

**POLITICAL ECONOMY, COMMON RESOURCES AND A NEW  
GLOBAL SYSTEM  
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A contribution to the 25th International Conference of the  
International Union for Land Value Taxation  
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**Note.** My website - <http://www.jamesrobertson.com> - can be searched for detailed back-up and references to other people's work on the wide range of issues touched on in this paper. Particularly relevant items include:

- (1) "Financial and Monetary Policies for an Enabling State", 2000 - at  
<http://www.jamesrobertson.com/toes-nef.htm>
- (2) "The Role of Money and Finance: Changing a Central Part of the Problem into a Central Part of the Solution", 2003 - at  
<http://www.jamesrobertson.com/articles.htm>
- (3) "The Future of Money: If We Want a Better Game of Economic Life, We'll Have to Change the Scoring System", 2005 - at  
<http://www.jamesrobertson.com/articles.htm>

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**INTRODUCTION**

I am going to outline various contexts in which we can promote the case for Land Value Taxation. I shall say which I prefer. I hope that it will provoke some thoughts for a future research agenda.

I see the case for Land Value Taxation in a broad national, local and global context. I believe that:

- a) A new political philosophy can be based on sharing the values of "common resources", such as land, more fairly than now.
- b) To be meaningful, the new political philosophy must define practical reforms which will share them more fairly.
- c) Those reforms will involve changing the system of financial rewards and penalties that help to shape people's motivation - in other words, they will involve changing how the money system works.
- d) In developed economies today, flows of money under the government's direct responsibility represent about half the total value of money transactions and economic activity (GDP).
- e) Therefore, how the larger money system works is very heavily influenced by how governments handle their three main monetary and financial responsibilities.

f) These involve:

- 1) the money supply, which everyone uses; this raises questions about who creates new money and decides how it is spent;
- 2) collecting public revenue for governments themselves; this raises questions about what is taxed or charged for and how heavily, and what should be taxed or charged for but isn't;
- 3) public spending programmes; these raise questions about the necessary objectives of public spending.

g) Big changes in these will change economic relationships between the state, the market, and the citizen.

h) In other words, they will create a new "political economy" and raise questions about the practical meanings of "capitalism" and "socialism" in the 21st century.

## **A. CONTEXTS AT NATIONAL GOVERNMENT LEVEL**

### **1. The first possibility is simply to replace other tax revenue with Land Value Taxation**

Economic efficiency and social justice provide strong general arguments for Land Value Taxation to replace existing perverse taxes. Perverse taxes include economically, socially and environmentally damaging taxes on incomes, profits, and value added.

Their value-neutral replacement by Land Value Taxation would encourage a range of desirable economic and social outcomes, such as

- greater availability of affordable housing,
- less incentive to channel speculative capital investment into already existing assets in the form of land, and therefore
- readier financing of productive private sector investment, public infrastructure investment, and work and employment opportunities.

An important environmental argument for Land Value Taxation is as a tax on "sprawl" and an incentive to redevelop brownfield sites.

Concessions on Land Value Tax will be needed for people (especially pensioners) whose low incomes are not subject to income tax and who would not be able to pay if they were taxed on the value of their housing land. They would benefit, however, from the abolition of Value Added Tax, and from the introduction of a Citizen's Income - see 3 below.

**2. A second context** is to see **Land Value Taxation as part of a wider shift in taxation (and other sources of public revenue).**

We are talking here about a shift from existing perverse taxes to raising public revenue from the values that people and organisations get from using or monopolising "common resources". This will require the richer and more powerful sections of the population to pay for what they now get as "free lunches".

By "**common resources**" I mean resources the value of which is due to society's demand for them and to public investment in them, not to the efforts of those who own them or otherwise have a right to use them. Their value includes

- the value of **land**;
- the value of **the environment's capacity to absorb pollution** and waste (including carbon emissions);
- the value of **energy** and **water** in their unextracted state;
- the value of the **radio spectrum** for communication and other purposes;
- the value of **space** - air space, road space, water space, and outer space - for travel and other purposes; and
- the value derived from creating the **public money supply**.

There are strong economic, social, environmental and ethical arguments for this wider shift in taxes and other sources of public revenue. But, again, unless a Citizen's Income is brought in, people could suffer from it who now pay little or no income tax.

**3. A third possibility**, then, is to see **Land Value Taxation as part of an even wider financial reform programme, combining the shift in sources of public revenue with a**

## radical shift in public spending.

There are powerful arguments for a major shift in public spending, just as there are for a shift in the sources of public revenue. It should be a shift:

- **away from paying out perverse subsidies** which now encourage economically, socially and environmentally damaging activities to the tune of over \$2 trillion worldwide
- **to providing a Citizen's Income** to all citizens.

This is desirable for many reasons. Among others, it would help to deal with the problem of Land Value Taxation for people on low incomes.

### The Citizen's Income

- will replace state pensions, child allowances and many other existing social benefits, tax allowances, tax reliefs and tax credits.
- It will recognise that all citizens should directly enjoy at least some of the public revenue raised by a democratic government from the value of common resources. Not only the rich should enjoy free lunches.

Politicians and government officials now channel huge sums of public revenue into public service organisations and contracts and subsidies to private sector business and finance to provide public services. Much of that public money could be distributed directly to citizens to spend for themselves.

**4.** In that context, we need to recognise that **the market economy will become more responsive to the important needs of citizens and society**, as prices convey a different set of incentives following the proposed shifts in money creation, public revenue and public spending. In other words, the proposed combination of monetary, public revenue and public spending reforms will help to **turn the money system into a scoring system for the game of economic life, which rewards economically efficient, socially just and environmentally sustainable activities** instead of delivering perverse financial rewards and penalties as at present.

This will help to reduce the present mismatch between monetary values and widely held ethical values. The money system will then

help to solve or at least alleviate many of today's practical economic, social and environmental problems instead of being an important cause of them.

**5. What about the politics? It is possible to interpret this proposed programme of reform in a number of different ways.**

It can be seen as:

- a) a programme of **capitalist modernisation**,
- b) a programme of **socialist modernisation**,
- c) as **making the conflict between capitalism and socialism out-of-date**, or
- d) as implying **no particular political philosophy**.

(a) People of a capitalist persuasion will welcome the **greater freedom for the market economy** - with less need for detailed bureaucratic regulation and correction - as a result of making government carry out its own financial functions more intelligently than now.

(b) People of a socialist persuasion will welcome the development of the monetary and fiscal **functions of the state as powerful instruments** for directly and indirectly increasing national economic well-being.

(c) People who support neither socialism nor capitalism, but see the conflict between them as a distraction, may also welcome the proposed reform programme. This will not be because it will put either the state or the free market economy on top but because, by giving us a direct share in the value of common resources, it will allow **citizens to be less dependent on either big business or the state** for goods and services and jobs than they are now.

(d) There will be other people who are politically uninterested, and who may simply support the reforms on their own merits.

Well presented, then, the case for the wider programme of reforms, including Land Value Taxation, could attract support from people in all these groups.

## 6. A timetable for transition.

A plan of transition over a number of years will be necessary for any of the reform programmes I have mentioned. Even for introducing Land Value Taxation on its own to replace an equivalent sum of revenue from existing taxes, a firm decision by a government to proceed seriously would probably need to be followed by something like a period of **three years' intensive consultation** and refinement of detail, **and then by a ten-year period phasing in** the new tax and phasing out and reducing existing perverse taxes.<sup>1</sup> This will present a serious strategic challenge to any government.

### B. AT LOCAL LEVEL

7. Many people here today will be familiar with the wide range of local land and property taxes around the world. I just want to mention two relevant questions.

One is **how the revenue** raised in a local area from Land Value Taxation (and from taxes on the value of common resources more generally) **should be divided between local government and central government.** (The same question arises about how **national governments and global governmental organisations** should divide the revenue from taxes on the value of common resources in national and global spheres.)

The second question is about **other ways of sharing the value of local common resources.** For example,

- should a **Community Land Trust**, in which the value of land is held in trust for all its members, be free from liability to Land Value Tax? and
- should **local landowners** who invest in schemes to provide new local public infrastructure (schools, hospitals, roads, rail-links, etc) be exempt from land value tax on properties which increase in value as a result of the schemes?

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<sup>1</sup> In "Benefits and Taxes: A Radical Strategy", New Economics Foundation, 1994, I set out a detailed possible scheme for a year-by-year phasing in of a Citizen's Income (basic income) over a ten-year period, combined with phasing in a year-by-year shift to taxes on land values and energy instead of taxes on incomes, profits and value added. The money numbers in the paper are now out of date. But, as people become aware of the practical economic, ethical and political arguments for reforms on these lines they may find the paper's approach helpful. It can be downloaded from

<http://www.jamesrobertson.com/toes-nef.htm>

In short, when there are conflicts between taxing the value of common resources and other ways of sharing their asset value, how should the conflict be resolved? I shall say more later about the need for an integrated approach to issues of this kind.

### **C. AT WORLD LEVEL**

**8. Democratic institutions of world monetary and financial governance are seriously underdeveloped - inefficient, unjust and unsustainable. Their further development should be based on sharing the value of common resources more fairly, on similar lines to those proposed for nations.**

**Taxation.** Over ten years ago the Independent International Commission on Global Governance recognised the need for global taxation "to service the needs of the global neighbourhood". It proposed making nations pay for profiting from global commons.

This would involve:

- taxing activities like ocean fishing and sea-bed mining, and the use of sea lanes, flight lanes, outer space, and the electromagnetic spectrum; and
- taxing activities that pollute and damage the global environment, or cause hazards beyond national boundaries, such as carbon emissions, oil spills, and dumping wastes at sea.

**Monetary Reform.** The Commission on Global Governance also recognised the urgent need for international monetary reform in a globalised world economy. Since then, opposition has been growing to the present 'dollar hegemony' of the United States.

For using the dollar as the main global currency, the rest of the world is paying the US at least \$400bn a year. Some see the invasion of Iraq and current hostility to Iran as US responses to threats by those countries to sell their oil internationally for euros instead of dollars.

A genuine international currency, issued by a world monetary authority, is clearly needed as an alternative to the US dollar and other 'reserve currencies' like the yen, euro and pound - soon to be joined, no doubt, by Russia's oil rouble and the Chinese yuan

(otherwise known as "renmimbi"- people's currency - or RMB). Issuing a genuinely international currency would provide a source of revenue to the world community, in the same way as national monetary reform would provide a source of public revenue for nations.

**Public Spending.** Revenue from global taxes and global money creation would provide stable sources of finance for global public spending by organisations like the United Nations, including international peace-keeping programmes. Some of it could be distributed per capita to national governments, reflecting the right of every person in the world to a global 'Citizen's Income' as a share in the value of global resources.

These developments in public revenue, monetary management and public spending at global level would have many desirable effects.

- They would encourage environmentally sustainable development worldwide;
- They would generate much needed sources of revenue for the UN;
- They would provide substantial financial transfers to developing countries by right and without strings, as compensation for rich countries' disproportionate use of world resources;
- They would help to liberate developing countries from dependence on grants and loans from institutions like the World Bank and International Monetary Fund, dominated by the rich countries;
- They would offer a permanent way of reducing Third World debt;
- They would recognise the shared status of all people as citizens of the world; and
- By helping to reduce the sense of injustice in a globalised world, they would contribute to global security.

#### ***D. EFFECTS OF THIS NEW GLOBAL SYSTEM AND THE NEED FOR AN INTEGRATED APPROACH***

**9. The changes I have outlined will help to create a new direction of economic development - internationally, nationally and locally.**

- They will shift incentives:  
to creating well-being for people and the Earth;



to enabling people to develop their capabilities, rather than reinforcing their dependency; and

to conserving the Earth, rather than transforming its resources as rapidly as possible into money.

- They will help a multi-level one-world economic order to evolve, with more democratic structures of governance at every level.
- The fairer sharing of the value of common resources will help to decentralise power and wealth, by giving a better deal to people in their own places and by requiring rich and powerful people and corporations and nations to bear their full share of the environmental and social costs of centralisation.
- The reconstructed monetary and financial system will automatically help to harness self-interest to common interest within and between nations.

## 10 Which Way Forward?

### Muddling Along or an Integrated Approach?

I mentioned (6 above) the need to work out how Land Value Taxation would interact with

- Community Land Trusts and
- private sector financing of public investment schemes out of the higher land values it creates.

Similar questions arise about environmental taxes.

- For example, how will environmental taxes and environmental trusts, such as the proposed Sky Trust<sup>2</sup> interact with one another, and
- how will energy taxation fit together with schemes for rationing and trading carbon emissions?<sup>3</sup>

Comparable questions affect proposals for monetary reform too. At present commercial banks create almost all new money (except banknotes and coins) as profit-making loans to their customers. The simple, easily understood and obviously sensible reform is that

- this should be outlawed; and

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<sup>2</sup> For details see <http://www.uskytrust.org/whatis.html>

<sup>3</sup> See "Fairer Distribution of Common Resources: the pros and cons of carbon trading" <http://www.jamesrobertson.com/news-apr06.htm#carbon>

- the central monetary authority (central bank) should accept direct responsibility for creating all new official-currency money (i.e. dollars, euros, pounds, etc). It should create the new money debt-free and give it to the government to spend into circulation along with other public revenue like taxes.

However, a number of more limited proposals are also canvassed, allowing commercial banks to continue to create the greater proportion of new money, while requiring the central bank to create the remainder as interest-free loans for forms of investment decided to be specially desirable. Because no clear and simple principle, such as treating the value of common resources as a source of public revenue, supports these alternative proposals, they risk confusing the issue in people's minds. If adopted, they would make the workings of the money system even more incomprehensible than it already is.

So we are confronted with a choice. Is it better to proceed by way of an Integrated and Systematic approach to reform, covering money supply management, public revenue collection and public spending, based on a clearly understandable political and economic philosophy? or should we settle for Piecemeal Muddling Along?

An Integrated and Systematic approach, clearly explained as a practical path towards a more efficient, socially just and environmentally sustainable economic order, will be comparatively easy for people to understand. When understood, it is likely to inspire strong support, but also powerful opposition from vested interests.

Piecemeal Muddling Along, introducing bits and pieces of land value capture and other reforms, would perhaps provoke weaker opposition. As carbon trading schemes have demonstrated, vested interests can actually profit from them, resulting in polluters not paying but actually getting paid! So Piecemeal Muddling Along is likely to attract not just weaker opposition but weaker support too. It would tend to obscure and perhaps discredit the vision of a better future based on a clear and simple principle. When what is needed already is radical simplification, Piecemeal Muddling Along would make it even more difficult for people to try to make sense of the ever-spreading labyrinth of existing fiscal and monetary policies.

Already, the present arrangements for taxation and collecting public revenue, managing public spending, and providing and managing

the money supply, are reminiscent of the description of British government a hundred years ago by the noted reformer of the time, Sir Robert Morant. He said it was

"as though a man had been seeking to build a substantial house by working spasmodically on odd portions of the structure on quite isolated plans, fashioning minute details of some upper parts, when he has not set up, nor indeed even planned out, the substructure which is their sole possible foundation and stay: his very best efforts being thus necessarily rendered abortive by the fact that, while he is hammering at this portion of it or that, he possesses no clearly thought-out plan of the structure as a whole".

"Plus ça change", observers of British government today may say! But in promoting Land Value Taxation we have an opportunity to make things better. We must at least try not to make matters worse.

## **E. SUMMING UP**

**11.** In this paper I have suggested that we should see the future of Land Value Taxation as an integral part of

- (1) a system of public revenue, public spending and money supply,
- (2) evolving as elements of a scoring system
- (3) which will make the game of economic life economically more efficient, socially more just, and environmentally more sustainable,
- (4) at every level – local, national and global.

It will involve

- (5) the democratic national state - and its counterparts at local and global levels - performing their monetary and financial functions more purposefully and effectively than now, with effects that will
- (6) allow the market economy to operate more freely,
- (7) enable people to liberate themselves from their present degree of dependence on goods and services and jobs provided by big corporations and the state, and
- (8) reward people and organisations for acting in ways that conserve natural resources.

It will also

(9) mark a new stage in the evolution of international political economy and institutions.

This system will be based at every level on

(10) the simple principle that the value of "common resources" will be fairly shared among all, meaning that

(11) people, organisations and countries will pay for the value of the "common resources" they take and keep or otherwise profit from (instead of being taxed on the rewards they get from contributing to the "common wealth"), and

(12) the resulting fund will be fairly shared by all, being distributed either as direct payments to citizens of localities, nations and the world, or as public spending to provide them with public services.

## **F. CONCLUSION**

I hope that one of the outcomes of this conference will be to promote understanding, not only of the case for Land Value Taxation on its own merits, but also of its importance as a potential element in

- an evolving new worldwide political economy and
- a reorientated money system,
- based on fairer sharing of the value of common resources
- at national, local and global levels.

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