

*'This is the fundamental reason ... why the welfare state of the past 60 years has not worked'*  
The Guardian

# RICARDO'S LAW

## Why Tony Blair's Project Failed

### House Prices and the Great Tax Clawback Scam

Fred Harrison

*'There is a sense in which all taxes are antagonistic to enterprise – yet we need taxes ... so the question is, which are the least bad taxes? In my opinion, the least bad tax is the property tax on the unimproved value of land'*  
Milton Friedman

New Labour came to power on a wave of enthusiasm, based on the belief that, by abandoning Clause 4 and embracing humane market economics, they could usher in a more equitable social order - Blair's 'Third Way'.

There have been some improvements, but the price has been a big increase in the tax burden, much of it introduced by 'stealth taxes' - and it is debatable whether the increase has given value for money. Despite this, the gap between rich and poor has widened. Why is this?

In *Ricardo's Law* Harrison sets out to explain. The reason is the *method* used by governments of all political parties over the last two hundred years to raise government revenue – taxation. Government needs to be paid for, as Friedman recognised, but historically they have not always been funded out of taxation nor is it the only way in which governments can be funded.

Harrison shows how 'progressive taxation', which seems fair as the wealthier pay a higher rate to help provide more services for the poor, is turned on its head by the housing market. With rising prices, it is the owners of expensive properties who benefit most – a 10% increase on a £1million house is £100,000, but only £10,000 on a £100,000 house – and those not on the housing ladder gain nothing and have to pay increasing rents. So a 'progressive tax' regime confers an unearned income on the asset rich, without resorting to tax avoidance.

What fuels rising house prices? Ironically, Harrison explains, it is the taxes we pay, both nationally and locally, to provide services like hospitals, schools, roads, railways etc. However, the benefits are not shared uniformly across the country - the greatest benefit is reaped by those living in areas with good amenities. Market forces automatically translate these advantages into the higher house prices, favouring those already on the property ladder, thus widening the gap between the rich and poor.

The solution, Harrison argues, is to apply the Law of Rent, also known as Ricardo's Law, named after the economist who provided the first scientific explanation of how it works.

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# Prologue

## Civil War by Other Means

WESTERN civilisation has reached a point of crisis where we can no longer afford to accept the persistent failures of public policy. *Ricardo's Law* attempts to explain how the power of the state needs to be reconstituted.

The crisis is rooted in the evolution of a social organisation that deprived people of their primary birthright. In the 20th century, working people thought they had taken control of the state through the ballot box, and could compensate themselves for their losses. But the Welfare State fell short of what was possible because of the tools that were employed. The gains in material standards of living were far less than might have been achieved; and they were not distributed on the basis of just deserts. The tools employed – progressive taxes – could not deliver either justice or efficiency. As a result, the West is vulnerable because it cannot respond adequately to the economic challenge from the East.

Democratic politics failed to solve problems which were within its technical capacity to consign to history. Homelessness and unaffordable housing, for example, are absurdities, given the industrial economy's capacity to construct enough houses to meet demand. Yet we have patently failed to eradicate the problems that blight people's lives. The will existed, and it is not a problem of power: the state exercises sovereign authority, and its ability to use force is not contested, at least not in the realm of public policy. The persistence of failure can have one explanation only. It is structural: built into society's DNA – the laws and institutions that are the framework of our communities.

In the past, the West was able to recover from major catastrophes such as world wars. What is significant about the challenges of the 21st century that make the continuation of failure not the option that it once was? The West was able to recover from its previous breakdowns because of its command over global markets. It was able to buy or bully its way back to apparent prosperity. This time, neo-colonial strategies that worked in Africa and South America will not come to the rescue. So if Europe and North America are to survive as more than client consumer markets,

a culture shift is imperative. Otherwise, large segments of these regions risk becoming appendages to the new centres of industrial power in India and China, with a few islands of prosperity to compensate, such as South-East England, the north-eastern states of America and a few metropolises in central Europe.

Time is not on the West's side. In its quest for prosperity, China is a predator that is brusquely pushing aside those who once dominated the world's economy. Just how impatient it is was illustrated by Shen Wenrong. He started life as a peasant farmer. In 2001, he purchased the mighty Ruhr-based ThyssenKrupp steel mill from Germany for its scrap price (\$24m). Within a year, 250,000 tonnes of equipment were dismantled in double-quick time by 1,000 Chinese workers and the crates shipped to the Yangtze delta. The mill was reconstructed at a cost of 60% of a new plant. Now, cars designed in Germany may be manufactured with high-quality steel derived from German technology – but the car makers must buy that steel from furnaces on the other side of the world. Ten thousand German steelworkers lost their jobs.<sup>1</sup>

The fate of millions of families rests on how the West confronts such challenges. We must avoid the panic that would open the door to protectionism in the name of patriotism. The new globalisation affords opportunities for everyone. No one need lose, *provided the correct reforms are adopted*. To achieve their new status as a global economic (and therefore military) power, the communists had to dismantle their planned economy. That entailed a painful shift in the mind-set of both the people and their Politburo leaders in Beijing. A culture shift of similar proportions – and equally revolutionary in its outcomes – is now required by the peoples of Europe and North America.

The transformation need not be violent, but the mindset that shaped Western civilisation will be disturbed. Lest the reader be alarmed by this prognosis, I should stress that the one essential reform which I propose – to the tax system – is based on a principle to which we routinely adhere in our everyday lives. The institutional crises that have disgraced European civilisation for 500 years persist because of the deviation from this principle by our form of governance. The amendment to taxation which I elaborate in Part IV would deliver significant financial gains on a scale sufficient to enable society to compensate anyone who was deemed to lose under the new arrangements.

In Britain, for example, we can expect the reforms to deliver an increase in national income which, over the first 10 years, would amount to an additional £240bn. In the US, the short-term gains from the reform could increase average post-tax earnings per worker by about \$4,000. Within 10 years, those earnings would be higher by an average of \$7,000, rising to an additional \$10,000 per year. These sums give us a sense of the losses we suffer under the current tax regime.

These are conservatively estimated gains, but they are appreciable and sustainable. Nonetheless, we can expect strong resistance to reform from interests that originated with the corruption of politics. That corruption needs to be confronted, for it continues to corrode communities that placed their faith in the state. That faith was misplaced. I shall show that our socially significant problems originated with the nation state. The political classes, whose hands are on the instruments of state power, are complicit. Politicians, of course, will not admit their role in the impoverishment of people's lives. The pressures that muzzle them are powerful. But by their silence and inactivity, governments in which we repose our welfare are unable to help us to face the profound challenges wrought by the next phase of globalisation.

The state needs to be reformed, literally from the ground up. The knowledge we need to execute this project has long been available, but I will show that governments are unwilling to share that information with their electorates. Thus, if we do not wish to become a Chinese takeaway society, we have no choice but to indict the state. This book provides the evidence to enable voters in democracies to sit in judgement in the court of public opinion.

The historical context is the Enlightenment and the values and institutions that subsequently emerged and are now fossilised in our system of taxation. Poverty and exploitation were embedded in the foundations of the absolute monarchies of Europe, aspects of which survived in their most pronounced forms in the Anglo-American model of property rights and public finance. There could be no justification for the continued reproduction of mass deprivation. With the concession of universal suffrage, the people held their destinies in their own hands. Didn't they?

No, they did not. Although they tried (in the first decade of the 20th century), they were not able to restore the birthright that was removed from them during the formative stages of the modern state. So we find ourselves in the grotesque situation in which people are now co-opted into sanctioning their own impoverishment.

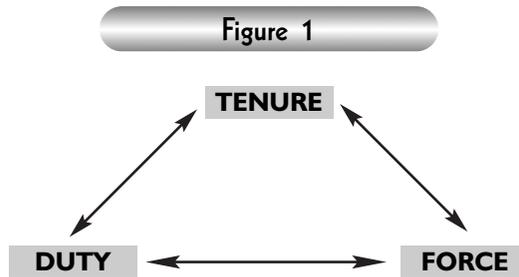
We need a starting point for our analysis. This is provided by what historian J.G.A. Pocock describes as 'a moment of historical exhaustion and opportunity'.<sup>2</sup> He was referring to the collapse of the state in England in the 1630s, but his description captures the condition of the West today. There is both exhaustion (of governance) and opportunity (in economics and in the formation of culture).

Pocock drew attention to the work of political philosopher James Harrington (1611-1677). Previous social ruptures inspired philosophers to wrestle with the problems in terms of utopianism: Plato in the ancient world, Thomas More (with his *Utopia* [1516]) and Sir Francis Bacon (in *New Atlantis* [1624]). These writers visualised ideal communities created anew on fictional islands set apart from the society that was corrupted.

Harrington was not in the business of utopianism. *The Commonwealth of Oceana* (1656) employed little fiction. His was a hard-headed attempt to prescribe the terms for a constitutional settlement for England. Neither he nor those who had taken up arms against the king wanted to abandon the monarchy in favour of republicanism. Civil war and regicide came about because the state no longer had the resources to discharge its obligations. That episode, a breakdown of power, is pregnant with lessons for us today.

Why did the state lose control over its territory, and what was the basis for restoring order? Harrington offered a fundamental analysis of the nature of power. That is why *Oceana* and his other writings are important – not because his programme for a republic helped to shape the constitution of the USA.<sup>3</sup>

Harrington saw that power – as defined by the possession of arms – flowed to those who controlled land. He described a triadic relationship in which land tenure entailed duties to the community which legitimised (but put conditions on the exercise of) the use of force (see Figure 1). Anyone holding land had a duty to both protect the territory from external aggression and serve the community (for example, by defraying the costs of enforcing law and order). In a ‘balanced’ society, those who held land would acknowledge the public duties that went with its possession. The ability of society to enforce those responsibilities, however, depended on whether land was concentrated in the hands of the few, or diffused among the people.



By the time of Charles I, the English state had lost control over its space. The state was divided against itself because the land had been alienated in a way that subverted the social interest. Land – more precisely, the income from land – was being privatised. This meant that the duties traditionally attached to the possession of land were not being fulfilled. Now, the gentry, a new landowning class in the counties, exercised power without responsibility. The reciprocal of this was a state that exercised responsibility with diminishing power. This was a recipe for disaster.

And so the ‘commoners’ of the House of Commons came into conflict with the royalists (the peers in the House of Lords) in civil war. This outcome became unavoidable once the state had begun to subvert the material basis of its authority. In plain English, this is what was happening: the land rents that had previously funded the state’s functions were being drained away by the new landowners. The outcome was civil anarchy.

The UK is still living with the legacy of that anarchy. The settlement which led to the restoration of the Stuart dynasty failed to remove the causes that led to civil war. Today, that civil war is perpetuated by other means; but those means are every bit as violent as when Cromwell’s army pitted Englishmen against Englishmen and sacked towns in Ireland.

*Ricardo’s Law* is not intended as a work of historical detection. But because our analysis has to be fundamental, we have no choice but to reopen – for those who are interested in pursuing a mystery – the case of why the English resorted to regicide. I will explain that they were driven to it by the failure of the state to balance everyone’s interests in a fair and efficient way, and that this is the problem that confronts us today. To disentangle the interlocking pieces, I assemble the evidence so that the reader may reflect on four indictments. These need to be tested against our everyday experiences. For if people are now obliged to take direct control of the future, they first need to know where to point the accusing finger.

We can summarise the choices in terms of the two theories of the state that continue to engage the Western mind. The first is associated with Thomas Hobbes (1588-1679). He argued that people had to surrender part of their liberties to an all-powerful sovereign, *The Leviathan* (1651). In this social contract, the individual negotiated protection for himself and his property. The other version of the social contract treats the individual as sovereign. This theory of the state (championed by philosophers like John Stuart Mill [1806-1873]), does not yield sovereignty to the state; but, rather, grants power to the state in return for protection of one’s personal liberties.

The second version is associated with the concept of democracy. But the democratic project of the 20th century fell far short of its promise. Much work remains for those who claim to *think* about these issues, let alone for those who claim to represent people in places like Westminster and Washington’s Capitol Hill. All too often, academic philosophers are less than helpful because, while they stress the sanctity of the individual (as in their discourses on human rights), they fail to offer a sufficient definition of the relationship between a person’s private space, and the public space now staked out by the state.<sup>4</sup> The issues appear to be complex. We need to lay the foundations for a deeper understanding of how the present system operates before we can renegotiate the terms of the interface between the public space and the private space.

To produce evidence in sufficient authoritative detail, we need to interrogate a single case. I have chosen the United Kingdom, for three reasons. I have already alluded to the first one: the UK, in common with the USA and the rest of Europe, is locked into 'a moment of historical exhaustion and opportunity'. If we wish to avoid the embrace of a new Lord Protector – few people would want to yield democracy for another Oliver Cromwell – we need to relearn the terms of the balanced society.

Secondly, the people of England failed Harrington's challenge in 1660 when they accepted the soft option of inviting Charles II to occupy the throne. That debate, on the terms of the post-civil-war settlement of 350 years ago, was reopened in the context of President George W. Bush's 'war on terrorism'. In response to terrorism on the streets of London, new laws that would qualify the liberties of the individual were proposed by the Blair government in the name of security. The rule of law does have to be re-established in the UK; but on what basis?<sup>5</sup>

And, thirdly, the UK is held up as an exemplar to other members of the European Union. Over the course of his three administrations, Tony Blair and his Chancellor of the Exchequer, Gordon Brown, have portrayed Britain as the role model for the continental countries. They have repeatedly insisted that the UK was superior to Germany and France in economics. Furthermore, they have argued that those two countries ought to emulate aspects of the American economy, and especially its labour market.<sup>6</sup>

Despite the eulogies on its behalf, however, the UK is embarrassed by a growing gap between the rich and the poor, both at the inter-personal and the regional levels. A comparison of the 30 member countries of the Organisation for Economic Co-operation and Development (OECD) reveals that, between 1996 and 2001, only Turkey had a bigger spread of growth rates between the strongest and weakest regions.<sup>7</sup> The United Kingdom is a nation disunited; as such, it affords lessons for others. If the Anglo-American version of capitalism is so good that it should be emulated, why – comparatively speaking – is its performance unacceptable to millions of people at the level of the street?

If we wish to inform the public on the choices that confront us all, we cannot retreat to the safety of allegorical island communities. We have to ask the hard questions.

- After the regicide of Charles I, why was Parliament not able to represent the interests of all citizens? Who gained from the termination of the republic? Who had the most to gain from the Restoration?
- Why was it necessary to resort to the fictions of an 'unwritten' constitution? What had to be covered up? Who gained by not leaving a paper trail?

- Did the anarchy of the mid-17th century carry over as institutionalised deception against the people in general? If so, what form did this legalised violence take? Is it operating to this day? If so, what can be done about it?
- Is Western democracy sufficiently mature for these questions to be comprehensively explored? Have people reached the point at which they feel motivated to restore their birthrights?

Armed with the economic concepts provided in Part I, readers will be equipped to interrogate evidence from the other OECD countries. We apply these concepts in Part II, which is a forensic examination of the United Kingdom. I review the American model in Part III. The fundamental remedy, which I believe would strengthen all nations through the spirit of co-operation, enhanced prosperity, political security and personal liberty, is explored in Part IV.

The price of failure does not bear thinking about.

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- 1 James Kyngé, *China Shakes the World: the Rise of a Hungry Nation*, London: Weidenfeld & Nicolson, 2006.
- 2 James Harrington, *The Commonwealth of Oceana and A System of Politics* (J.G.A. Pocock, ed), Cambridge: Cambridge University Press, 1992, p.xvii.
- 3 Barbara Goodwin and Keith Taylor, *The Politics of Utopia*, London: Hutchinson, 1982, p.43.
- 4 Karma Nabulsi, 'Don't sign up to this upside down Hobbesian contract', *The Guardian*, March 3, 2006), addresses the competing visions of the social contract in terms of the Blair/Bush doctrine of the state and its legislative responses to terrorism. Ms Nabulsi, a politics fellow at the University of Oxford, opposed the policies of the Bush and Blair administrations and argued for the need to 'cede the public space back to its owners', without explaining what that notion of 'public space' entails. The failures of political discourse stem primarily from this failure of philosophy.
- 5 Among those opposing Tony Blair's anti-terrorist laws was the Earl of Onslow. The peer reminded the Conservative Party that 'From our beginnings in the Restoration Parliament as defenders of church and king, we have seen ancient liberties as the key to the advancement of our fellow citizens ... From the Stuart kings to the modern, mass-political democracy, our great party has defended our constitution and benefited our country' in 'An open letter to the Conservative leader', *The Observer*, April 23, 2006. For Tony Blair's defence of his legislation – which he deemed necessary because the state's 'traditional processes ... are leaving the innocent unprotected and the guilty unpunished' – see the exchange of e-mails between the Prime Minister and Henry Porter in 'Britain's Liberties', *The Observer*, April 23, 2006, pp.20-2.
- 6 To oppose the Blairite vision of their future, German and French employees staged public protests in 2005 and 2006.

In France, university students provoked tear-gas responses from the security forces as they called for strikes to protect their version of social democracy. According to one reporter, 'it is clear that the current situation is the latest expression of the growing revolt against the authoritarian market society France has become and the elite that wishes to take the Thatcherite project further' (Naima Bouteldja, 'Fearful of exploitation', *The*

*Guardian*, March 22, 2003). The mass protests in the streets by trades unionists and students forced President Jacques Chirac to sue for a negotiated peace; one that would shy away from the 'neoliberal' model that the French associate with the UK.

- 7 Chris Giles, 'Forgotten Britain: how Labour has presided over a deepening divide', *Financial Times*, March 20, 2006.

## Four Indictments

I DO NOT allege a conspiracy against the people. I wish it were that simple. Conspiracies are conscious, covertly perpetrated actions by identifiable individuals in particular times and places. They can be penetrated, exposed and destroyed.

I allege something far more problematic. A social process exists that now survives by co-opting people into exploiting themselves. This makes the challenges of the 21st century – lopsided demographics, the shortfall in money for the retirement years, vulnerable immigrant communities, the exodus of high-value jobs to China and India – all the more difficult to surmount.

The nation state is central to this process, so it is part of the problem rather than the solution. We can assert this on the basis of a 200-year record. The state has presided over many persistent problems, some of which, in the 20th century at least, it did try to eradicate from the social landscape; but failed.

The primary obstacles to reform are not associated with private enterprise. The persistent shortfalls in (say) housing are not due to the unwillingness of the construction industry to equate supply with demand. Nor (for most people) is unemployment a voluntary state of deprivation. And people do not wilfully deprive themselves of adequate incomes for their retirement years.

These and other challenges are built into the foundations of the Western form of social organisation. They can be corrected by modifying a few of the buttresses that support the system. The remedial policies have always been available, but they have been resisted because, ultimately, the state as an institution is corrupt. So before we can develop a template for reform, we must define and document that corruption; and identify the agents who perpetuate the rules and practises that deprive people of their natural rights.

We will adopt the definition of the state offered by German sociologist Max Weber (1864-1920), who specified it as the institution which claimed to exercise a monopoly of legitimate force within a territory.<sup>1</sup> To select and test the evidence, we also need a definition of corruption as it can be applied to the state. We will employ the one offered by Joel Hurstfield. As

a professor of English history in the University of London he specialised in the diagnosis of corruption in early modern England.

If we assume that the object of the state is the welfare of all its members, we may define corruption as the subversion of that object for other ends.<sup>2</sup>

To make the case that the state is not fit to help people to deal with the unique challenges of the third millennium, we have to show that

- a socially significant section of the community is routinely excluded from the benefits that accrue under the aegis of the state;
- personal aspirations are thwarted as a direct result of policies wilfully employed by the state; and
- 'other ends' – and especially the distribution of benefits because of privileged treatment by the state – result from discrimination against some to the advantage of others.

If we prove this case, we reopen political questions that people thought were resolved. If there is sufficient evidence for our charge, for example, the proposition that we are all equal before the law is a travesty of the facts.

One of our working assumptions is that everyone is equal. What do we mean by equality? The concept is traditionally related to opportunity, or to outcomes. A further use is that of equality of process, which refers to treating people in the same way. These are narrow definitions, and each has its problems. We shall adopt the definition proposed by the panel that was established at Tony Blair's behest to examine inequality in Britain. This stresses *capabilities*, which concentrates on what people are able to do or be in their lives. The Equalities Review panel wrote:

[T]he first priority for action by all must be to ensure that every member of society has certain basic provisions and capabilities without which they cannot truly achieve any meaningful measure of equality. Without a basic level of income, shelter, education, cultural competence and social participation, to talk of people having equal life chances would be futile.<sup>3</sup>

Everyone should reach the 'capability threshold. This is a basic minimum set of capabilities which everyone has to possess in order to play a proper, autonomous part in society at all'.<sup>4</sup> This definition sets the benchmark without predetermining the rules by which a person's 'capabilities' are to be achieved.

As humans, we aspire to more than biological survival. Once our

material needs are fulfilled, we seek contentment through cultural and recreational activity. Physical health and psychological well-being are intimately related. A fissure in the economic system, if it is sanctioned by law, may be the root cause of the social divide that leads to the breakdown in people's biological and mental welfare. Our investigation examines the evidence in terms of the wholeness of people.

We are not isolated individuals, but social creatures that *need* to live in wholesome communities. The advantage of the 'capabilities' approach is the comprehensive recognition of an individual's personality and the social context within which personality may evolve. As such, it necessarily encompasses an audit of the role of the state and its agencies, which are of paramount influence in determining whether an individual is enjoying the freedom to flourish.

Thus, we want to know who, or what, is responsible for the fact that the life expectancy of those in the higher classes is increasing faster than for people in the lowest classes. The latter are not congenitally incapable of living longer than they now do. The class difference cannot be attributed to personal proclivities. The Welfare State has had more than 60 years to erase class differences. Why has it failed? Is the state conniving against the lifestyles of millions of its citizens in a way that was never sanctioned by the democratic will of the people?

## Indictment I

### The state is derelict in its duty to citizens

THE STATE derives its legitimacy from its ability to provide people with territorial security. This is its primary role, and it does seek to fulfil that military obligation. But the funding policy by which it does so – raising revenue to equip the army, navy and air force – abuses the welfare of the people who live on the territory. In providing for physical safety, the state undermines people's natural rights.

My analysis is not based on that of the Marxist or of the anarchist who wishes to see the withering away of the state. I accept the state (though not necessarily in its present form) as necessary to enforce laws through institutions that secure our liberties. I allege, however, that the state as we now know it is incapable of serving that purpose. The state abuses people's rights because its power is corrupt.

I do not side with those who claim that power, *per se*, is corrupting. Power is pure when it is consonant with justice. I allege that the state is continuously corrupting its power because of the tools that it employs – the tools of taxation – to establish that power in the first place. A *prima facie* case may be established in the following way.

In addition to defence, the state is also required to maintain law and order within the territory. This requires the provision of a police force and courts of law which have to be maintained out of public funds. From where is the money to come? The existence of these state-provided services adds value to society: in a lawless society, productivity is much lower because (for example) people would not be willing to risk their savings by investing in such a territory. Now, if it *is* the case that the state makes a direct contribution to increasing the nation's income, that added value is the legitimate source of its revenue.

Take the case of transportation. A police force does not just march on its belly any more than does an army; it also marches on roads. Even if those roads were funded out of private resources, their provision has to be facilitated through parliamentary institutions and courts of law. In providing these services, the state engages in activities which add value to the wealth of the nation. That value is sufficient to pay for the defence of the realm and the enforcement of law and order.

We shall explain how this added value crystallises in the land market, where it may be measured and collected to pay for the capital investment in services that people choose to share in common. This value is technically called the *economic rent* of land. One of Britain's most distinguished economists, Alfred Marshall, perceived that, for the sake of clarity in public policy, that value should be characterised as the 'annual public value of the land'.<sup>5</sup> But this is where the crisis begins. *The state fails to collect that public value.* It permits a privileged class of people to appropriate it. This privilege sets them apart from the rest of us. *The state, by its dereliction, disunites the kingdom. We are not equals before the law of the land.*

This dereliction of its financial duty is our primary reason for contesting the legitimacy of the state's use of force. How, if it abandons its claim to the public value which it helps to create in association with citizens, can it fund the military, the police and the law courts? It does so by coercively capturing people's earnings. This is an abuse of the right of the individual to earn a living and save out of that income to meet personal needs all the way through to retirement. The outcome is the redistribution of income from the poor to the privileged (Chapter 1). The Welfare State has perfected the art of abusive taxation. By this means, it undermines itself by its perverse policies. Instead of collecting the revenue which it creates, it hands that public value to others – and then victimises the losers by taxing their earnings. Some scholars claim the concept of the state is complex and elusive (others deny that it even exists).<sup>6</sup> But for lay people there is nothing elusive about the way money is forcibly removed from their pay packets!

We need a name for the way some people manipulate the perverse power of the state to arrogate these privileges unto themselves. Economists call

it ‘rent-seeking’. By manipulating laws and regulatory power, the liberties of some are circumscribed for the benefit of others. Our investigation will focus sharply on the historically most serious of all cases of rent-seeking. We are not concerned with personal corruption (such as the willingness of a law-maker or a civil servant to accept bribes). We are concerned with the rules that systematise the exploitation of people. The most grievous abuse occurs when the state sanctions the mal-distribution of the money that people pay for access to the amenities we share in common. This cannot be justified on grounds of either economic efficiency or justice.

## Indictment II

### **Parliament has failed to use its democratic mandate to remedy the injustices of the Tax State**

IT WOULD be too easy to direct our accusations exclusively at an impersonal institution called ‘the state’. But that monolithic institution is administered by people and agencies. So it is incumbent on us to name names, if our proposals for substantive reform of taxation are to be credible and receive public support. Therefore, we have to determine the role of the law-making institution in the abuse of the people.

To plumb the depths of institutionalised abuse, we need to recall the historical context in which corruption was ingrained into politics. Hurstfield notes that

a relatively narrow social and political group of *élite*, at the centre of government and in the counties ... controlled patronage and advancement. And, as Parliament grew increasingly important, these men sought also to control elections, by persuasion, force and fraud in the 16th and 17th centuries, and by the familiar process of bribery of voters in the 18th. This too was corruption.<sup>7</sup>

These practices were designed to enshrine in law the fiscal folly that characterises the modern state. The corrupted feudal aristocracy embedded its selfish interests in the laws of the land and thereby polluted the political process that evolved into democracy. The corruption of the nation’s finances was not ameliorated by the reforms that culminated in universal franchise. The outcome is a state with divided loyalties. It now claims to represent the welfare of all citizens, but it protects the rent-seeking interests of a privileged group.

The state is administered by politicians who are not self-serving individuals. The majority of them are sincerely intent on serving those who elect them to office. As a class, however, they betray the people. By their subservience to the prejudices inherited from the past, they are

responsible for the abuse – inflicted day by painful day, like a never ending Chinese torture – of people who trust them with their care.

The formal event that expresses that betrayal is the annual endorsement of the nation's budget. We shall expose the complexion of the state by assessing the character of budgetary policies. We shall see that the state *cannot* serve the public's interest. Its taxes *reduce* the welfare of the nation while raising the value of the wealth of a privileged minority. This outcome is an affront to the principle of equal treatment under the law.

The aristocracy and gentry hijacked Parliament and promoted doctrines that justified the laws that served their private interests. But the hijackers had to go further if they were to consolidate their privileges. The land magnates, reinforced by their lawyers and placemen in Parliament, shaped the public's consciousness with notions that served as bulwarks to their financial interests. This was necessary if they were to be relieved of running battles every year over the contents of the public purse. People had to be made to view the world through *their* eyes, to serve *their* interests. The people's view of the state had to be coloured against *their* best interests.

Is this pushing our accusations too far? Joel Hurstfield, who studied state-sponsored propaganda through the official histories, warned:

We should never forget that, until comparatively recent times, the historian was the servant of the state who testified to its greatness, and this is still true in many places in the world.<sup>8</sup>

The foundations of the state were grounded in the propagandistic manipulation of people's minds and emotions (and even their souls) through the use of religion as well as secular doctrines. As Hurstfield made clear, 'the control and creation of opinion was sought, and in some measure gained, by the government itself; that proclamations, statutes, homilies, officially sponsored pamphlets were aimed at forming and guiding opinion ... Of course the restraints were sometimes thwarted and broken, of course there was criticism in speech and print. But the power of repression in most cases could silence the voice of dissent'.<sup>9</sup> Today, the state does not rely exclusively on historians. It has added 'spin doctors' to the bureaucracy.

Our concern with history is not out of arcane curiosity. That history evolved in a way that delivered a particular set of decision-making institutions. Today, Western civilisation is at risk from a clear and present danger – largely of its own making. I allege that remedial action will remain beyond our democratic reach unless we question the legitimacy of some of the pillars that support the state. This means we have to apply our forensic tools to the most recent attempts to reshape that civilisation from within; the most determined case of which is the Third Way experiment in the United Kingdom.

 Indictment III**Tony Blair's New Labour administrations  
were constructed on a grand deception**

IT WORKED. The people were beguiled by the sparkling personality that emerged out of the backbenches of Parliament to proclaim the rebirth of the nation. Tony Blair promised that, if granted power, New Labour would restore the virility of youth to the kingdom's institutions. The general election of 1997 was a landslide victory for Blair's project.

No time was lost in betraying The People's Mandate. In 1998, Blair's finance minister, Chancellor of the Exchequer Gordon Brown, modified the tax on capital gains. This consolidated the perversities of the Tax State. The change shifted the income of the nation further in the direction of the privileged class, the one that accumulated wealth without working for it.

The Treasury's Code for Fiscal Stability (published in November 1997) illustrates the linguistic illusions conjured up by policies in the realm of finance. The code was rigged against the people who most needed the protection of the state. The language, of course, was soothing. The public's finances would be managed in a principled way; the Treasury would be transparent in handling taxpayers' money – by disclosing and quantifying all decisions that affect the nation's economic and fiscal prospects; and it promised best-practice methods in the presentation of the public's accounts.

I claim that the public was hoodwinked. The words camouflaged the denial of vital information that people needed to judge whether their government was delivering value for their money. Furthermore, the financial affairs of the taxpayers were not administered on the basis of *principles*. The horse-trading that had delivered fortunes to the privileged ones in the past continued to dictate tax policy.

This was not what Tony Blair intended. The proclamations that tumbled out of the Treasury promised to reverse the injustices of the past. But it was business as usual, with the predators leeching the public value out of the economy to serve their private interests. Instead of confronting this historic problem, Blair placed the blame for society's problems on 'problem families' in a Downing Street speech towards the end of his reign.<sup>10</sup> And he defended his legacy by provocatively challenging his critics in these terms: 'If there is a better idea, let's hear it'.<sup>11</sup>

The reader is invited to suspend judgement on my indictment – and Blair's record on his changes to the UK's laws and institutions – until all the evidence we offer has been reviewed.

## Indictment IV

### **Experts who advise government muzzle our collective consciousness**

HOW COULD the Blair government escape censure – Tony Blair led his party to victory on a record three successive occasions – when it encouraged people to hold it accountable for its actions? Dissenting voices of the kind that might have altered the course of history were not heard. But one class of people had a special responsibility to offer an impartial assessment of public policies. They were the experts who were paid handsomely by taxpayers to do so. They, too, need to be brought before the bar of public opinion.

Enormous sums of money were spent by Blair's government on consultants for advice on issues ranging from transport planning to the provision of housing. A veritable army of experts drawn from the universities, commercial consultancies and policy think-tanks was enlisted to assess current practices and identify solutions. They did not warn Blair that his government was on a course for failure.<sup>12</sup>

A tragic example concerned the decision to demolish 168,000 homes in the Midlands and the North to make way for dwellings at prices that people could afford. The Office of the Deputy Prime Minister (ODPM) paid £165m to consultants (up to the beginning of 2005) for advice which included testimony on how to go about this wrecking operation. The charity SAVE Britain's Heritage calculated that the consultancy fees could have restored 8,000 homes. The programme was doomed to failure from the start (Chapter 9). But the experts having pronounced, the local governments and state agencies that were organised into 'Pathfinder' projects, charged with driving the bulldozers, were not about to raise objections.

Importantly, once the consultants' reports have been written, the Pathfinders seem loath to question them even if they bear little relevance to the reality of the situation on the ground.<sup>13</sup>

Thus is our collective consciousness damaged. Our allegation has profound implications. We claim that the intellectual landscape has been so distorted that rational people are co-opted into abusing their welfare (see Box 1). Technically, this process is called 'socialisation'. Lay people would employ a more colourful description: brainwashing. The reader, by accompanying us on our investigation, will form his or her judgement as to whether this allegation is tenable.

## Box 1 Tyranny of the Experts

LANGUAGE and logic have been corrupted in a way that inhibits us from acting in our best interests. An example is provided by the Organisation for Economic Co-operation and Development.

After World War II, the richest nations decided to fund a think-tank to serve them. The OECD was located in Paris, and the best brains were hired. Every year, a report is issued on the state of economic health of each member country. The advice is accepted as well-intentioned, and based on a thorough compilation of all the available evidence.

In 1998, the OECD assessed the Blair government's planned reforms. These included additions to 'The new fiscal policy framework', which was supposed to guide decisions over the medium term. Blair and Brown welcomed the help they needed to deliver value-for-money governance.

What was the contribution from the OECD? It helped to shroud the mental horizons of both the government and the people. It did so by claiming that it was difficult to specify rules that would deliver the goals that could be set for tax policy. Why was it difficult? '[F]iscal policy,' it reported, included goals that embraced 'efficiency, equity and macroeconomic stability objectives.' But, unfortunately, 'Fiscal rules *cannot* embrace all these objectives...'\*

This was a false pronouncement. For more than two centuries, the fiscal rules of good governance, which would simultaneously deliver economic efficiency and stable growth for the nation, and fairness between individuals, were known to economists. These are restated and developed in Part IV below

No one false statement, issued by individuals or agencies in authority, closes our minds. But the cumulative impact of persistent falsehoods and half-truths exercises a corrosive effect because the public tends to defer to the authority of the experts. The outcome is a tyranny of the state's servants who claim to know best.

\*OECD *Economic Surveys 1998: United Kingdom*, Paris, 1998, p.47. Emphasis added.

I AM CALLING for the public – through the institutions of civil society – to initiate a debate on these four indictments. I contend that our political representatives have disqualified themselves from leading that debate on the fundamental question of our liberties. If, as Blair has attested, there is an estrangement of ‘the political and legal establishment’ from ‘the reality of people’s lives’,<sup>14</sup> the time has come for a fundamental review of the philosophy of the state itself; and for the people to take control of the debate that leads to reform.

Blair wished to take the lead with changes to the liberties of the individual as part of his programme for modernising Britain. But the changes that are needed cannot be delivered by government fiat. The breakdown in our communities has proceeded too far for a conventional law-led transformation. People themselves have to effect the changes in their homes, on the streets and in their neighbourhoods. On top of this comes the need to renegotiate the social contract that binds communities.

But how do we reconstitute our communities? On what principles do we formulate new rules and relationships? Attempts to rush such transformations led to the Terror of revolutionary France in the 18th century and the Terror of Soviet Russia in the 20th century. These events occurred because people did not understand what it would take to restore their fundamental liberties. So we begin by offering an exposition on how to think about economic issues in a way that will equip people with the tools that will enable them to address the unfinished business that began with the Enlightenment.

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