TAXATION

and rights to work

by Paul Knight

IT WAS the year of summits about jobs. The leaders of the richest nations met in Detroit in March and Naples in July to emphasise their commitment to the search for new jobs.

Unfortunately, the politicians have no fresh proposals to rescue the global economy from the crisis that followed the land-led boom in the late 1980s. One result was the redefinition of unemployment. The Paris-based Organisation of Economic Cooperation and Development redefined the concept of full employment.

In the early post-war years, unemployment of 2% was enough to bring down governments. This was the era of powerful trades unions, when the demands of workers echoed in the corridors of power.

Today, with unemployment in the richest industrial nations hovering around 10%, the OECD has decided that the tolerable level of unemployment is 6%: anything below that figure is now deemed to represent "full-employment".

The OECD now realises that economic recovery will not lead to a job for every able-bodied person who wants to work. It predicts that 35 million people will be marooned outside the labour markets of its member nations next year.

The costs reach beyond the economic, says the OECD, and will result in "serious threats" to the social fabric.

EUROPE, in particular, is identified as having a serious problem over jobs. The unemployment rate is over 11%. There is no consensus about what to do, but tax "reforms" are high on the agenda. But there is little prospect of agreement. Germany, for example, wants EC members to adopt a uniform tax on savings of at least 15%. Britain strongly opposes the proposal.

None of the ideas for fiscal reform can provide the "shock" that might bump the economies out of the trough. The OECD, for example, is advocating higher taxation on capital to offset reductions in non-wage labour costs. Lower non-wage labour costs hold out the prospect of more jobs, but the benefits would be offset by a reduction in capital formation as a result of lower post-tax profits!

Jean-Claude Paye, the OECD secretary-general, suggests a switch in the tax burden onto consumption taxes. That would reduce the aggregate level of effective demand - yet another obstacle to full employment!

WHY the conflicts over policy? In part, this is due to confusion about the nature of inflation.

Economists claim that inflation is bad. *The Financial Times* editorialised after the Detroit summit: "Rising inflation must also be avoided, because it leads to recession as surely as night follows day".

Unfortunately, "inflation" is used to characterise all price rises, whether for particular products or a general rise in prices across the economy.

A detailed reading of history, however, shows that recessions follow rapid rises in the price of one factor of production, in particular: the price of land. Rapid rises in prices for other factors or consumer products, at other times, are not automatically associated with recession.

But because economists fail to employ "inflation" in a rigorous way, they prevent themselves from sorting out those price rises that matter from the ones that are not trend-setters. For example: they talk about the need to prevent a "rapid rise in house prices", when what they ought to be saying is that a rapid rise in the price of land beneath houses is the destabilising agent.

Hence, governments work strenuously to keep interest rates high enough to "choke off inflation". In the process, they choke off consumption and investment, and destroy the prospects for creating new jobs.

THE CLEAR message from the OECD is that people's freedom to work has now become a matter of public policy rather than private right.

The transformation of a person's right to work began long ago, of course, and is traced back to the time when membership of a community was associated with the individual's right of access to land. Without that right, a person could not subsist.

With the privatisation of the rent of land - in which personal rights were transformed and transferred to land* - people lost the right to work. That loss of freedom heralded the era of dependency on the state, which is why the state now defines full-employment.

Historians who trace the loss of rights to work can help policymakers to understand that tax reform could restore full employment: meaning, where joblessness was 0%.

* E.P. Thompson, *Customs in Common*, London: Penguin, 1993, Ch.3.