Land Research Trust

A budget for the people

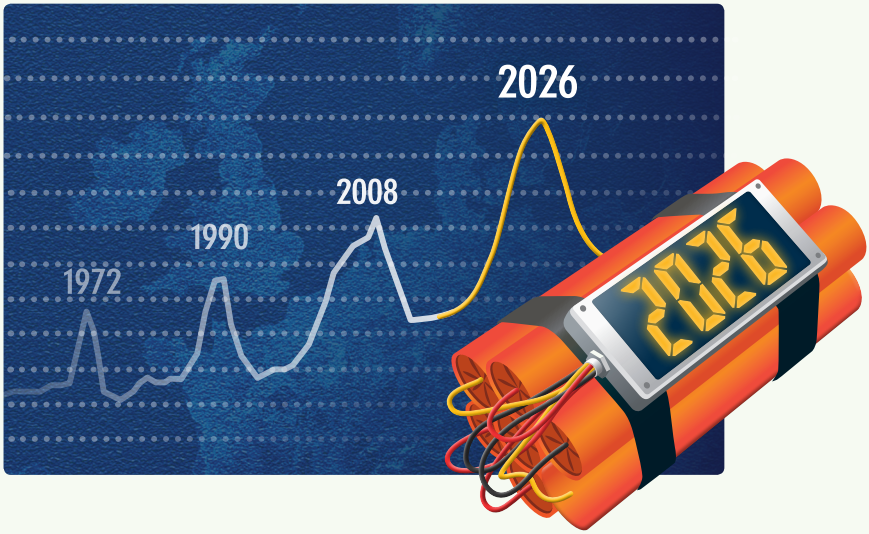
No. 1

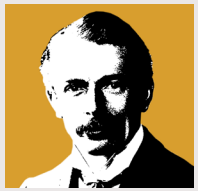
December 2018

Parliament on Trial

BREXIT – and the economic explosion that will follow the peak in land prices in 2026 – is the existential crisis that puts Parliament on trial.

A protective shield can be erected. By restructuring the tax system, Westminster would deflect the carnage from the global breakdown at the end of the 18-year business cycle. Protecting the UK's four nations will require a courageous Act of Parliament.





DAVID LLOYD GEORGE

The People's Budget

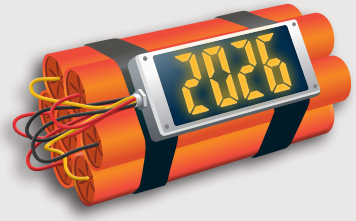
The title for this bulletin was inspired by the first Westminster budget to be mandated by the demos. In 1910, Chancellor David Lloyd George enacted the *People's Budget* to fund a new welfare programme: pensions for retired people and support for those who lost their jobs. The revenue was to come from the nation's socially created rents.

18-year cycles in land values since the UK recovered from World War 2.

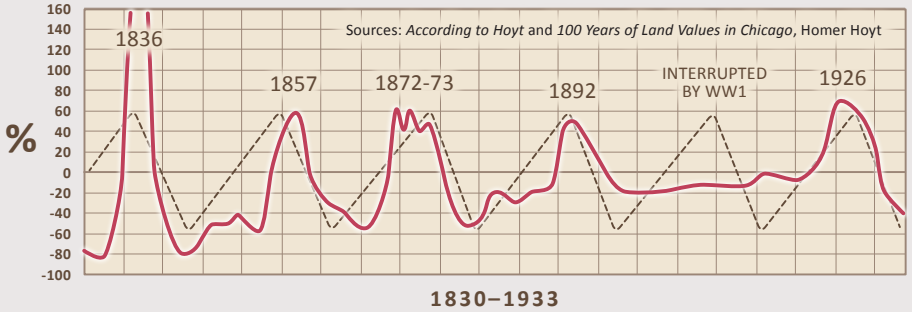
The cycle was first observed by Homer Hoyt. His thesis was tested with empirical evidence from the UK, Japan and Australia in Fred Harrison's *The Power in the Land* (1983). Hoyt's graph (below) is adapted from his *One Hundred Years of Land Values in Chicago* (1933), University of Chicago Press, p.411. The first peak of the 20th century is missing. It takes a world war to suppress the wrecking power of cycles driven by land speculation.

Cover graphic

Sticks of dynamite understate the depth of the destructive damage caused to the fabric of society by the 2008 financial implosion (as the people of Greece will testify). The graph on our cover is a stylised representation of the



Chicago land value cycles 1830–1933 compared with theoretical 18 year cycle



Land Research Trust

People's Budget No. 1

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Prosperity beyond Brexit

BREXIT has exposed the fatal flaw in Britain's parliamentary democracy.

A history of failing to deliver inclusive justice is due solely to a fiscal philosophy for which Parliament is responsible. That failure of governance can now be corrected.

On December 4, 2018, Parliament took control over Brexit away from Prime Minister Theresa May. It is now free to create an all-party consensus to deliver reforms that serve two purposes: fulfil the Brexit mandate while forestalling the fallout from the next economic crisis.

Britain is vulnerable to the financial cardiac arrest that will follow the peak in land prices in 2026. There is just enough time to save Britain from that event, which will inflict greater damage than the fallout from the bank crash of 2008.

There must be no repeat of the political failure that resulted in the austerity of the past 10 years. *The UK could have avoided that tragedy*.

In 1997, Tony Blair's government and HM Treasury were given a 10-year warning of the 2008 crisis. Pre-emptive action could have been taken (Harrison 1997, 2005, 2010).

Parliament, and Blair's government, failed the nation. Now, under the *People's Budget* plan, **post-Brexit GDP would be larger by about £200bn a year** by 2030.

The EU will cry "Foul!"
It has two choices. Follow the UK's lead.
Or suffer the consequences.

The looming crisis

The UK is heading for a Brexit disaster. That is the verdict of those who wish to withdraw from, and those who want to remain in, the European Union.

Whatever is decided by Parliament, the four nations of the UK need a rescue plan. None is being offered by either side of the Brexit divide.

The one strategy that can resolve the complex problems that now challenge the UK is based on the reform of governance. At its heart is the shift of taxes from earned incomes to the kingdom's cooperatively created rents.

That policy is excluded from the Brexit debates on the future of the UK, even though it would resolve most of the problems that arise from the trauma of the divorce from the EU.

The *People's Budget* forecasts the elevation of productivity above the trends of the past. This is the reverse of forecasts by the Cambridge-based National Institute of Economic and Social Research. It offers two post-Brexit predictions of what will happen by 2030 (Giles 2018).

Scenario 1: A Canada-style trade deal would reduce national income by 4% by 2030. That equals a cost per person of £1,090 per annum.

Scenario 2: If the UK remained within the customs union, the loss would be a cut in GDP of 2.8%. That's a loss per person of £700.

Previous Brexit forecasts based on the "gravity" models employed by the NIESR and others were seriously out of synch with reality (Harrison 2016). Worse still, the institute sketches a pathway to 2030 that is not interrupted by the cyclical downturn in 2027, the fallout from which will eclipse the events of 2008.

Forecasters are not obliged to suggest reforms to the present economic paradigm. But that is not the case with HM Treasury. It has published equally absurd post-Brexit forecasts (Lilico 2018). The Treasury also remains silent on the fallout at the end of the current 18-year business cycle.

The Bank of England published four "scenarios" with the aid of its "suite of macroeconomic models to ensure their coherence and plausibility". But economic models can be designed to generate any desired forecast with the aid of carefully selected assumptions. *Garbage in, garbage out!*

The graph below is adapted from the BoE study that was submitted to the House of Commons Treasury Committee. Added to it is the top line: the trend which *People's Budget* forecasts, based on a revised approach to funding public services. *This outcome yields the win-win result that would unite all sides of the Brexit divide*.

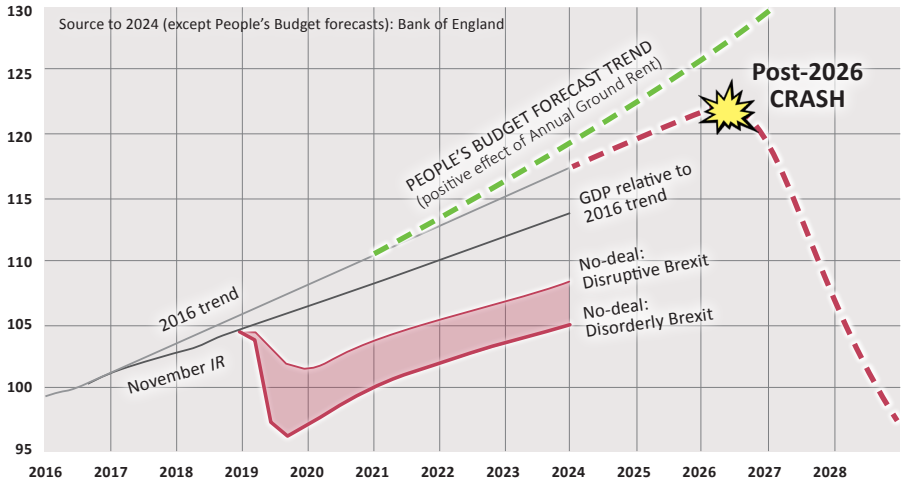
Empowering the people

Westminster enacted legislation for the ideal fiscal system twice in the 20th century. Each time, the law was then erased from the statute book to privilege the landowners in the House of Lords.

That history and its implications will be reviewed in future issues of the *People's Budget*. The immediate task is to scope out a strategy that Parliament could adopt to create the cross-party consensus that is needed to re-unite the UK.

As things now stand, the terms of the Brexit withdrawal agreement are biased to favour the EU. The UK can escape the trap by embarking on a process of untaxing wages, savings and investments. This can be achieved by replacing the income from taxes with revenue from what Adam Smith called the Annual Ground Rent (AGR).

Modelled scenarios based on different asumptions about Brexit



The outcome would not be revenue-neutral. For even though the tax-shift would be designed on that basis, new incentives would alter the way people worked, saved and invested. The outcome would be an increase in productivity. That, in turn, would increase the revenue flowing into the public purse (Tideman 1999).

Rent would be collected from urban land in exchange for the services provided by public agencies.

- People would be empowered to re-organise their lives, and their communities, to achieve their aspirations
- Government would no longer be an obstacle in the mission to equalise opportunities across all the regions of the UK

Rents would also be collected for using the services of nature (the "commons"). By drawing revenue from those sources, the public purse would no longer cause:

- **social division:** wealth would be accumulated by contributing to everyone's welfare
- **depletion of nature:** personal responsibility is achieved by "paying for benefits received"
- **friction between neighbours:** cooperation would be fostered within communities and across borders

The economics of AGR were explored in two Land Research Trust studies (LRT 2018). But can the tax-led reform be implemented in time to forestall the housing and financial crisis that will strike the British Isles (and the rest of the world) after the peak in land prices in 2026?

No time to lose

Under the Brexit terms, the UK has a 2-year breathing space during which it could begin to chart a new course towards inclusive prosperity.

This will be resisted by the EU. It plans to deter the UK from adopting tax reforms that would place their 27 member countries at a disadvantage. Easing out of this "vassal" status ought to be the major focus of debate in Westminster.

Parliament needs to formulate the transition to a new form of fiscal governance, one that would include a counter-cyclical mechanism to stabilise the housing market.

A phased introduction of tax reforms could begin in 2021.

Schedule of reforms

2021

Replace the Council Tax, Business Rates and other property-related taxes with a single site-value based charge.

This adjustment can be implemented by local governments after revaluing urban land. The value of buildings would be excluded.

2022

Halve the revenue from income tax by eliminating the rates on the lowest incomes

This would be achieved by the gradual increase in the rate of site-value revenue.

The regressive burden on low income families would be eased while, at the same time, orchestrating the organic adjustment of housing rents and sale prices to affordable levels.

2023

Re-negotiate the leases that give access to the electromagnetic spectrum

Digital corporations have been turned into dangerous monopolists by the failure of fiscal policy. This outcome is based solely on the failure of governments to collect the full rental value of the spectrum for the public purse. The havoc being caused by corporations like Amazon and Facebook stems directly from the "business model" that was made possible by the failure of governance.

- Without access to the spectrum, those commercial operations would be worthless
- If they were obliged to pay the full rental value of the spectrum to fund public services, they would have evolved organically into responsible commercial enterprises without the power to disrupt the retail sector

But because of the negligence of governments, spectrum rents are capitalised into their share prices. That gave them the financial clout to buy out and suppress competition from new IT start-ups.

2024

Cut corporate taxes in half

The EU would strongly object. But by then, it would be too late. The UK would be on an independent growth path, trading with the rest of the world after strengthening all parts of the kingdom. The UK, alone, would be strongly positioned to protect its economy as markets nosedive in 2027.

Rewilding our habitat

MICHAEL GOVE

Laced within the *People's Budget* tax reform would be numerous positive effects that stem from the shift of resources away from land speculation. One prospect has been identified by Michael Gove, the Secretary of State for Environment, Food and Rural Affairs. He notes that the UK will now be able to replace the EU's Common Agricultural Policy (which grants subsidies on the basis of how much land is owned) with rewards to those who nurture nature.

Gove's heart is in the right place. His subsidies, however, will also be capitalised into higher land prices. The optimum strategy is one that phases out all agricultural subsidies. The farm lobby would object. But the statistics cited by the lobbyists to prove that farmers cannot otherwise make ends meet are *worthless*. The statistics have been subjected to forensic scrutiny by Dr Duncan Pickard, a former university lecturer who farms a thousand acres in Scotland with his two sons.

His conclusion: prosperity for the agricultural sector would be enhanced by the AGR-based fiscal reform (Pickard 2016).

- Marginal land across the UK would be yielded to species that are now threatened with extinction
- Farmers would hire more workers in place of capital intensive techniques of production
- Rural communities would be revived, with families returning to the villages and relieving some of the stress on housing in the conurbations

PETER SMITH

How tax reform would organically accelerate the rewilding of nature will be explained by nature conservationist Peter Smith at a Cambridge University conference in January 2019[1]. According to Smith's calculations, rewilding could be a self-funding operation, while also helping to support rural communities (Smith 2016).

Uniting the Politicians

Adversarial politics could provoke the disasters being forecast by those who want the UK to remain within the EU.

The political strategy that would secure the UK's future is tax reform to offset the constraints that the EU is seeking to impose in return for a trade deal.

Fortunately, most of the political parties in Westminster are represented in an All-Party Parliamentary Group on Land Value Capture. The benefits of the tax shift are explored in their first report (APPG 2018).

Parliament can now prepare to launch the UK onto a new pathway to prosperity. The remaining 27 members of the EU will object that they will be disadvantaged by the UK's tax shift. Instead of complaining, they ought to examine the social and economic model of one of their members. Denmark introduced AGR in the 1920s. Result: remarkable feats of inclusive growth (Lefmann and Larsen 2000).

1 Cambridge Conservation Forum Annual Symposium 2019: Rewilding and its Effects on Nature and People. https://rewilding-uk.org/

Whatever the outcome of the trade talks with the EU that begins in April 2019, nothing could stop the onset of inclusive prosperity in the UK if Parliament adopted the tax-led strategy of social and economic renewal.

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When political power was devolved to Scotland, Wales and Northern Ireland, the politicians in Westminster failed to re-base tax policies in ways that would equalise people's life chances across the UK. The Brexit crisis provides the opportunity for regional authorities to renegotiate the fiscal settlement.

A new language that favours inclusive justice must replace the old concepts that were designed to divide and rule. The adversarial language was used by Scotland's finance secretary Derek Mackay when he informed the *Financial Times* that they could impose higher tax rates on the "richest" people (but not yet). Words like *rich* and *wealth* are toxic tools that distort public policy. They disguise the streams of income that *ought* to be taxed.

Some people get rich by working hard: they add value to people's well-being, and they are rewarded accordingly.

Others get rich without adding to anyone's well-being. This activity is pure rent-seeking, the legacy of an obsolete parliamentary politics.

Why treat these two groups as identical for revenue purposes?

Under the fiscal philosophy that prevails in Westminster, London and the South-east will always fare better than people in other regions. Now is the time for all representative institutions to engage in discussion on how to revise the flow of revenue into the public's purses to achieve equitable outcomes across the four nations of the UK.