capital involved in the production of wealth. Every nation’s wealth is thus shared between rent and earnings and earnings amount to the total wealth produced minus the rent that must be paid.

If rent really is the most that a person or firm feels they can afford to pay for land, earnings become the least amount of wealth that the suppliers of labour and capital are prepared to accept in return for their deployment. That least will of course vary with time, place and circumstance and be influenced by custom and the prevailing culture. But given these within the society it will remain the least that each individual is prepared to accept and will be indicated

by the earnings accepted by those living and producing at the places least in demand – at the margin.

Where population is sparse, land is feely available, and wealth production is simple little or no rent will arise and earnings will retain a high proportion of the wealth produced. However if population is concentrated, land is not freely available, and wealth production is refined and specialised, i.e. in a developed economy, a high proportion of the wealth produced will go to rent i.e. everything in excess of earnings at the margin of production – below which no wealth is produced because no suppliers of labour or capital are willing to deploy there.

Now, the location value of the rent arising in a developed economy is not produced by any individual or firm but by the presence, protections and services of the whole community. It is thus not due to any individual or firm but to the whole community and constitutes a natural source of public revenue.

But, the rent that people and firms can afford to pay from their earnings is reduced by all the non-discretionary leakages and losses they suffer e.g. due to taxes, fraud and theft (including those associated with money and banking), monopoly, etc.

If these leakages and losses were prevented in the UK (i.e. more than 40% of GDP) the rent available for public revenue (or for whoever else collects it) would be more than sufficient to meet current public expenditure requirements!

Here we may see how public revenue may be raised without taxation – merely by collecting a value for the community that the community itself creates i.e. location value - rent.

From the earliest times communities and/or their governments have influenced how land within their territory may be used, usually by prescribing or prohibiting certain uses at particular places. In the UK public control of land use is exercised by Local Authorities who develop local land use plans and grant or deny planning permission for plots of land where a change of use is contemplated. A site's permitted use has a profound effect upon its location value.

If this value becomes the basis of all public revenue the duty of care that those representing the community's interests have for integrating socio economic and environmental considerations becomes obvious. As also does the need for this duty to be discharged in a totally transparent manner. Everybody needs to be aware of each site's permitted use, the financial consequences for the community, and obligations that land holders are under. Under these circumstances it is difficult to imagine that the control of land use would be as passive and reactionary as it currently is. The community and its representatives would be required to address land use and public revenue

issues directly. Planning and tax decisions need no longer to be characterised by the financial interests of a few but by coherent and conscious evaluation in the interest of all people and the planet.

If the community acting consciously for the good of all is enabled to exercise positive control over the use of an element that is critical to the welfare of all it becomes possible to allocate land to uses that benefit the whole community. More than merely reserving certain places for parks, nature reserves, reservoirs etc. it would be possible for a community to reserve certain sites for uses that are deemed of social value rather than merely commercially viable. Community meeting places are an obvious example but the community might decide that it particularly values such things as arts, craft, sports, education, organic food, a pub or church etc. and allocate sites accordingly. Interested parties could then bid to rent such sites and as we pointed out at the beginning of this piece each would bid as much as they could afford – and the bids might not always be a positive sum! Enlightened landlords have operated this way for centuries, once economic justice is established why should not the community act in just such an enlightened manner?

If this were done it possible to see how earnings at the margins of production need not necessarily relate to the earnings achievable in some remote and isolated quarter of the domain but would be ‘local’.

Let us now assume that all the location rent is collected and earnings at the margin have risen to a new ‘least that is acceptable’. It would be reasonable to suppose that there would be less pauperism about and less need for means tested benefits. Similarly there would be more public funds available to fund public works and infrastructure. At some point there would be enough public roads, transport, parks, playing fields, libraries, meeting places, galleries and concert hall etc. The question will then arise for the community ‘what more should we do with the rent’? At the same time as land has become more freely available at what we now might call ‘the outer margins’ (i.e. excluding those created by enlightened planning arrangements referred to above) there will be many people who will derive no benefit from many of these laudable public works. As part of the same national (or maybe international community) it would seem reasonable that they should be in a position to benefit from wealth that that community has created. A Citizens Income paid to every law abiding citizen would seem to be an obvious way to use this communal largess. I am not aware of any alternative that would satisfy the test of equity and justice.

If the principle is correct the challenge then becomes one of practicability but if the principle is correct it will only take some imagination to devise a practical implementation strategy. The first question then is one of principle and a vision of a desired state.