

## CHAPTER 10

### WHICH TAXES?

Where you find the laws most numerous, there you will find also the greatest injustice.

**Arcesilaus** (316–241 BC): Greek sceptic philosopher

#### 10.1 The Single Tax Issue

Amongst economists who know about the land value tax, the term is often synonymous with *The Single Tax*, for that was seen as the main characteristic in the early days of its manifestation. In his book *Progress and Poverty*, Henry George proposed that the land value tax should be the only tax. This single tax idea has been identified with the LVT movement ever since, and is still insisted upon by the purists, but in recent years it has been questioned more and more. The purists are those who will not brook any modification of what they believe to be one of George's basic principles, as set out in *Progress and Poverty*, in which he explicitly proposes to 'abolish all taxation save that upon land values.'<sup>1</sup>

But Henry George was not the originator of the notion of the single tax: Over a hundred years earlier,

the French Physiocrats propagated the idea which, in the mid-18th century, would have been based on an agrarian economy. Also, in 1775, Thomas Spence gave a lecture to the Newcastle Philosophical Society, in which he proposed that the land rent, paid to the parish, should be the only tax. In the introduction to his book, *The Pioneers of Land Reform*, written in 1920, the political historian Max Beer, makes the claim that, ‘Spence must be regarded as the author of the Single Tax’.<sup>2</sup>

The idea arose again in America in the 1840s (when George was still a boy), with the advent of organised agrarian protests and the establishment of the National Reform Association, the members of which freely discussed the single-tax idea. In an interesting paper on the single tax written in 2007, Prof. Mark Lause suggests that George was strongly influenced in his early years in San Francisco by the members of the Reform movement. He comments, ‘The idea of a single graduated tax on land emerged from reformers of that time and place.’<sup>3</sup> He notes also that, despite this, after the publication of *Progress and Poverty* in 1879, George continued ‘to present himself as the originator of the Single Tax...’<sup>4</sup>

In an article published in *Land and Liberty* magazine, in the 2019 Summer issue, Edward Dodson notes that in the 1888 presidential election campaign, George gave his support to the Democratic candidate who, like George, was a free trader. For this reason, he was subsequently expelled from the United Labor Party. They accused him of ‘abandoning the greater principle of the single tax for the lesser one of free trade.’<sup>5</sup>

This casts some doubt on the image of Henry George as the leading purveyor of the single tax—a role in which he is usually portrayed.

In any case we live in a very different world now to that of George's time. Purely in the world of transport, for example, we can travel around the globe in a matter of hours rather than months. Information is available to us almost instantaneously, rather than through the laborious Morse code—the medium for the telegraph system of the 1870s. We have instant access to the libraries of the world on our computers, and in the world of finance great fortunes can be made in microseconds, through electronic means, by clever operators who contribute nothing to the economies within which they operate. It is unlikely that George even had access to a telephone. The first telephone exchange was not established in San Francisco until 1878, by which time he had virtually completed his book *Progress and Poverty*.

In George's day taxes were few in number. The only significant taxes were federal excise duties and real-estate taxes, at the state level. The majority of present-day taxes did not arrive until the 20th century. So, the idea of a single tax was probably not such a drastic proposition then as it would be today. But apart from the great differences since George's time, my own opposition to the single tax is a matter of principle, which involves the issue of *site-dependence*.

In Chapter 1, in the section dealing with taxation according to means, I suggest the best forms of taxation are direct taxes, and those aimed at existing wealth. LVT satisfies both of these requirements, but as the

name implies, it is limited in scope to the economic relationship that society has with land, especially urban land. I hope it is made clear in the explanations of Chapter 2 that the bulk of any revenue derived from LVT would be from higher value urban sites. In large part the enterprises that occupy these sites are there through necessity; dictated by the need to be close to the centre of economic activity. They are essentially ‘site-dependent’: the high street shop, the department store, the central office, the bank. All need a central site in order to operate effectively. There are, however, other enterprises and individuals who are less site-dependent, who are nevertheless able to generate high earnings through activities that have no need to be permanently located on high-value sites.

In his book *Daylight Robbery* Dominic Frisby describes the phenomenon of the ‘digital nomad’, who may prosper without any need of a permanent base: ‘You can work in the digital economy from anywhere.’<sup>6</sup> A skilled operator can work effectively at home, or trading from a laptop in a hotel room, purely as an agent, without any need for an office, display space or close proximity to any centre of population. One thinks also of high-earning individuals in the areas of sport and entertainment, who are able to amass considerable fortunes but who are highly mobile. They take their skills with them. They do not need a fixed site. Under a single-tax system, those who are not site-dependent, though they may have amassed considerable wealth, would be virtually free of tax. How then, in satisfaction of the first principle cited in Chapter 1 would they make their contribution to the society from which they

benefit? To say that they would pay tax through the site value of where they live is not sufficient; that applies to everyone. No doubt they all do useful work, but why should the burden of tax fall only on those who are site-dependent?

The most site-dependent of all economic activities is that of farming, and yet, as we have seen, the agricultural sector is always at the margin in the hierarchy of land values and would not account for any great amount of revenue in any system of LVT. At the present time some of the most lucrative economic activities have very little need of any high-value central site from which to operate successfully. The advent of the internet has enabled the creation of new enterprises such as Amazon, Google and Facebook, which have proved to be highly successful and very lucrative sources of wealth generation. For them, the use of the ether is probably more important than the use of the land. Frisby notes that ‘Amazon became the West’s biggest retailer without owning a single shop.’<sup>7</sup> The CEOs of these businesses are now amongst the top ten richest individuals on the planet.<sup>8</sup> Certainly, all these individuals ought to be well rewarded for their enterprise and initiative, but if one accepts the principle of ‘ability to pay’, it is difficult to see how a land value tax would measure their ability to make the appropriate contribution towards the society from which their great wealth has been created. One must respect their generosity through philanthropic giving, but society should not have to be dependent on private philanthropy for its proper functioning.

In another aspect of new technology, Frisby offers an interesting explanation of the crypto-currencies,

originally designed as a libertarian device to preserve the privacy of transactions and to avoid government control over taxation and regulation.<sup>9</sup> None of the crypto-currency activities are site-dependent, but they are nevertheless capable of generating great fortunes, which would be beyond the reach of LVT. These are questions that cannot be avoided, and my own view is that there has to be some other form of tax that would address these anomalies.

The ideal would be a straightforward wealth tax that would tax the final accumulations of wealth rather than the means of achieving them. But the difficulty with this is the age-old problem of identification and measurement: there are many clever ways that accumulations of wealth may be hidden through trusts, secret bank accounts and offshore havens. Such a wealth tax could replace income tax, capital gains tax and inheritance tax, and it could be applied separately to individuals or companies. But all of this is a complex area, which would require much careful planning and would no doubt merit a separate book.

On this particular issue, the government established a Wealth Tax Commission in 2020 to examine the feasibility of introducing a wealth tax for the UK.<sup>10</sup> In its report, in December 2020, it suggested that a one-off wealth tax was feasible but not a permanent annual wealth tax, the apparent reason being a matter of implementation. The one-off method would be easier to value and measure and would not provide the opportunity to prepare avoidance schemes. The report was about practicality; the issue of justice was barely mentioned. This amounts to the rather depressing

admission that the government can always be outwitted by those having great wealth to preserve; they will always have the means to escape being proportionally taxed. It is much more pragmatic to tax those with modest wealth, even the poor. They are the easy unmoving targets.

More recently, and on a more optimistic note, the University of Greenwich has published a paper, 'The case for a progressive annual wealth tax in the UK'.<sup>11</sup> In the conclusion the paper states: 'The case for progressive wealth taxes is built on the need to tackle and reduce wealth inequality' and also 'that a progressive wealth tax... has the potential to raise huge revenues.'

However, I still believe it is a matter of political will; the government could adapt some scheme to tax the very wealthy if it really wanted to.

In the meantime, we have to work with what we've got, and the next best thing for dealing with these accumulations, I suggest, would be some modified form of income tax. All taxes are unpopular, but income tax is generally accepted as fair, in that it is at least progressive. Perhaps one could retain the income tax with an entry threshold of say £50,000. That would exempt the majority of earners, whilst dealing with the rest progressively, at the same time recognising that most private wealth accumulations arise from those on higher incomes, or are the result of unearned interest from surplus wealth.

There are other taxes that might also be retained; the so-called social taxes, which are designed as much to influence behaviour as to gain a source of revenue.

The ‘sin taxes’ on alcohol, smoking and gambling, and the ‘eco-taxes’ on fuel and carbon emissions are amongst these, which even the LVT purists might consider keeping. So perhaps the idea of a single tax is already an anachronism.

The opponents of LVT would, I believe, jump on the term ‘single tax’ with glee. Perhaps a better title would be ‘essential tax’ or ‘first tax’, but to insist on it being the only tax would not help in getting the idea of LVT accepted by the ordinary voter; the immediate challenge for the LVT movement is in getting LVT understood, accepted and implemented.

Many contemporary academics, politicians and influential journalists, who are otherwise supporters of the idea of LVT, baulk at the idea of the single tax, and I believe they are correct in their caution. The single-tax issue may yet be the greatest obstacle to overcome for LVT advocates, who clearly need to face up to this problem within their own ranks. The single tax may have been feasible in George’s time when economic structures were much simpler, but in the complex contemporary world 140 years later, it is in my view more realistic to accept the need for other taxes, or other means for capturing an appropriate contribution towards society from those who may create great wealth from situations that are not necessarily land related. My own feeling is that if Henry George were with us today and able to observe the complexity and sophistication of contemporary society, he would be more than willing to modify the single-tax constraint.



**Box 2. On Libertarian Support for LVT**

It is perhaps surprising to many liberals, and those on the centre left of politics, to find that many libertarians also support the idea of a land value tax. A possible explanation for this, I suggest, lies with the early Georgist proposal for the single tax, where all other taxes are eliminated. The most basic characteristic of libertarianism is the idea of ‘minimum government’, which generally translates as minimum taxes. When taken to its extreme expression it becomes anarchism—ideally no taxes at all. In the US, libertarians who support this version of LVT describe themselves as geo-libertarians. One of the fiercest opponents of LVT was Murray Rothbard (1926–95), a former libertarian leader and member of the Austrian school of economics. He later went on to be a founder of the movement known as anarcho-capitalism. Todd Altman, a leading geo-libertarian in the US has written an interesting explanation of the geo-libertarian position, which also includes a refutation of Rothbard’s view of LVT.<sup>12</sup>

**10.2 Taxes to Eliminate, Reduce or Keep**

In Chapter 1, on basic principles, I suggest that it is better to impose taxes on existing wealth rather than the wealth-creation process, and also that, in general, direct taxes are more honest than indirect taxes (often described as stealth taxes). This sub-section brings these strands together under the question of which taxes

might be eliminated, reduced or maintained within a system where LVT plays a significant part.

Prior to the 20th century, taxes in Britain were few in number. In the 1870s customs and excise duties still accounted for 60% of government revenue, income tax about 8%. Historically, governments had always raised money through borrowing from private individuals or banks in order to fund wars (so establishing the national debt).

The introduction of the income tax in 1799 was intended as a temporary measure to fund the Napoleonic wars. Everyone was against it, and for the best part of the 19th century politicians on both sides made many promises to abolish it. But the income tax was difficult to shake off, as we all know. There was, of course, no welfare state as we know it today. Poor relief was obtained through the old poor-law acts of 1601, which were financed through local taxes at parish level—the ‘rates.’ The proliferation of the many different forms of taxation we know today occurred mainly in the 20th century due to the advent of the welfare state, and the need to finance the growing demand for social services. These taxes are now both numerous and complex and the contemporary tax regime does not seem to readily conform with any of Adam Smith’s four maxims, let alone that of certainty. It is difficult now for most ordinary taxpayers to grasp the convoluted workings of the income-tax system without resort to expert advice or guesswork. There is undoubtedly a need for simplification, if only to provide people with a clear understanding of what taxes they are expected to pay.

In 2008 the Office for Budget Responsibility (OBR) published its ‘Sources of Government Revenue’ forecast for 2008–09, which showed up to 20 different sources. In July 2010 HM Treasury established The Office of Tax Simplification (OTS) for the purpose of reducing the complexities of the tax system for both business and individuals. In 2019 OBR published its forecast for 2019–20 which showed an increase to 24 sources (see Table 4). So it isn’t clear to me what the OTS had achieved in that 11-year period.

So what should be done?

I believe that the introduction of LVT would provide a clear and unambiguous source of revenue that could be used to enable the reduction or elimination of other existing taxes—but which taxes?

Table 4, taken from the Office for Budget Responsibility data, shows the forecast for 2019–20 for government tax receipts from all sources. There are a total of 24, which are listed in descending order of the percentage of revenue raised.

Income tax tops the list followed by national insurance and VAT. These three account for 64% of all revenue, far more than the other 21 sources combined. So clearly, they are very significant.

	Source & Type	%	Suggested Action
1.	Income tax (D)	27.3	Keep but reduce and combine with NIC
2.	NIC (D & I)*	19.0	Keep but reduce and combine with income tax
3.	VAT (I)	17.8	Abolish or reduce

Source & Type		%	Suggested Action
4.	Corporation tax (I)	6.9	Replace with 'Full Inclusion Tax' and reduce
5.	Council tax (D)	4.5	Replace with LVT
6.	Business rates (I)	3.9	Replace with LVT
7.	Fuel duties (I)	3.8	Abolish or Reduce
8.	Other taxes and royalties	3.3	? (see comment below)
9.	Stamp duty (D)	2.1	Abolish
10.	VAT refunds	2.0	Related to VAT collection efficiency
11.	Alcohol duties (I)	1.6	Keep (a social tax)
12.	Tobacco duties (I)	1.2	Keep (a social tax)
13.	Capital gains tax (D)	1.2	Abolish
14.	Other HMRC Taxes**	1.0	Keep social or eco-taxes; see also comment below
15.	Vehicle excise duties (I)	0.8	Replace with road pricing
16.	Inheritance tax (D)	0.7	Keep, with increased threshold
17.	Insurance-premium tax (I)	0.6	Abolish or reduce in line with VAT
18.	Air-passenger duties (I)	0.5	Keep (an eco-tax)
19.	Stamp duty on shares (D)	0.4	See comment below
20.	Apprenticeship levy(I)	0.4	Keep for as long as required
21.	Bank levy (I)	0.3	See comment below

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Source & Type		%	Suggested Action
22.	Climate-change levy (I)	0.3	Keep (an eco-tax)
23..	Bank surcharge (I)	0.2	See comment below
24.	Soft drinks levy (I)	0.1	Keep (a social tax)
Key: (D) Direct Tax (I) Indirect Tax			

\* The employee's share of NIC contributions are direct, the employer's share indirect.

\*\* Includes customs duties, betting and gaming duties, landfill tax and aggregates levy

### Table 4. UK Government Tax Receipts for 2019–20

(Source: Office for Budget Responsibility, Economic and Fiscal outlook for 2019–20)

In the table, the column headed 'suggested action' represents my suggestions as to which taxes might be abolished, replaced or kept. This I found surprisingly difficult to decide. Although I tried to be objective, I daresay my own view is no better or worse than anyone else's. Perhaps you might like to compile your own list of preferences? In addition to the suggestions I have made, here are some further comments about some of the taxes:

#### Income Tax and NIC

If only to simplify administration, there is a good argument for combining income tax and NIC into one tax, which could be much reduced, and with a higher entry threshold.

## VAT

VAT is a Europe-wide tax. Now that Britain has left the European Union it could be reduced or abolished altogether. Britain adopted VAT on joining the EU; it replaced the old purchase tax. In Australia VAT is known as GST, a goods and services tax, applied at a rate of 10%, considerably less than the rate of VAT in Europe. There is no VAT in the USA, but a sales tax on goods and services (the inverse of a purchase tax), applied at state and, often, local levels.

## Corporation Tax

Corporation tax is very vulnerable to avoidance and is a problem in all countries. It is a tax on manufacturers and trade and ideally should be abolished or reduced, but it needs to be agreed internationally to avoid retaliation from other countries competing for business investment. An interesting article on the Schumpeter blog of the *Economist*, dated 15 March 2013, describes two possible alternatives to the Corporation Tax: the ‘Unitary Tax’ and the ‘Full Inclusion Tax’. The latter would appear to have several advantages and should be seriously considered as a replacement.<sup>13</sup>

## Council Tax and Business Rates

Council tax and business rates are property taxes and ideal candidates for replacement by a local site value tax (see Chapter 3, Application of LVT).

### Fuel Duties

Fuel duties should be abolished or reduced, as they are a tax on transport that affects everyone adversely. But they are also seen as a deterrent to carbon emissions – so a balance has to be found. Perhaps they could be absorbed into a system of road pricing.

### Other Taxes and Royalties

In the OBR data these are noted as: licence fee receipts, environmental levies, EU/ETS auction receipts, Scottish taxes, diverted profits tax and other taxes. Under suggested action I have unsurprisingly left a question mark. They are not necessarily all taxes, but other sources of revenue, but they account for a substantial 3.3% of all receipts.

### Stamp Duty

Stamp duty (officially, but rather misleadingly known as Stamp Duty Land Tax for historic reasons) is a tax on trade and increases the cost of housing. It should be abolished.

### Capital gains Tax

Capital Gains Tax should be abolished. One of the main purposes of this tax is to recoup the (unearned) increase in value of properties on resale, but this could be done more effectively through a land value tax.

## Other HMRC Taxes

The social and eco-taxes could be kept. Customs duties are subject to international negotiation; they are a free/fair trade issue.

## Stamp Duty on Shares

Stamp duty on shares could be included in a general reform of financial transactions to combat unproductive speculation in currencies and shares, short selling and other predatory practices. It is a complex area, which would require international co-operation and is beyond the scope of this book, but it exercises an increasing number of reformist organisations, which seek to bring under control the ‘wild-west’ world of finance, in which taxes play a large part.

## Bank Levy and Bank Surcharge

The Bank levy was imposed after the economic collapse of 2007–08, as a sort of repayment for the bank bailouts (a punishment tax?). For that reason, most people would think it justifiable. The Bank Surcharge was introduced in 2016 as an extra tax on bank profits, but only brings in 0.1% of total revenue. There seems to be a clear need for rationalisation of corporation tax, bank levy and bank surcharge in the question of how to tax banking activity.

## Inheritance tax

Finally, I would single out inheritance tax as a rather special case. It is true that it does not rank highly on the



list of revenue earners, but it raises strong feelings for and against. Those who are opposed say it should be abolished altogether; why after all should those who have worked hard all their lives not be allowed to leave what wealth they have to their children without being penalised by a tax?—A good point with which I have much sympathy. However, there has always been a strong counter argument, where large amounts of wealth are inherited: Why should some be allowed to inherit a fortune, which could enable them to live well the rest of their lives without ever having to do a stroke of work? The current system, with a threshold of £325,000 is a compromise, but is probably insufficiently generous. This threshold could be raised to £500,000 or even £1million, which would seem a decent amount for anyone to inherit. These figures are always a matter of debate, and in any case should always be subject to revision, due to inflation.

I suggest that whatever loss of revenue may be incurred from eliminating or reducing any of the above taxes could be made good from a new land value tax. In all cases, gains and losses have to be graduated over a transition period, and the principle of tax neutrality respected.

Those hard-line Georgists who still insist on the single tax would presumably eliminate all 24—a difficult proposition to imagine. One suspects they might be willing to compromise on some of them.