

Prepared for the CEJ by Tommas Graves, May 2011

WHAT IS THE POINT OF LVT?

Of course there are many possible answers to this question;-

- To obtain fairness
- To correct injustice.
- To narrow the rich/poor divide.
- To remove unearned income and give it to those that earned it.
- To simplify the tax system.
- To use the surplus arising from co-operation for community purposes.

We could probably add many more, but **how is LVT to achieve our aims?**

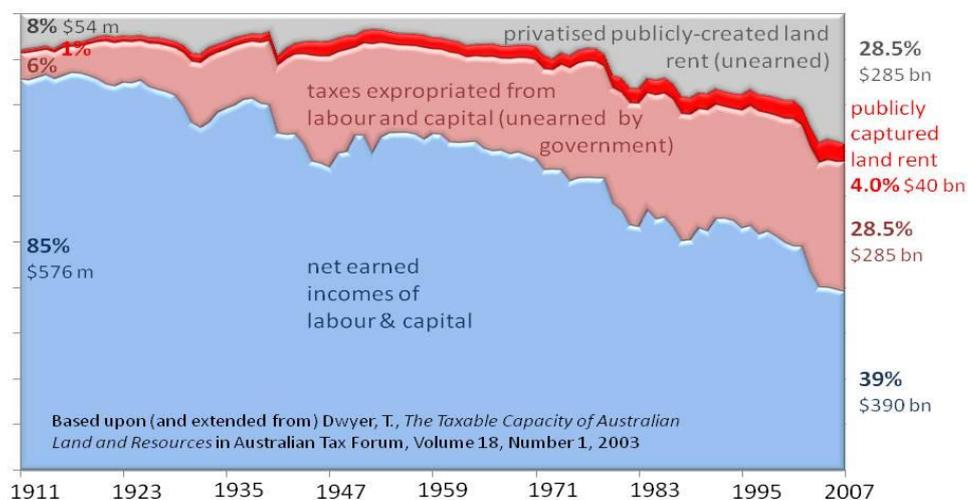
The answer has to be by **shifting the tax burden.**

It is a fact that eventually all taxation comes out of rent. This may be seen in economic terms. As net wages are pressed down, any imposition of tax cannot be borne by wage earners, so it has to come out of rent. Rent tends towards the maximum the site will bear, whilst wages (net) tend towards the least acceptable. Or, you may view it historically. The land was enclosed before tax was applied to wages, so there was not the opportunity to better oneself by starting on rent-free land.

Those who feel the need to prove this assertion to them-selves can read “The Nature of Society” by Leon Maclaren published by the School of Economic Science, part Two, chapter 3, and part Three, chapters 7 and 8. He traces, step by step, how increase in taxation first reduce wages and increase rent, then, when wages have been driven down to the least acceptable, further increases in taxation must come out of rent.

This chart is from Australia, but we have good reason to think that its message applies in the UK too. It may be viewed at: <http://www.prosper.org.au/2009/01/28/ineffective-demand/>. Here the decline in the share of GDP in Australia since 1911 is shown, but the rest of GDP is also shown as Taxes and Rent. The commentary shows how a badly designed tax system has finally choked off effective demand.

GDP as earned and unearned incomes



Although GDP has increased enormously over the years, and especially since 1945, the share going to earned incomes is in steady decline.

The extra shares have gone equally to taxes and rents.

So, if all tax comes out of rent eventually, we can see that rent has already been taxed to the extent of 50%. Is not that enough? Why do we need to add LVT to a system which already takes 50% of rents for community purposes?

The reason is in the way taxes are applied.

UK GOVERNMENT TAX COLLECTION AND SPENDING 2011/12
(BUDGET March 2011) – Source HM Treasury

(i) Revenue:

Income tax:	158 bn		
National insurance:	101 bn		
VAT:	100 bn		
Corporation tax:	48 bn		
Excise duties:	46 bn		
Council Tax	26 bn		
UBR:	25 bn		
Other receipts	85 bn	TOTAL:	£ 589 bn

From the above, we can see that the first two items are collected through the wages system (PAYE) and self employed people. VAT is largely met by those same people as they spend their take home pay, and this will apply to much of Excise duties as well. So that, some two thirds of our current taxes are applied as a cost to business by being added to wages. It can be shown that the cost of wages is about double the actual reward for work [Link to Employers Burden Information](#)

The effect of this arrangement is that wage intensive businesses are taxed more heavily than businesses that rely on equipment and machinery. This results in a disincentive to employment. We can see the results of this, in that many heavy industries have left the UK, the number of people employed in agriculture is now very small, and all businesses are trying to cut costs by moving their production to countries with lower taxes as applied to wages.

As businesses go out of business or move abroad, we are left to pick up the pieces.

UK GOVERNMENT TAX COLLECTION AND SPENDING 2011/12
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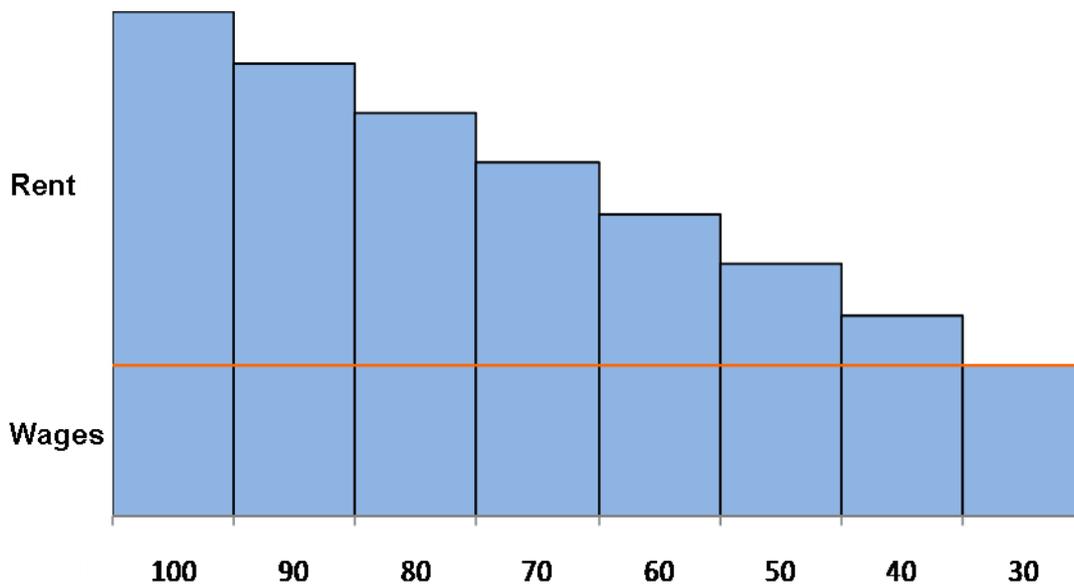
(ii) Expenditure

	Relief of poverty	Public services	Other
Social Services	232	Law and order 33	Interest 50
Health	126	Defence 40	Other 74
Industry, ag, employment	20	Transport 23	
Housing & Environment	24	Education 89	
TOTALS	402	185	124

Of the total of £710bn, 56% is spent on amelioration of the effects of our tax system.

What follows is a simplified set of diagrams to show the nature of the tax shift that is required.

Diagram 1. Seven similar sites in size and labour applied, but with differing advantages such as infrastructure, Transport, fertility, and other factors external to the sites themselves, leading to greater or less productivity, or “added value”.



The level of wages will be set by the least productive site, and the excess is termed economic rent.

Diagram 2. Now tax has been applied at 50% of wages. Two sites have gone out of business, and another is just hanging on. Much of the taxes have to be spent on keeping those from the two sites from starvation.

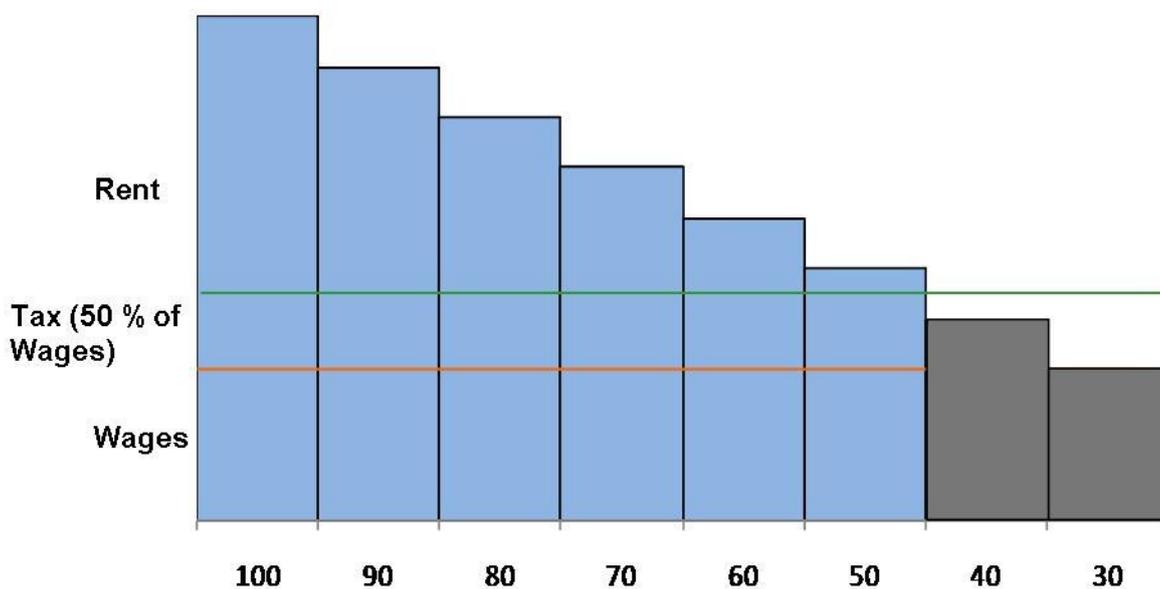
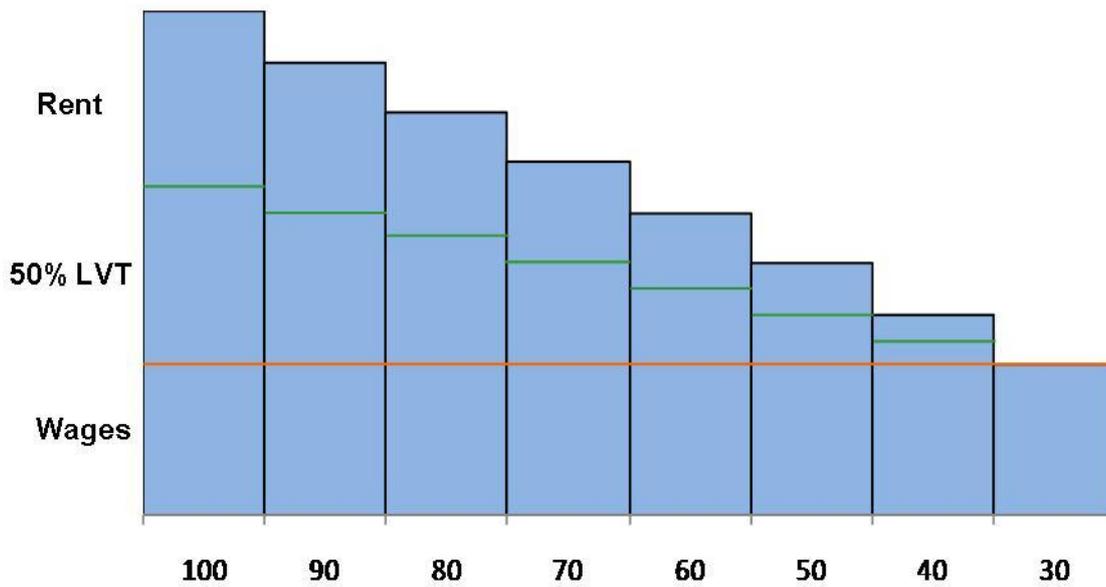


Diagram 3. LVT has been applied, instead of the previous taxes, at 50% of rent. Sites 7 and 8 stay in business, and no tax is required in amelioration of poverty.



SUMMARY

The whole reason for LVT is to obtain a tax shift from those parts not having a taxable capacity on to those parts which do. If we tax those businesses with no taxable capacity they will go out of production. There is plenty of taxable capacity at those sites which enjoy more of the benefits provided by better facilities, which, under our present system is partly used in dealing with poverty caused by the present method, and partly taken as unearned income by landowners.

In "Resolving the Economic Puzzle" by Walter Rybeck (Shepherd-Walwyn ISBN 978-0-85683-281-9), page 161, he describes how this process evolved in Pittsburg as tax was shifted from Land and buildings to land.

We should therefore make sure that our proposals do indeed produce a tax shift, or there is no point in them at all. But from the tax shift the advantages listed in the first paragraph can surely follow.
