

TAXATION AND COMMERCE

RETIRING ADDRESS

of the

HON. GEORGE FOWLDS,
C.B.E.

as PRESIDENT *of the* AUCKLAND
CHAMBER *of* COMMERCE.

THURSDAY, FEBRUARY 8th, 1923



Auckland

WRIGHT & JACQUES, PRINTERS, 52-54, ALBERT STREET
1923

TAXATION AND COMMERCE

The hour has come for me to hand over the duties and responsibilities of the Presidency to my successor.

I took over the work with greater reluctance than I usually feel in accepting public duty, partly because I had on hand such a multiplicity of other work that a reasonably competent discharge of the duties of the office seemed impossible, but mainly because I recognised that my ideas on many important questions were fundamentally different from those of the majority of the members of the Chamber.

The huge legacy of debt which was left as the result of the war and the orgy of extravagancy all over the world which followed the signing of the Armistice has brought the question of taxation systems up for discussion everywhere. Our own country has its heavy debt legacy and our Government was not behind any other in its after-war extravagance, and so your Council has had long and frequent discussions on the amount and methods of taxation in New Zealand.

As this was the main question on which my ideas and principles differed most fundamentally from those of the majority of the members of the Council and of the Chamber, I decided that it was best for me to adopt the position of an impartial chairman at those discussions, and I think the members of the Council would admit that I succeeded in repressing my own very decided opinions on the principles of taxation very satisfactorily. After a full year of restraint in that respect I think I have earned the right to express my views before I finally vacate the Presidency; indeed, I think you will

agree that it is incumbent on me as a duty to contribute anything which I think is worth while on such an important subject. As shrewd business men you will, I hope, take what I say and analyse it in the same thorough manner as you would any other business proposition, and if you find I have contributed some new and sound ideas or arguments on the subject, you will give due weight to them in your future consideration.

THE PROBLEM OF TAXATION.

Incidence of Taxation.—Taxation is as old as the hills, but it is a thing that does not grow mellow with age. No one takes kindly to it. It is only acceptable when one imagines that he, himself, escapes, and it is the other fellow that pays. But this idea is very largely a delusion, as I shall endeavour to show in the course of my remarks. Indirect taxes are the delight of the opportunist and politician. Such imposts are largely hidden from the view of the majority. Customs taxes are of this nature, but the camouflage is becoming less easy with the education of the masses and the deception is more difficult than formerly. The time when (as the Statesman said) "you can tax the shirt off a man's back and he will only complain of hard times" is passing, and so we have endless schemes for the raising of revenue by devices usually designed to operate on the basis of "ability to pay," but which generally tend to the limit of "inability to pay more." Income taxes are pre-eminently of this nature, but we know that they do not in practice comply with the principle of ability

to pay but are largely, if not wholly, "passed on." It has come to be conceded by well-informed people that there is no tax which (as Americans say) will "stay where it is put." The tendency is for the charge, whatever it may be styled, to gravitate to the price of commodities, interest or services, and so consumers "foot the bill." Consumers and producers are, however, practically the same, so we may lay it down as a broad general principle that all taxes are "taxes on production." But that is not to say that there is nothing to choose between taxes and taxes. There are, on the contrary, many considerations to be taken into account, such as convenience, simplicity, ease of collection, certainty of assessment, practicability, as well as the avoidance of undue interference in the taxpayer's private affairs.

Customs Taxes.—Customs taxes are of two classes, differing fundamentally in their effect. First we have Revenue Duties, which are simple and easily administered, but they have the common defect that they fall much more heavily on the poor in proportion to income than they do on the rich. Secondly, "protective" duties are only incidentally revenue producing, their avowed object being the stoppage of imports in the interests, or supposed interests, of local manufacture. They have no redeeming features. In proportion as they "protect" they raise little or no revenue. Such as are effective in keeping goods out are really not Government taxes at all, but State-charters granted to privileged manufacturing interests to enable them to tax the people on their own account. Duties incidental to a Protective Tariff are especially irksome, cause endless labour and worry both on the part of State officials and on importers, and are provocative of endless disputes and the subject of many "Ministerial Decisions" of a more or less arbitrary nature. If the time entailed

by the administration and collection of customs duties, on the merchant and distributor on the one hand, and on the public service on the other hand, could be reduced to so many "labour hours" per annum, the result would be astounding. Such loss of time is an absolute and unwarranted waste; an economic loss to the community.

Income Taxes.—Income taxes are popular with the majority of the people, especially when, as is the case in New Zealand, the exemption is high, and all those with incomes less than the amount exempted fondly believe that they escape the tax. This, however, is only true in part, if at all. Merchants, traders and employers generally, wherever possible, include their income taxes in their overhead charges, and "load" their goods with them; thus the consumer pays. There may be some cases where, in competing businesses paying various rates of tax (the scale being graduated), it would be difficult for firms assessed at high or maximum rates to load their goods with the full amount of their tax while faced with the competition of rival firms paying little or nothing. But the modern tendency towards combination amongst employers and the resulting fixing of prices for similar goods, would tend to obviate this. Even in the case of salaries and wages subject to taxation, it is feasible to assume that these may be "passed on." Employees, especially such as are liable to income tax with our present exemption, are generally able to "command their price," and if a man where no income tax is levied, can command a salary of (say) £500 a year, it is only to be expected that where he would be liable to a charge of £25, he would ask and receive £525 per annum, the employer passing on the whole of his salary in the usual way as a portion of his "overhead." One fatal objection to income tax, especially when the rates are high, is

the crippling effect it has on manufacturing businesses, more particularly in the matter of ability to compete with countries where the rates are lower or non-existent. It is not necessary to stress this point before a New Zealand post-war audience of business men, as we all know what has been the effect of the confiscatory taxes which have ruled in the past few years and are still maintained. It simply amounts to increasing "manufacturing costs," and has the same effect as would higher prices for raw materials. Possibly the worst feature of income tax is its inquisitorial nature, and the effect wrought on the conscience and morals of the community. The Taxation Department can and does exact from makers of returns intimate details of their private affairs such as no creditor would dare to demand. There is practically nothing that may be withheld. On the other hand taxpayers in self-defence are impelled to adopt every possible means whereby they may evade or side-track the Act. The best brains of the community are called into play to whittle down the "taxable balance" to the lowest amount within the law. Recent prosecutions show that all are not within the law. Many people who know they are liable send in no returns. The Government is regarded as "fair game" to be brought down. It is felt by those why pay to the full that they are paying for others who escape wholly or in part. It is also felt that the Act creates "paper crimes" and the public conscience is blunted. We manufacture a nation of Ananias' Saphiras and hypocrites.

Other Taxes.—Sales and turn-over taxes are straightforward, simple, and easily adjusted to the needs of the revenue, but may be classed as otherwise very much on a par with Customs duties. They bear most heavily on the poor man with the large family, whom it is the wish of everyone to let off lightly, but in

truth all taxes tend to a common level, and in the end there is not much to choose between any of them in regard to the question of "incidence." Sales taxes, like Customs duties, would be evaded where possible.

Death Duties appeal to the imagination, but as most surplus wealth is used for reproductive purposes, they tend to retard the extension and promotion of business enterprise. Moreover, a man's wealth is often times due very largely to the efforts of those who become his beneficiaries, in which case death duties are practically capital levies on the production of wealth. Then we have a number of **Motley Taxes**, such as stamps, fees, licenses, amusement levies, totalisator taxes, and what not. These are vexatious and cumbersome, and should be swept into the oblivion whence they should never have emerged. They make work and worry to no purpose. All are "passed on," and might to better advantage have been imposed as additions to pre-existing taxes. Even the tax on racing, does it not come out of the pocket of "the man in the street," and leave him with less money to purchase goods which pay taxes? It finds the dead level like all the rest.

Waste and Loss.—I have spoken of the economic loss entailed in the collection of Customs Taxes, but this applies to taxes of every class. The number of "labour hours" (and highly-paid labour) that is expended on the preparation, amendment, and consideration of returns of income, must run a good second to what is caused by Customs. The same applies to death duties, including the valuable time of Supreme Court judges, and must be a heavy item, while as regards the petty imposts such as stamps, the aggregate loss must be very considerable. Taken as a whole the taxation of New Zealand

(and most other countries the same) involves a total of "labour hours" which would, if it could be even approximately assessed, cause people to wonder at the crass stupidity which imposes, quite unnecessarily, such a colossal waste.

The Single Tax.—There is one tax (so called) which I have so far omitted, namely, a tax on the unimproved value of land which carried to the full, is what is known as the Single Tax. I have left it till the end because it is really not a tax at all, but a rent. I will now deal with it. To begin with it is essential that we should clearly understand the nature of land value. It is the value which attaches to land apart altogether from any improvements placed upon it. When land is wholly unimproved its market value (if any) is necessarily identical with the unimproved value, but where there are improvements in or upon the land it is necessary to separate the two values. The existence of improvements has a tendency to obscure the unimproved value, especially in the case of farm lands, and some people even claim regarding the latter that there is no value at all apart from the labour which the farmer has put into his land. Such a contention is quite fallacious. To properly grasp the position it is necessary, in the case of improved land, to imagine that the particular block we wish to value had remained in a state of nature while, all the time, settlement round about and in the country as a whole, had gone on precisely as it has done. Let us suppose that an imaginary line had been drawn round the block in question and that no man had put a foot on it. What then would be its value to-day other things being what they are? Clearly, except in districts remote from the centres of population, or inaccessible or infertile, there will be some value. If we suppose the site of the Bank of New Zealand in Auckland had been

so reserved, would it not have a value of many hundreds of pounds sterling per foot frontage to Queen Street, just as we know it has to-day, apart from the building it has on it. Would not factory and residential sites have a value under similar circumstances? Would not farm lands have a value if set aside in the way I have suggested? Unquestionably they would, and obviously such value ex hypothesis (i.e. that no man had set a foot on the land) cannot be individually created, but is communally created. The value of land is therefore due to the presence, needs and activities of the people as a whole, and this being so, it must be apparent that if individuals (landowners) are allowed to appropriate these values they will acquire rights to natural opportunities (land) which are greater than those possessed by the landless. More than that, those who own large values will have greater rights than those who own only small values, hence in order to equalise rights to land—the free gift of God—amongst all the people it is necessary to take the whole of the land values of the country and place them in the public treasury to be used for the common benefit. **Equal Rights to Land is the Basis of Economic Justice.** The annual value of land apart from improvements is called in political economy **Rent**. Rent is inevitable where people congregate. It arises with growth of population. First-comers secure the best sites (land) and those who follow must take up inferior and ever-inferior land. The forcing into use of inferior land (inferior, that is, as to locality, fertility, or both) gives a rental value to superior land, and people are then willing to pay a premium for the privilege of using the better land, hence we have **Rent**. Now it must be clear that **Rent** created by the community and appropriated by individuals must cause a condition of social injustice. It is equally clear that rent in itself is a

just and equitable principle, and if paid to the State serves the very necessary purpose of equalising the rights of all to natural opportunities—Land. Without such a fund or pool it would be impossible to place everyone on an equal footing with regard to the occupancy and use of land. In the very nature of things some must use large blocks, some small; some must monopolise valuable blocks, others blocks of little value; all must use some for they cannot work, live, or sleep, except on land. Even the sea and the air are included in the economic term land. Thus rent (paid to the State) is not a tax but a payment designed to equalise the rights of the people in the land of their country. If then we can run the Government—local and national—with the revenue derived from Rent we shall do so without taxation. Had New Zealand been run from the outset on these lines she need never, at least, up to the time of the Great War, have levied one penny of taxation. When the first settlers arrived land values were nil, so likewise was the cost of government, there being then no need for the various services and utilities which, with the growth of population, become necessary in an ordered community. With the advent of more settlers land would commence to have a value, since the first-comers would have secured the most desirable blocks. Rent would arise and would grow as the population increased. Public services and utilities would be required and would assume larger and larger dimensions with the enlargement of settlement. Rent would keep pace with the needs of the government, and would at all times be sufficient for the purpose. This can be seen from a study of the Year Book since the value of land was first assessed. It will be found that five per cent. of the value of the land of New Zealand would have given a sum more than equal to the purely tax-revenue—local and national—of the

Dominion. Thus is 1894 the figures for tax-revenue, including local body rates, etc., were £2,851,762, while the economic rent would have been £4,595,167. In 1904 the amounts would have been respectively £4,805,314 and £6,244,345, and in 1914 £8,105,568 and £12,510,512. (See below.) In the latter year came the war with its extraordinary charges. I do not propose to deal with war expenditure except to say that in so far as it could not be met out of the economic rent other sources would have had to be found. The point I would stress is this:—Rent is the revenue-cloth in accordance with which the expenditure-coat should be cut. I claim that except in extraordinary circumstances the amount would be more than sufficient to give us the services and utilities to which we have been accustomed, and if it were necessary to tax for war purposes, such taxes should be temporary, declining as war expenses declined and disappearing with their disappearance. Think of the position to-day, and what it might have been. Production, distribution, exchange—what we indicate in the all-inclusive term "business"—crushed beneath a load of taxation. Endless work and worry imposed upon the community in order to comply with forms, regulations, requisitions, imposed to secure the financial needs of government. An army of civil servants to deal with the public revenues. The people's activities clogged and hampered at every turn; endless time and labour wasted which might be applied

	1894	1904	1914
	£	£	£
Tax Revenue ..	2,300,350	3,764,379	5,918,034
Local Rates ..	551,412	1,050,935	2,187,534
Total Taxation ..	£2,851,762	£4,805,314	£8,105,568
	1894	1904	1914
	£	£	£
Land Values ..	80,000,000	112,629,412	228,493,376
5 p.c. on Values	4,000,000	5,631,470	11,424,668
Land Tax Coll'd	279,000	352,854	767,451
Cr'n Rents, etc.	316,167	260,021	318,393
Single Tax ..	£4,595,167	£6,244,345	£12,510,512

to works of production. Verily, we are outrageously over-governed! And in place of all this, just one charge which is not a tax, levied ad valorem on the superficies of the Dominion—the land. Land which can be mapped out once and for all, that cannot run away or be hidden from view, the value of which can be assessed, and being assessed can be taken into the public Treasury with the ease with which we now collect stamp duties on cheques. An impost which though called the “Single Tax,” so far from being a tax is the very negation of taxation, since its effect is to equalise the rights of all to God-given natural opportunities by which alone can our material existence be sustained. An impost which **not to take for the people is to permit taxation by land-owners.** Which does not add one penny to the price of any commodity, since the impost is not a new one but only involves a new allocation of an existing charge. Thus, by the **State appropriation of rent** may we secure government on modern lines, not only without taxation, but even while abolishing all taxation and by the act, restoring in the name of **Justice** the inalienable rights of the people to the soil of their country, the rights which, as Herbert Spencer declared, must be enacted “all deeds, laws and customs notwithstanding.”

Modus Operandi.—The machinery for such a change as I have indicated would be simplicity itself. It would be necessary merely to increase the taxation of land values until the whole of the economic rent was appropriated by the State, repealing **pari passu** all other taxes. The increase would be gradual—step by step—until such time as the selling value

of all land, apart from improvements, were to disappear. Valuations would be kept constantly up to date, being raised or lowered in unison with the true economic value for the time being. There would be difficulties, but “where there’s a will there’s a way.” Such difficulties would be found to have originated in “vested rights in public wrongs”—a legacy from the past. They do not inhere in the principle of the “Single Tax” or as I would prefer to call it the “State Appropriation of Rent,” which as I have shown, would have been an ideal system if adopted at the beginning. Under it no vested interests could have arisen in regard to **land.** The wrong system we have creates vested rights for the few at the expense of the many. The system I uphold must inevitably destroy such monopoly interests, benefiting the many.

The first thing is to affirm the just principle. The equity of the “Single Tax” is so manifest, palpable and irresistible that it is the plain duty of all the leaders of thought in Press, Pulpit, Parliament and Commerce to acclaim the principle, however they may differ on the precise means whereby it may be given effect to.

Given the “**Will to Justice,**” all difficulties will be speedily surmounted.

In conclusion, gentlemen, let me thank you all for your forbearance in listening so patiently to my presentation of what to many of you is rank heresy, but what to me is the highest expression of economic truth; truth which the world needs to know and to apply if it hopes to escape the storm of revolution which has already overtaken a part of it.

