

Sustainable taxation
A statement of the obvious
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A paper for discussion at the seminar "Sustainable Taxation" on Wednesday 4th April, 2001 at the Greater London Authority's Romney House London SW1, 14.00 to 17.00.

The inevitability of taxes and death has long been acknowledged. Put another way, while there is *civilised* life there have to be taxes. The linking of taxes to "sustainability" - that is, to be maintained indefinitely - must therefore imply something other than "inevitability": if taxes had not been sustainable throughout history we would not have our present level of civilisation - as evidenced by our public services and infrastructures.

It would be nice to think that, in the context of this seminar, sustainable would mean "affordable". With the punitive history of taxation being only too well established - the taxing of "goods" and the things we like - it seems important to beg that we are not now going to apply taxes to those efforts for sustainability now bravely being attempted in the interests of saving the planet. To take an example, the "Land Fill Tax" exploits the principles of repression in an attempt to reduce the amount of waste rather than the principles of encouragement to protect the landscape from harmful waste disposal. The former sees avoidance in "fly tipping" - and many other dodges (the principle on which this works is detailed below) - the latter would see people queuing to dispose of waste correctly by the simple encouragement of receiving a payment. It is a sad reflection on our political system as well as a symptom of bad economics that such positive measures, as distinct from the adversarial negative ones, are simply not available for consideration: a monetarist structure just does not provide the means to pay for them. As for the reduction in waste, that may be achieved by far simpler and self-motivated processes as we shall see. These, too, use the carrot rather than the stick. Apart from saving huge costs in administration, enforcement and monitoring, I submit that such measures are far more "sustainable" than the traditional political approach of using taxation as a form of punishment.

Henry George is known for his advocacy of a "Land Tax" system. To a far lesser extent I am known for my advocacy of a resource tax system based on primary energy: UNITAX (Unified National Indirect Taxation as embodied in the Resource Economics Proposition) and its local revenue raising counterpart ULITAX (Unified Local Indirect Taxation). These concepts have a lot in common with each other. Land and energy based revenue systems truly address the foundations of economic life and thus comply with the inevitability aspect and would give a firm link between civilised community life and the governing system with an assured continuity of revenue. To a very large extent land tax is subsumed within the UNITAX proposals: you can use energy without using land (fishing at sea or flying in the air) but you cannot use land without using energy. The universality of energy use and its exact commensurate link with economic activity in all and any pursuits without any exception whatsoever not only make this a natural choice for carrying tax cost - inescapably linked to income, property and standard of living - but such a broad base ensures the greatest dilution and widest distribution of the tax burden. Being embodied in the primary energy from the source, the distribution throughout the economy requires hardly any tax administration at all. Whereas UNITAX is applied at primary origin, land tax is applied at the base of the economy. At its initiating level UNITAX is administered by a handful of primary producers and at the more advanced stages by exporters (who claim rebate) and by importers (who pay the same rate of UNITAX on embodied energy as is being paid inland). By contrast land tax has to be administered down to every parcel of land, every building and, perhaps, every parking meter and telephone kiosk. UNITAX produces a continuous flow of revenue from a continuous flow of energy: a dynamic which lends itself to precise control and rapid response to changing circumstances. Even with extensive computerisation it is difficult to see how land tax could be adjusted more than, say, four times a year. Even if such dynamic adjustments were attempted on land tax, it is scarcely feasible that the land users could adjust their activities efficiently to absorb the variable costs on such a fixed asset. However because energy is disposed of in the product, its costs are passed forward down the chain of consumption along, painlessly, with any variations in the embodied tax cost.

There are other ways in which revenue can be linked to land within the UNITAX concept. Some consideration has been given to the idea of applying UNITAX to land based on its "solar potential". By the use of pho-

to-voltaics and other ambient energy generation it is obvious that any land area has a potential for capturing energy. The Resource Economics Proposition, in general, encourages all means of "tax avoidance" for personal use and only applies the UNITAX (a) on a statutory primary energy (S.P.E.C.: statutory primary energy content), and (b) where the amount sold exceeds a certain energy value. However this formulation does allow that those who own land may derive an advantage not available to those who don't. The UNITAX (applied at exactly the same current rate as on all primaries) would be applied as a Unified Land Area Duty (U.L.A.D.) on the "projected solar value" which would take account of aspect, altitude, orientation, inclination and latitude and be recorded as a fixed value with the Land Registry. I have produced a paper (11th September 1999) outlining these ideas and I will arrange to have this put on our website or forward a copy if you want one (a donation to cover postage and copying is always appreciated). While this adaptation of the UNITAX concept adds enormous complexity - although it is relatively simple compared with other tax systems - this may be the price that has to be paid for political acceptability. It should be noted that the amount of energy captured can be as low as half per cent of that theoretically available from direct sunlight. The capture may be in biomass, food, or mechanical devices such as wind or water mills.

In a moment I summarise some of the pros and cons of the systems - land and energy - but first it is helpful to set out a few of the immutable facts of life as regards "taxation". In a way this set of rules is timeless, at least in that, by and large, so far as taxes are concerned, people don't like paying up. But there has been a huge evolutionary shift in the framework of tax administration and the quicksilver response rates of modern accounting in a global economy. Those unfamiliar with hard-nosed systemic analysis may find them unpalatable but we ignore these rules at our peril when devising taxation systems. The peril is usually manifest in a huge cost of administration, a vast avoidance industry and an orientation throughout society to adding-cost rather than adding value. In a global economy the result is a loss of initiative, the curbing of options, an impairment of competitive status, and unemployment stimulated by the consumption of primary resources which in turn add to the pollution of the environment.

The first to general rule is that ***No Business Pays Taxes.***

The only source of cash available to business comes from its activities in the market place. Essentially tax is a cost which is added to product price and then collected from the customer. If this were not so the business would exhaust its funds and cease operation. A special exception is in the creation of credit by banks however the tax cost has to be treated in exactly the same way and passed on to customers. Profits are also generated from commercial activity and their availability represents the wages on working capital and if these are removed or depressed below an acceptable value then, once again, the business ceases to exist in exactly the same way that people will find another job (or go on strike) if they're not paid enough. On the other hand, uniquely, government can create money and a trite way of regarding the two sides of this economic equation is to state that government consumes wealth and creates money whereas the private sector consumes money and creates wealth.

The second general rule is that ***Taxation Is A Money Recycling System.***

In order to fulfil its function, government issues currency in wages and through its procurement programme. If this currency is not recycled to the Treasury then the amount of money in circulation would continue to increase with obvious inflationary consequences. Conceptually, are there alternatives to taxation by, for example, the issue of time-limited bills (self destruct money!) and perhaps, as we move more and more into an age of electronic transactions, such concepts may become more feasible.

The third general rule is that ***Only The Rich Can Avoid Taxes.***

It is widely acknowledged that present taxation systems are extraordinary complicated. It takes time and skill to understand them and to take advantage of the allowances, exceptions and exemptions which, in the attempt to achieve fairness, have been built into the systems. To avoid paying taxes, however, requires not only the employment of accountants but also the ability to embark on those expenditures which secure exemptions or to optimise the territory of operation literally across the world. Other tax advantages are secured by the dishonest evasion of due payments. Ordinary folk on modest incomes are far less likely to be able to

exploit the loopholes and although tax systems have created generations of shifty operators, by and large, people prefer to be honest.

In the perfect free market the survival of *business depends on its ability to avoid taxes*.

A minimum of around 20 per cent of all disbursements made by business come under the heading of taxation. For most businesses taxation will be the largest single category of expenditure after the wages bill. Just as efficiency in the use of all other resources is reflected in market price so it is that, all things being equal, the business that can pay less tax than its competition will have the advantage in the marketplace. The tax cost represents "added cost" not "added value" therefore for similar quality as regards materials and labour, the tax difference can be crucial. Even relatively small differences in the rates for business premises have been known to drive businesses out or to attract businesses in.

These rules must be added to those long established and set out by Adam Smith: taxation must be seen to be fair, adequate for the purpose and easy to collect. However unpalatable it may seem, a ruthless grasp of these rules is absolutely essential if we are to devise effective and appropriate taxation systems for revenue purposes. In this short treatise I am assuming that the punitive and social engineering aspects of taxation so espoused by governments of various hues have no relevance whatsoever in any scientific analysis of the subject of raising revenue.

In the context of this seminar, where we are preoccupied with environmental issues, we must add a "green dimension". Sticking with our scientific approach to the analysis of the economy as a system, the addition of "green" taxes would appear to be meddling with the system for the purpose of social engineering. To attempt to change behaviour, as distinct from the specific purpose of raising revenue or, in the context of Dynamic Economics, of recycling money originated by and emanating from the Treasury. Fortunately with the Resource Economics Proposition such corruption of thought does not arise for, while UNITAX is an extremely green tax, the beneficial properties arise mainly because we discontinue the stupid taxation systems, implemented hitherto, which have stimulated the corruption of resources and encouraged the pollution of the planet. This statement will be clear to those who understand that "productivity" is measured by the number of people you can lay off work and replace them with resource rich production methods. I suspect that this audience will also understand how monetarist market economics, obsessed with competitive pricing, drive prices down, stimulate consumption, and multiply the application of material resources. An obvious example of this phenomenon can be seen in the proliferation of mobile telephone systems, duplicating resource consumption. An alternative strategy to competition is co-operation. Although this is known to work very well much of the work in developing economic systems based on co-operation has been swamped by the drive to maximise consumption which has been induced by concentrating on the market economy. A further adverse effect of monetarist economics is the concept of "money rationing". Thus money is deemed to "come from tax payers" and, because our systems of taxation are so painful, is of limited supply. It follows therefore that if we can find a painless taxation system we can increase the rate at which money circulates both to ensure that there is no shortage for required public spending but also to escape from the drive to lowest price. This may appear a revolutionary concept but the reality is that the abundance of money can not only alleviate poverty but enables the purchase of "hidden quality" at a higher price so moderating the competitive imperative. A popular example is to consider organically produced food the cost of which, while commensurate with its value, cannot compete on a pure price basis with intensively produced product.

In a very real sense present taxation systems are not sustainable. They are inefficient, counterproductive, intrusive, expensive to administer on both paying and collecting sides and increasingly oppressive. This latter point is of particular concern and was considered important enough for redress to be secured in 1213 by Magna Carta which protected us from, amongst other things, demands from officials without due process or without the judgement of our peers. Although modern politicians have been heard to declare that Magna Carta is out of date, and one can understand how they find it inconvenient, it is one of the mainstays of our noted tradition of freedom. Nowadays the "spot fine" is commonplace and it is regarded as a matter of ordinary tax procedure that officials can levy charges on working people and businesses for not completing their paperwork as they think it should be. These are clear signs of systemic fault and that our government system is either too lazy or too inept or both to devise sound working systems, that is assuming they can see a problem

in the first place. The fact that it is now also commonplace for public funds to be expended on advertising campaigns urging people to “blow the whistle” is a further indication of systemic failure. It is also a serious sign of a very nasty corrosion of the integrity of ordinary people who have a very healthy, and well-founded suspicion of the workings of authority.

About forty years ago we started to introduce ideas for more effective, fairer, simpler, extremely low cost unevadable taxation systems. The upshot of our work was UNITAX (Unified National Indirect Taxation). An overview of the workings of the Resource Economics Proposition, embodying UNITAX, is given in the diagram but it is not the purpose of this paper to describe the R.E.P.. Information on this can be obtained from various websites. The important point is that it conforms fully with all the rules set out above for taxation systems. In absolute terms there is no shortage of energy although we will have to develop the technologies to convert it to convenient form and location and our economic structures to use it optimally. The economic link could ensure there is no shortage of money for funding any amount of democratically approved public spending. Not only is UNITAX a fully “sustainable tax” but, more importantly it would lead to a sustainable society. In order to exist a society must have a planet to stand upon. In order to ensure this it is absolutely essential that we discontinue the present systems of incentive and punishment, worked through market economics, as evidenced in present tax and benefit methods. Although the concept is extremely simple, the work to be done is daunting. The whole ethos of monetarism has to be reversed with its orientation to the “bottom line”, to money valuation and the rationing of money supply emanating from reluctant taxpayers.

So daunting is this prospect that I put it to you that it is not possible for anything to be done and that, following the pattern of history, changes will only come about by catharsis and the most terrible consequences of what amounts to negligence by present administrations. It is here that we have to consider the mechanisms of politics whereby reforms may be implemented. While it seems clear that the people as a whole are in favour of “green” policies and of that action seen to be necessary to conserve resources and preserve our planet, it seems most unlikely that the necessary measures can be implemented by our present party political structure. I have defined our system of government as a poligarchy - government of the people by the Party for the politicians. This may appear a cynical comment but on close examination it is remarkably true. The result is that politicians are not truly accountable to the people, other than by dismissal from office and their replacement by another, and that instead of wise councils prevailing, it is the voice of the loudest protesters and lobbyists that are more likely to be heard in the interests of short-term benefit. I have put more information on this analysis on our website at www.hydatum.com.

As one who believes that something should be done about it - I am a natural revolutionary - I have, with others, brought forward the No Other Wage (NOW) Campaign. This is an ordinary voters’ initiative to challenge candidates at the time of election to declare that if elected they will take no other wage as our representative. Once again this is so simple as to be fundamental “you cannot serve two masters at the same time”. I think this will prove an effective first step in leading to greater accountability in politics, a breaking of the tie with monolithic Party manifestos and an enabling of ideas on merit which may take a longer view than the few years to the next election or the few weeks to the next opinion poll. As with the analysis of our defective tax and benefit systems so I have arrived at a simple conclusion, for I am a simple man. The conclusion is that our real problem lies, possibly as it always has done, with the political system which, while claiming democratic credentials has, for the past century, perpetrated intellectual fraud upon the electorate. Surely it is now time to carry the battle into the camp of the politicians themselves: I commend the NOW Campaign.

Tunbridge Wells
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Less a rule than a guideline, gross taxation flows should approximate to 50 per cent of any given economy.

This fifty-fifty rule appears to apply in many human activities. The idea is that, if the Government’s budget is in balance, the expenditure outflows will equal the revenue inflows. Because, generally speaking, human

transactions and interactions would be broadly similar in the public and private sectors, the rate as well as the volume of transactions would be similar. Government outflow is in the form of its massive wages bill and in procurement contracts. These moneys are then spent and passed on round the money cycle until an equivalent value is returned through taxation channels. Taxation in some form or other will be present in almost all transactions and it is the accumulated tax take that will approximate to half the gross added value (GDP: all value being net human contribution starting with resources in the ground at zero value). It seems unlikely that public sector response and initiation rates would be higher than those in the public sector and so, in order to maintain an adequate flow for economic equilibrium the fifty-fifty relationship seems appropriate. Illustrative analogies can be found in the human blood circulating system with the similar capacities of venous and arterial conduits. A further analogy is the connecting capacity for inward and outward flows at the two poles of an electric battery. Historically it would appear, also in support of this relationship, that we have fared best when this ratio has been realised and worst when governments attempt to tamper with it by either cutting public spending or indulging in profligate spending.