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Devolution within the United Kingdom and expansion of the European Union will create both opportunities and problems for countries at the periphery. There will be increasing competition for structural adjustment funds, but at the same time a growing reluctance to raise the taxes to pay for measures intended to redress regional imbalance.

This paper explains how the odds are stacked against the economy of Northern Ireland because of its peripheral location, and shows how the introduction of land value taxation in place of existing taxes would alleviate the problems, restore competitivity to the Province, and at the same time provide a robust, sure, and independent local revenue source.

1. THE POLITICAL BACKGROUND

The United Kingdom is entering a period of constitutional change and uncertainty. In one direction lies the question of where Europe is going and what place the UK will have within whatever the EU becomes. At Westminster, the House of Lords is to be remodelled, with functions and composition as yet undetermined. The constituent parts of the UK are receiving measures of devolution - a Scottish Parliament, a Welsh Assembly, a Northern Ireland Assembly, an assembly for Greater London - with different powers in each case - and perhaps, later, other regional bodies within England. A Council of the Isles is mooted, to encompass the Republic of Ireland in consideration of issues affecting the whole of what atlases once called the "British Isles".

2. THE CHALLENGE OF THE CHANGING FINANCIAL CLIMATE

The Republic has for years received substantial cash inflow from the EEC/EC/EU. It has also offered significant tax advantages and similar incentives to attract inward investment. The EU is no longer flush with funds, partly in consequence of the 1992 depression, from which continental Europe has yet to recover. Germany is no longer willing to play milch cow. The expansion of EU membership eastwards will finally force what many consider to be long overdue change in the CAP. Whether measures of tax harmonisation come about or not, we can expect moves against investment incentives intended to influence the location of businesses within the EU. The Republic of Ireland will increasingly have to adapt to live much more within its own means.

The same factors will affect Northern Ireland in some degree, directly or indirectly via the effect on the UK central government. On top of this, the rest of the United Kingdom is unlikely to be willing to supply funding on a generous scale for long, especially if devolution in Scotland and Wales has the effect of turning England inwards. Westminster and Whitehall will want relief from the burden of defence expenditure and of acting as insurer. The Northern Ireland Assembly may expect to be asked to pick up more of the Province's costs with the passing of every year.

3. MARGINALITY - DEFINITION

The United Kingdom and the Republic of Ireland lie on the periphery of the EU. It is inevitable, therefore, that much of what applies to Northern Ireland will apply to the Republic of Ireland too, for the economic truth is that both lie on the periphery of the periphery. As a consequence, much of the land area of Northern Ireland, and indeed of the Republic too, lies at or close to the economic margin.

This term is readily understood by considering the pattern of most towns and cities. At the centre, usually occupying the best sites in the principal streets, there are offices, banks, department stores and major branches of national retailers. Smaller shops and specialist retailers will be found along the main roads leading out of town, until the point comes where shops give way to houses, at first, perhaps, sturdy Victorian and Edwardian villas and then more modern suburban houses. Outside the cities, there is an increasing trend to build shopping centres readily accessible only by car and competing with the town centre shops. Certain activities - such as large scale retailing - can only succeed at places that large numbers of people can reach. They are rarely found in the remote countryside or in suburban side streets.

Other activities such as farming depend more on climate and on the natural characteristics of the land, such as topography, and inherent fertility, though distance from markets and the quality of transport links clearly matter too. In general, the most fertile land is used for growing crops, less fertile land is used for cattle grazing, the least fertile land in use is devoted to sheep grazing and forestry. Each activity and each occupation has its own margin.

There is some land where no economic use is possible. The poorest land that can support economic activity is the "margin", and no rent can be charged for its use. All better land has a rental value, reflecting its advantages over marginal land. These may be due to natural features of the landscape or the presence of mineral deposits, but, supremely, it is the coming together of people, and the general level of their economic activity, with public and private provision of infrastructure and services, that make some locations very much more valuable than others.

4. MARGINALITY - EFFECTS ON NORTHERN IRELAND

Clearly there is some highly valuable land in Northern Ireland, but because Northern Ireland, and the Republic too, are distant from the centres of population in England and Continental Europe, much of the land area is marginal or sub-marginal. To bring out the significance of this, it is necessary to consider the key aspect of the economic process. Wealth creation takes place when people, working on the earth's surface, apply their Labour and fashion raw materials (Land) into goods (Wealth). Some Wealth is consumed directly, but a portion (termed Capital) is reserved to help in the productive process, examples being tools, industrial and agricultural machinery, offices and shops, intermediate products, and stock-in-trade. Thus Labour, using Capital, works on Land, to produce Wealth. The returns to Labour, Capital, and Land are conventionally termed Wages, Interest, and Rent, respectively.

Land which has advantages over sites at the margin, commands Rent in proportion to its relative advantage vis-a-vis all other land. Land Rent scoops this difference, leaving the returns to capital (considerations of time and risk apart) and to labour (experience and special skills apart) more or less the same everywhere within a nation or community. Because marginal land only just remunerates Labour and Capital, and leaves no surplus to go as Rent, attempts to levy conventional taxes at the margin have the effect of tipping economic activities at such locations into unprofitability. Potential wealth creation is stopped. At the economic margin, at the periphery, current taxes are destroying jobs.

This is not just a matter affecting the edge of the wilderness, however. In practice, each occupation has its own effective margin; as was explained in the previous section, the point on the way out of town where shops give way to houses is one such margin. Marginal activities, in town as in the country, can be put out of business by taxation just as easily as those struggling at the literal margin of production. Thus, the more distant the activity is from the market, the greater is the impact of, for example, the vehicle fuel tax. In order to counteract the effects of taxes at the margin and make wealth creation possible, a complex system of grants and subsidies has spawned, directing taxpayers' money into selected projects and areas. This is hit-and-miss, open to abuse, and expensive to administer. It creates a regional "dependency culture".

The damage done by conventional taxes goes deeper. A Bath University study has shown that half the total cost carried by businesses to organise PAYE, National Insurance, and sickness and maternity pay, falls on tiny outfits that generate only 12% of the revenue. Spreading costs over only a few people makes administration per employee expensive. Employers with up to four workers spent £288 a year per head, but for those with more than 5,000 employees the cost dropped to £5. The impact on small companies is even more marked when the cumulative effect of all compliance costs, including VAT and corporation tax, is taken into account.

To recapitulate: conventional taxes cripple. At the true economic margin, where no Rent of Land is paid, the price at which goods are sold goes to reward only labour and capital. Where land has no economic value, any duty based on land value must be nil. The margin thus becomes a tax haven and in the absence of any other taxes, production immediately becomes viable. This can only happen if government is funded solely by collection of the Rental Value of Land. We accept that such a change cannot be made overnight, but a progressive switch from conventional taxation is a pre-requisite if the Province is to prosper.

5. COMPETITIVE ADVANTAGE

Given a switch from conventional taxes to land value taxation, producers at the periphery can turn the tables on those at the centre, whether the centre is on the mainland of Great Britain or in Europe, somewhere in the Ruhr, say.

It is a matter of everyday observation that the prices of individual items are broadly the same whether bought from a country store, a suburban shop, or a city-centre emporium - indeed, paradoxically, the country store on the cheapest land may well be charging a little above town prices. The rental value of land does not enter in to the unit price of manufactured goods. The burden of LVT, then, must lie with the beneficial owner of land (who may not be just the freeholder, but anyone with an interest in land which is capable of being let out or sold at a profit). This is well attested. In a rare show of unanimity, economists of all persuasions accept that a duty levied on land value can not be "passed on" in higher rents or in higher prices for goods made or sold at different locations of varying site value. Land, as a natural monopoly, is "price inelastic".

Crucially, the rental value of land may be collected as public revenue without adding to the price of goods. Reducing or abolishing taxes on personal and corporate incomes raises the standard of living of working people and the profitability of businesses of all sizes; whilst cutting or eliminating such taxes as value added tax and the vehicle fuel tax brings down the prices of finished goods.

From all this, we reach the brisk conclusion that Government can finance itself from LVT in the confidence that LVT, unlike existing taxes, does not enter in to the unit price of manufactured wealth. This would boost agriculture and industry, giving home production a big competitive advantage in world markets as well as the edge against imports.

6. PEACE, PROGRESS AND PROSPERITY

In areas which have suffered most in recent disturbances - parts of Belfast, for example - property prices have been depressed. This is not because bricks and cement have become less valuable, but because the sites, the locations, are less attractive. Resolution of conflict will alter this, and in some instances has already done so. The "peace dividend" will show itself in rising land values, even if these are wrapped up in the verbiage of terms such as "property values" or "asset values". This dividend should not be pocketed by landowners but used instead to promote the well-being of all the people of Northern Ireland. It is a key argument in the case for LVT that the Rent of Land arises not as a result of the efforts of the individual or corporate entity lucky enough to receive it, but is a consequence of advantages supplied by Nature and, even more, of how and where the population at large chooses to live, work, trade, and disport itself. Whereas Wages and Interest are private values, Rent is a public value, and it is Rent upon which the government should call to fund public expenditure.

7. PLAN OF ACTION

In the absence of an initiative by the United Kingdom Parliament, the Northern Ireland Assembly should press for powers to determine its own revenue regime, and should take immediate steps to implement LVT. The Republic of Ireland could take the same decision independently, or find itself more or less compelled by economic reality to follow suit, as, incidentally, could the remainder of the UK.