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OUR PHILOSOPHY

We believe that the Earth is the birthright of ALL MANKIND.

We recognise that for many purposes it is essential for individuals to have exclusive possession and security of tenure of land AS GIVEN BY THE EXISTING FREEHOLD SYSTEM OF LAND TENURE.

We believe that those who have exclusive possession of land should COMPENSATE SOCIETY for being excluded therefrom.

We believe that such compensation paid annually would meet the costs of Government and permit Society to abolish all taxes on LABOUR and on goods produced by labour.

"A NEW DAWN OF LIBERTY"

Address to Henry George Commemoration Dinner, Monday 2 September 1991,
by Dr. Terry Dwyer.

Tonight we celebrate the life of one of the nineteenth century's greatest men. It is fitting that we do so, for we stand now as witnesses to the end of the twentieth century. Our century has witnessed the struggle between capitalism and socialism. Now socialism, the philosophy which held half a world in thrall, lies in its death throes; the wasted years, dreams and lives since the Bolshevik Revolution of 1917 its only testimony. Well may the people of Moscow write below the statue of Karl Marx "Workers of the world, forgive me".

The last two weeks will divide our lives as no event we are likely to experience. The years seem to roll back before our eyes; the picture of Czar Nicholas is seen by us in the streets of Moscow; the city of Peter the Great honours again the saint whose faith triumphed over his failings; and Frederick the Great sleeps again in the Palace of the Hohenzollerns.

In 1891, the world faced a choice of three philosophies; unbridled capitalism, socialism and natural rights, of which Henry George was so strong an exponent. The place of private property is at the heart of the struggle between these competing economic ideologies: capitalism demands that everything be seen as private property; socialism sees everything as common property; while the natural rights theorists would say that what men make is private property but what God gives them is common property.

The natural rights theories of property and taxation have been lost sight of in the struggle between capitalism and socialism. Some are interpreting the collapse of socialism as a victory for capitalism. It is not. We cannot call our present social arrangements successful where one man in ten is thrown on the scrap heap of unemployment, where the value of the currency is still being debauched and where the average wage will not support a family at a decent standard.

Property and Taxation

Capitalism has yet to face up to the problem of property and taxation. You cannot simply say that everything should be private property.

As John Stuart Mill realized: "Nor is the function of the law in defining property itself, so simple a thing as may be supposed. It may be imagined that the law has only to declare and protect the right of everyone to what he has himself produced, or acquired by the voluntary consent, fairly obtained, of those who produced it. Is there nothing recognized as property except what has been produced? Is there not the earth itself, its forests and waters, and all other natural riches, above and below the surface? These are the inheritance of the human race, and there must be regulations for the common enjoyment of it. No function of government is less optional than the regulation of these things."

If a libertarian capitalist were to take the view that property rights are sacred and all taxation is theft, why should he argue that it should be uniform and at a flat rate? Is theft more palatable if we are equally mulcted by the state? Why should we tolerate taxation at all?

Such was the view of our forefathers who insisted that the Crown should live off its customary feudal rents, and not encroach upon the liberty of the subject through penal legislation imposing taxation. Our modern libertarian capitalists are not quite so libertarian and tend to content themselves with arguing that taxation should be at a flat, low rate. We now see in this country, carried on a tide of resentment against oppressive income taxation, a swell of support for a consumption tax — a simple tax, a tax which will cut tax rates, a tax which will restore incentive, a tax which will make us internationally competitive.

Yet a pure flat rate tax means no regard to the ability of the taxpayer to

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pay; it means that there should be no threshold, no allowances for the sick, the poor, for those supporting dependants or setting aside income for old age. Is such a tax equal? John Stuart Mill thought not and declared: "The principle . . . of equality in taxation . . . requires that a person who has no means of providing for old age, or for those in whom he is interested, except by saving from income, should have the tax remitted on all that part of his income which is really . . . applied to that purpose."²

I like simple taxes and tend to the view that the simplest tax is no tax. Perhaps Henry George made a mistake in describing himself as a Single Tax man, for his proposal to tax land values only amounts to tax abolitionism; through the reversion of land rent back through the Crown to its rightful owner, the people. Henry George was not alone in that view. John Stuart Mill and Sir John Quick shared no small part of that vision. If this state had followed Sir John Quick's suggestions for reserving land rents to the Crown, it would not now be the sick man of the Australian Commonwealth he did so much to establish. Its fortunes might be more similar to those of Hong Kong, where an early Governor followed John Stuart Mill's advice, so that even today nearly a third of the colony's revenues come from land rents helping to keep its income tax rates around 15%.

If the consumption tax is so fine a tax why are its advocates not single tax men? Why are they not advocating repeal of income tax, payroll tax, sales tax, excises, etc. in toto and their replacement by a single sovereign remedy of a consumption tax?

Consumption Tax Not Simple

I put it to you that they do not do so because they know that a consumption tax is not a simple tax, they know that it will not necessarily restore incentives and that it will not be a panacea for our social ills. More realistic advocates concede that it is no panacea and present it simply as cleaning up the indirect tax system.

So what is wrong with a consumption tax?

It has been tried and found wanting. In the eighteenth century Dr. Samuel Johnson described the consumption tax of his day, the excise, as "a hateful tax levied upon commodities". Adam Smith, the father of modern economics and a man admired by economists today, also denounced the imposition of a consumption tax upon the necessities of life. He reserved for a consump-

tion tax some of his most withering criticism, commenting "there is nothing so absurd, says Cicero, which has not sometimes been . . . asserted by some philosophers . . . the middling and superior ranks of people, if they understood their own interest, ought always to oppose all taxes upon the necessities of life, as well as all direct taxes upon the wages of labour".³

Adam Smith realized that a consumption tax is a tax on families, a tax on having children. Like John Stuart Mill he saw that, if an economic system is to continue, there was a need for a tax-free threshold so that a worker could stay alive and reproduce. He realized the degradation of the labouring classes through taxation was in no one's interests. If the labouring classes were taxed on what it cost to live and reproduce, society was headed for decay, much as the later Roman Empire. Of that empire's decline Edward Gibbon's remark that "The horrid practice, so familiar to the ancients, of exposing or murdering their new-born infants, was becoming every day more frequent in the provinces, and especially in Italy. It was the effect of distress; and the distress was principally occasioned by the intolerable burden of taxes".⁴ Today we are not so primitive and the depopulation of western societies is a fact being accomplished as efficiently as it is unremarked.

If the purpose of a consumption tax is to encourage investment, what about investment in human capital? Families raising children are investing in the nation's workforce. Why encourage the building of factories if there are not going to be consumers to buy the product or workers to run the machines? Just as physical capital has to be repaired and replaced, so a society which wants to remain productive has to invest in its existing and future workers.

It is a dubious answer to say that families can be compensated for a consumption tax by social security increases. How is incentive encouraged by telling a worker to look to the state rather than the sweat of his own brow to support his family? Should not a nation try to avoid taxing people into poverty rather than letting them support themselves? Let us not forget that William Pitt introduced the income tax in 1799 in Great Britain to escape the 18th century consumption taxes which so ground down labouring families that they became claimants for relief under the old poor law; that statesmen saw clearly the folly of taxing masses of the population into poverty.

Another argument for a consumption tax is that Australians save too little and a consumption tax is necessary to curb our consumption, especially of imported goods.

This is false. All income is either saved or spent. The coin you pay to the shopkeeper today was your wage the day before. Taxing consumption is only taxing income but with an exemption for savings, so why not exempt savings directly? You don't need a consumption tax to exempt savings from income tax! Indeed, before 1974 this country used to exempt much long-term saving, which could be invested tax-deductibly through private superannuation or life insurance policies.

Some people say that a shift from income tax to consumption tax will cut tax rates and encourage work.

Why should it? People work not for money, but for the things money can buy. Consumption is the end and purpose of production. Incentives to work depend on the net effect of all taxes and income tests, not just income tax. It matters not whether the fisc calls an exaction an income tax, a Medicare levy, a sales tax, a value added tax, a goods and services tax or any other name. It is equally a disincentive to lose another 15% of your pay packet whether you lose it before it goes into the wallet or before it goes out of your pocket later, so income tax cuts financed by a consumption tax are essentially illusory and do nothing for work incentives.

A consumption tax amounts to taxing the tax threshold, which is supposed to exempt a subsistence income. If we wish to cut higher income tax rates, we could simply put a 15% tax on the tax threshold and use the money to cut top marginal rates of tax. Why do this in a roundabout way via a consumption tax?

Some people claim that Australia relies too little on indirect consumption taxes.

Current Indirect Taxes

We already have substantial indirect taxes, both state and federal. The tariff adds enormously to the cost of cars, clothing and footwear. Sales tax collections have soared since 1980. The petrol tax denies us the benefit of cheaper transport costs. State indirect taxes have also burgeoned – look at business franchise fees, stamp duties, payroll tax etc. Yet increases in these tax revenues have not led to reduced income tax burdens. The federal sales tax is less than a third of total indirect taxes! A 28% plus consumption tax would be necessary just to replace existing indirect taxes.

Consider some groups likely to suffer from a consumption tax. Can they be compensated? Proposals for compensation have focussed essentially on social security recipients. What of the implications of taxing schools, hospitals, churches, welfare agencies, childcare, legal aid, etc.?

The big losers are going to be the poor, families, the low-income self-employed (including many farmers), the aged, charities and other non-profit organizations. These groups have high ratios of expenditure to income or they spend mainly on goods such as food and shelter (currently exempt from sales tax). Charities can't pass on the tax to the "consumer" (imagine the Salvation Army or St. Vincent De Paul trying to recover consumption tax from the patrons of a soup kitchen). What social purpose is achieved when we tax the good samaritan who buys a cloak for the beggar? Do we really want to discourage people from caring for others?

No one proposes compensation for the intergenerational inequities of a shift to a consumption tax. Are young married couples to pay a 15% tax on their new homes? Doesn't that give a windfall to those who already own their homes?

What about the impact of a consumption tax on accumulated savings? Many retired persons have acquired their life savings out of heavily taxed incomes. To tax them now when spending those previously taxed savings amounts to retrospective double taxation. A 15% consumption tax would wipe billions off the value of savings now sitting in banks, life offices and superannuation funds. It is indeed strange that banks and life offices established for the safe custody and protection of the savings of ordinary people should appear so prominently among the supporters of a consumption tax. How many families would be rendered insolvent if their living expenses rose some 10 or 15%?

Some people argue that a consumption tax will create a "level playing field", by removing the distortions of the existing sales tax.

Worsening Distortions

It won't. Replacing the sales tax by a consumption tax doesn't remove the distortions in other taxes. It can worsen them. Does taxing food help farmers cope with unfair competition they face from subsidized E.C. food imports? Is it encouraging efficiency to add another 15% to the massive tariff on clothing and footwear? Is it a level playing field when the non-government news media will have to cope with trying to recover

a 15% tax from their advertisers while the A.B.C. and S.B.S. operate on untaxed government grants?

An argument for a consumption tax is that it will stop the black economy. What is the black economy? Is it a good thing to catch some fellow dodging tax while driving a taxi late at night so that he can feed his family? Suppose we catch these people - what are the consequences? Will our taxis be as available or as cheap? Will we see more families unable to pay bills? What will it cost the community to look after them? A British Professor once remarked that "A tax system breathes through its loopholes". To pursue taxes to the last dollar may well be socially and economically counter-productive.

Supposing we are determined to exterminate the black economy. Will a consumption tax do it? At first blush many are impressed by the argument that anyone evading income tax will have to pay consumption tax. Is it that simple? If you were facing a tax you could not avoid, would you not think of evading more of the tax you could? What is to stop evasion of the consumption tax? Suppliers of services are given an incentive to offer a tax-free service for cash: both parties to a transaction are given a psychological incentive to raise the question. The supplier evades income tax, the purchaser evades consumption tax. Will those income tax cuts given to P.A.Y.E. earners be recouped by the Tax Office at the cash register or will we see a massive democratization of tax evasion? How many people in this country are aware of the frank confession of Sir William Pile, the former Chairman of the Board of Inland Revenue, to a Parliamentary Committee that he could not persuade anyone to do work on his home other than for cash? We all know that income tax, capital gains tax, and the new tax on foreign income can be evaded or avoided. Why should we think the ingenuity of taxpayers is not equal to the task of avoiding or evading a new tax? Can the Tax Office be expected to work out if a litre of petrol was exempt because it was purchased for farm use or taxable because it was used in the family car?

I do not say that a consumption tax is the worst of all taxes, I do not say that income tax is a good tax. What I do say is that we would be foolish to embrace a new tax without thinking through the consequences. There is every reason to fear that a new consumption tax will lead to expansion in the total tax burden, just as happened with value added tax in Europe.

Criteria for Testing

We should test any proposal for a consumption tax against the criteria laid down by Henry George on 11 September 1891 in his essay on *The Condition of Labour*: "The right way of raising public revenue must accord with the moral law . . . it must not take from individuals what rightfully belongs to individuals; . . . it must not lead men into temptation, by requiring trivial oaths, by making it profitable to lie, to swear falsely, to bribe or to take bribes; it must not confuse the distinctions of right and wrong . . . by creating crimes that are not sins . . ." I would but add that it should not lay a fiscal curse upon the men and women who struggle to raise a family, thereby rendering the advent of a child an occasion of fear rather than rejoicing. This is a large country but sparsely inhabited. We should remember the motivations which led William Pitt to reject the consumption taxes of his day and to seek to exempt from income tax those who endowed their country with its future citizens. We have escaped, it seems, from the errors of the twentieth century. Can we not avoid returning to those of the eighteenth? Now is the time to return to the debates of 1891, with fresh eyes and minds enlightened by a hundred years in the hard school of experience.

1. John Stuart Mill *Principles of Political Economy* (Toronto ed 1965) Bk V Ch i #2, p 801.
2. John Stuart Mill op. cit. Bk V Ch ii #4, p 815.
3. Adam Smith *Wealth of Nations* (Glasgow ed, 1976) vol 2 pp 876, 873.
4. Edward Gibbon *Decline and Fall of the Roman Empire* (Everyman ed 1910) vol 1 p 421.