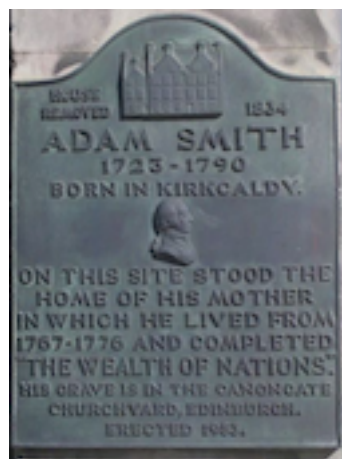


# PART 1: REVOLUTIONS IN THE MINDS OF MEN

## In the Beginning came Adam

UNDER THE STARRY SKIES, distant in time and space from our present-day fishermen, sits a professor, beaver away at his manuscript. The year is 1773; the location, Kirkcaldy, a small town in Scotland; the author, Adam Smith. The full title of Smith's great work would be 'An Inquiry into the Nature and Causes of the Wealth of Nations'.

On this cool and starry night, Smith was writing the fifth and final book of the 'Wealth of Nations', entitled 'On the Revenue of the Sovereign or Commonwealth'. Smith asked a series of questions, such as how should the activity of the government be funded, and Which taxes a state should impose.



*Plaque marking the site in Kirkcaldy where Smith lived.*

Whilst Smith worked by candlelight, far across the oceans, in what was then the British colony of North America, some demonstrators were heaping tea into the sea. The demonstrators' objection: the British state was collecting taxation without giving them representation in the British parliament. From this dispute, the American Revolution was born. Adam Smith himself agreed with the American revolutionaries that the North American colonies should be represented in the British parliament in proportion to the tax they paid.

Revolution was also brewing in France. In 1766, French economist and statesman Anne Robert Jacques Turgot had said that 'The art of taxation consists in so plucking the goose as to procure the largest quantity of feathers with the least possible amount of squawking. In France Francois Quesnay, one of the first true 'economists', had argued for a single tax on the value of land to replace all other taxes. The tax never happened. By 1789, the geese had not only squawked, they had overthrown the farmer and taken control of the farm. The French Revolution had arrived.

## From Rural to Urban Land

Let's take our magic carpet to cross the Atlantic and forward a century in time. A journalist in San Francisco is learning his craft. He is fascinated by a subject which was then still called 'political economy'. He was interested in one question in particular: why was there so much poverty in the midst of so much technological progress? The journalist noted that it was in the biggest, most advanced cities, with the most technological advancement, which also had the worst, most grinding poverty. His name was Henry George and his book was called *Progress and Poverty*. It became a bestseller, outselling all books published in the 1870s, apart from the bible. Yet Henry George has been largely forgotten by history.

George's work echoed the more turgid prose of banker and great economic theorist David Ricardo. Ricardo had argued that an agricultural landlord contributed nothing to the well-being of society: he merely extracted the surplus from the land once the costs of labour and tools had been paid. This surplus is known as rent. As had been previously argued by Adam Smith, the best tax, therefore, was a tax on rent. Whilst Ricardo

modelled a rural economy, Henry George was concerned with urban land. The ownership of urban land allowed the landowners to benefit as society developed, whilst contributing nothing to the increase in land values. George popularised the message that the remedy was to tax urban landlords. He used beautiful words that everyday folk could understand.

*‘Man is the only animal whose desires increase as they are fed; the only animal that is never satisfied’* [George1879]

Inspired by Henry George, a woman by the name of Elizabeth Magie invented a board game called the *Landlords’ Game*. The game illustrated that without a tax on urban land, property tended to get monopolized and those who owned it extracted rent from those who did not. If, however, landowners were taxed, then a stable and fair (if rather boring) outcome ensued. Later, the game was shorn of the beneficial, but boring, rules, leaving a game where an unstable and unfair (albeit fun) set of rules remained. The original political implications of the game were lost and the new game was marketed as ‘Monopoly’. The goal of Monopoly is to own the whole board and to drive all the other players bankrupt. This might be exciting play, but it was far from a system of widely-spread prosperity. The case for a land value tax is considered later in this book.

## War and Progress

Henry George inspired many of his readers, including the young Winston Churchill and British prime minister David Lloyd George. Towards the end of the First World War, there was even a budget which implemented a Land Value Tax, the ‘People’s Budget’. However, due to the resistance of landowners and the difficulties of valuation, this budget was never implemented. Nevertheless, from the late nineteenth century through the whole of the twentieth century, and particularly after the Second World War, the conditions of the poor improved. The curse of slum landlords and destitution was almost banished.

One great milestone in this history of progress was the Beveridge report. Released in 1942 and chaired by Liberal economist Lord Beveridge, it laid the basis for the post-war welfare state. Its aim was to banish the five great evils: ‘squalor, ignorance, want, idleness, and disease’ [Beveridge1942]. After World War Two, Beveridge’s report inspired a social security system, public education, public housing, a national health service and macroeconomic management aimed at ensuring full employment.

World War II had almost bankrupted Britain. Britain had financed the war through borrowing. The public debt ratio peaked at 238% of GDP in 1947. Despite this, post war Britain soon rebuilt itself. It also managed to provide for its people a standard of living greater than before the war. Britain pursued a policy of low interest rates, moderate inflation and high growth. Thus, it cut the burden of public debt to 70% of GDP in 30 years [ReinhartCamenM.andKennethS.RogoffReinhart2010]. These accomplishments are in themselves remarkable.

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Beveridge was successful in his mission to lay the foundation for a comprehensive welfare-state. Beveridge’s reforms helped to reduce the prevalence of the five great evils and transformed the previously hellish conditions of the poor. But we have not yet achieved heaven on earth. There are still great evils facing us: the destruction of the environment, the lack of affordable housing in many towns, great inequalities of wealth, and the risks of automation. This book will explain why these evils arise and how they can be fixed.

## The Global Machine and the Global Mission

We are now in the present day. The subject then called political economy is now called economics. Great container ships cross the oceans. Aircraft zig-zag the skies. Massive machines in far-off lands churn out phones, which everyone is looking at. Many people live with more consumer comforts than in the past. Some things are cheap: it is relatively cheap to fly off to sun-kissed beaches on foreign shores. But some things are very expensive: it is expensive to buy a flat in London for example.

This great machinery of commerce is devoted to two purposes: to give people what they desire (or at least, what they can be encouraged to buy), and to make a profit in so doing. The commercial machine is in many ways smooth. But there are rumblings of discontent. In 1848, the ‘spectre of communism’ overshadowed the world according to Marx. Today, the danger of environmental destruction, runaway technology and a state run by and for the superrich to enrich themselves still further, overshadows this machine for happy fulfilment of our consumer desires.

In America, a man promises to ‘drain the swamp’. This man would soon become president of the United States of America. It would be natural to take these words to mean that the army of smart-suited lobbyists, that aim to direct the ship of state to favour their interests, would be sent packing. Nothing of the sort happened. Indeed, the swamp got ever marshier. The poor, who had seen nothing much of forty years of economic growth in the US were increasingly addicted to prescription painkillers. In the United Kingdom and the United States, people stopped living longer.

This was by now a truly global civilisation. And scientists were warning that something truly global was wrong. In a conference room, a group of scientists called for radical shifts to stop burning fossil fuels in a couple of decades. The great machinery of commerce, which had since the end of the Second World War been devoted to giving us more and more stuff, would need to be turned around to a new purpose.

To turn around this great global machine, we need to apply not only the great resources of the state but also the dynamism and capacity of the private sector. We need to harness the profit motive for the good of the planet. And for that, we need to tax the damages that individuals and companies cause to the living planet. In this book, we seek to use the tax system to do so, not only by changing the incentives of the private sector in one country, but also by ensuring that other countries have a reason to follow that lead. The reforms that we are proposing will transform the prospects of early adopter countries so significant that others will have no choice but to follow that lead.

## Of Flats and of Flights

It’s now a wet November evening. Let me introduce Peter and his wife, Lucy, who are shivering in their North London flat, pressing refresh on their email program and looking at their phones. They are waiting to see whether their offer has been accepted on a two-bedroom flat in a rundown neighbourhood of the city.

An advert flicks up for a getaway flight to somewhere sunnier. If they can take the time off, then they can get away to a nice sunny island for a week. The small flat they are purchasing is, by normal standards, inordinately expensive. They will be paying off their mortgage until they reach retirement age. But the flight is cheap: they can book it for less than one day’s wages each.

To Peter and Lucy this is the usual way of things, although they don’t like it much. Their friend Mel pointed out to them that the world is running out of time to tackle one of the major environmental problems facing it, climate change. Lucy feels a certain amount of guilt in the back of her mind for taking a holiday and the associated carbon emissions but is convinced by the low cost of the flights. When buying a roof over their heads is so expensive and so stressful, any normal person would need a little relief. They book the flight.

## Are the Prices Right?

This book is about the prices of things, and how the prices of things is influenced by the taxation system. Houses and flights already have some taxes on them. If you live in a house, you pay Council Tax. And if you take a flight, you pay Air Passenger Duty. Putting a higher tax on houses will *reduce* the purchase price of the house. That’s because the value of the house depends in part on the obligations associated with it, taxation included.

This book does not argue for environmental taxes primarily to change the behaviour of consumers. Rather, it seeks to change the economy to provide goods in ways that do not damage the living planet. Sometimes, this will be difficult. It’s hard to design aeroplanes that do not burn oil products. But technological change

adapts to market need. And if zero-carbon planes cannot be designed, then perhaps those who fly should pay for the capture of Carbon Dioxide from the air elsewhere. The tax on flying, and other activities that produce greenhouse gases, should be enough to encourage people to capture those gases from the air if they cannot be eliminated directly.

The price of things needs to be just. A just price of things requires a just tax system. A just tax system will cause people to pay for the damage they cause to the environment. A just system will also ensure that nobody gets rich merely by owning some of the limited things of life, such as land. In short, justice and social benefit are the same, fairness and efficiency merely two sides of a coin. That is Tax Heaven. It is to such a tax system that this book is devoted.

There's a corny old joke about the man that asks for directions and gets the response "Well, if I was going there, I wouldn't start from here". It's not just the final state of affairs that must be just, but also the approach of getting from here to there. In the later parts of the book, we show how to transition in a fair way to a just tax system.

## Bringing Back Self-Respect

Further down the street from Peter and Lucy lives Fred. Fred is on benefits. He once took a job, but he found that once this happened, his benefits were cut off. There was a gap between his new wage and the benefits coming in. Thanks to this, he didn't have the money for the rent.

To tackle inefficiencies and inequities in the welfare system, the UK has recently rolled out a reform known as 'Universal Credit', which integrates four income-related benefits into one. The 'benefits withdrawal' rate (in effect the income tax on additional income) on Universal Credit is 63%. This means that an individual lose two thirds of any extra income they get above a certain threshold. This system has been problematic to say the least. Some of the problems with the new system relate to administration and issues with design, and some to insufficient payments to afford a decent standard of living. Within universal credit, the government has inbuilt a delay in payments. This has caused numerous issues for the recipients, like Fred.

It does not have to be this way.

## Questions for change

In the next section we define the five major questions that this enquiry seeks to answer. They are as follows

1. What would an economy fit for our children look like?
2. What are the economic conditions for widely-spread and sustainable prosperity?
3. How can we define a better tax and social security system?
4. How to make these changes?
5. What advantages would such changes bring?

Onwards then, to defining the future!