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4 April 2022

"There is a great deal of ruin in a nation" — But how much? And where?

Levelling Up, Fiscal Policy and Data

When the Chancellor raises National Insurance, are the effects the same everywhere? We don't know. But we ought to— regional inequality in the UK is so stark that comparisons to reunified Germany bear out. If fiscal policy plays a role in this, we need to know 'how much' and 'where'¹.

There's very good reason to ask for answers: long-established economic theory holds that governments will create poverty through taxation on economic activity:

*"All economic principles must be tried and proved at the margin. On marginal land there is no surplus above non-land costs, hence there is no taxable capacity of any kind. Any tax on marginal land, or people, or buildings, or outputs on marginal land, renders it sub-marginal"*²

We all know these *marginal* places. You might even live in one — a seaside town or run down part a city that can perhaps be described as, at best, 'teetering': places where economy activity is patchy and poverty endemic.

The difference between marginality and sub-marginality in these places can be, literally, vital. A tax rise on labour or consumption may barely be felt in a Chelsea or Didsbury³; in Blackpool, activity that would have taken place, does not take place. The location falls into

¹ There's also much we don't know about the effects of spending explicitly designed to counter regional inequality — as reported recently by the National Audit Office — but for the purposes of this article, we're sticking with the *causes* of inequality

² *On the Principles of Political Economy and Taxation*, David Ricardo, Chapter 11, 1821, as outlined in *The Philosophy of Public Finance*, Mason Gaffney, p. 188: https://masongaffney.org/publications/G44Philosophy_of_Public_Finance.CV.pdf

³ Ample land values may dip slightly in accommodating additional cost, but economic activity can continue — summarised as the 'All Taxes Come from Rent' (ATCOR) theory, for more see *The Philosophy of Public Finance*, Mason Gaffney: https://masongaffney.org/publications/G44Philosophy_of_Public_Finance.CV.pdf

sub-marginality, or, more plainly put: poverty is created. In many of our shuttered, boarded-up and deserted streets — this dynamic has already played out. So let's undo it.

We can encourage this by using a data tool known as dynamic scoring.

Originally proposed by American conservatives, the deadweight, or economic, cost of proposed tax rises on the real economy would be measured ('dynamically scored' and so, if we imagine the motives correctly, deterring activism from Democratic Party lawmakers before it happens).

Progressives should, however, welcome the proposal, because the tool's original proponents overlooked something important: different taxes have different effects. Indeed, we can expect such a dynamic scoring tool, rooted in real world data, to nudge our tax system toward redistributive channels. This is because taxes on rents, such as land value or 'super-profits', do not hurt the economy and the poor in the way taxes on economic activity — such as VAT and NICs — do.

But let's not stop there: the Office for Budgetary Responsibility should develop this model to be a spatially-adjusted — measuring the effects by geography. If a government wanted to raise VAT again, we want to know not only the total economic cost but, crucially, — in which specific parts of the country economic activity will be curtailed the most.

In theory, we could even level up Britain without the need for the massive fiscal transfers used in Germany — simply by changing what we tax in the first place. In practice, fiscal transfers will be necessary — but using tax bases that do not hurt the economy.

\$3 Trillion a year lost in America

A new paper from preeminent economists in America describes how America would be \$3,000,000,000 richer per year with only a partial shift to land taxation. That's extra output equivalent to almost the entire UK economy.

It's good to have ~~money~~ Data

Money is so important, economics students don't learn about it (actually true). Fortunately, the policy world is getting better at understanding money: Vince Cable, as business secretary, (and president of ALTER) ensured that Britain's high street banks now publish local lending data. This has proved an important tool in understanding how well (or poorly) our highly-concentrated banking sector is serving our regions. This is crucial given how much we rely on commercial banks to provide most of our money. This data is helping

new municipally-backed regional banks such as Bank North come forward. Getting money into our provinces need not be the preserve of government alone; Germany is ahead of us here, with a nationwide network of local banks underpinning its strong industrial base.

Adam Smith and the ruin around us

Smith understood that nations themselves destroy much of their own potential themselves:

"There is a great deal of ruin in a nation" - Adam Smith⁴

But good data and good theory can limit bad policy and remedy the ruin — let's have more of both.

About the author: Toby Matthews is a member of Action for Land Taxation and Economic Reform (ALTER), an affiliated group of the Liberal Democrats. Join us here.

⁴ Written in correspondence, putting into perspective the British losses accrued in the American Revolutionary War