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## The Next US Boom

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PRESIDENT BUSH is now establishing the conditions for the next boom/bust in the US economy.

That episode will happen anyway, because the business cycle is built into the structure of the market economy. Land speculation remains the only credible explanation for the booms that cyclically terminate in recessions.

But the amplitudes can be affected by policies and administrative interventions of governments. For example, Nigel Lawson's tinkering with tax relief on mortgage payments in 1988 gave an extra lift to the property market which was already reaching into the stratosphere.

The Bush impact will stem from his fostering of tax cuts that will ultimately increase the disposable income available to push up asset prices; and the bias will be in favour of Old Economy favourites such as real estate and the other rent-generating natural resources that keep the world going round.

US TREASURY Secretary Paul O'Neill believes that he has a radical turn of mind.

He wants to abolish corporate income tax and capital gains tax on businesses. The current tax system was "an abomination" that required structural changes. And, he told the *Financial Times* (May 19), the President was "intrigued about the possibility of fixing this mess".

So Mr. O'Neill is investigating the abolition of taxes on companies. Corporate income tax accounts for 10% of Federal Revenue. This was too high, in his view, and he believes that the system would work better if government "collected taxes in a more direct way from the people, who were paying the taxes in any event".

Given the President's primary constituency – Corporate America – we can safely assume that Mr. O'Neill will get his way. The economic consequence is not too difficult to diagnose.

During the Kennedy years, efforts were made to encourage business investment by cutting taxes. The net benefits were swiftly channelled into the land market to induce a boom/bust.

JUSTICE PLAYS no part in the O'Neill doctrine. Take the capital gains tax. Much of this is comprised of land values, which ought to constitute the revenue base of society. The capital gains tax is not the most effective way to capture rental income, but at least it makes a contribution towards ethical public finance. Mr. O'Neill wants to rig the fiscal rules so that an even larger part of land values remains in private pockets.

Sympathetic to the Bush ideology is the proposal to

repeal taxes on estates and gifts. Dozens of seriously rich Americans with social consciences realise that the elimination of the estate tax will make it harder to narrow the gap between the rich and poor.

That gap continues to widen, and people like financial speculator George Soros and investor Warren Buffett have thrown their weight against the proposal. They are likely to lose the debate against people like Chicago monetarist Milton Friedman, who argued: "Death should not be a taxable event. The estate tax should be repealed".

But ethics play no part in the fiscal system under which we labour today. It is an arbitrary set of revenue-raising instruments that abuse people's rights. Politicians make decisions on how much they will take from people's pockets without considering the justice – or its absence – in their actions. So taxing people at the point of death is no better or worse than taxing people during their life.

WE NEED to put the "ought" back into public finance. Decisions *ought* to be taken on the basis of efficiency criteria. They ought to be made on the basis of ethical principles.

But that is not how the tax game is played. We see this in the way the Bush administration has promoted its initial \$1,350 billion (£944 billion) tax reduction plan.

The President merely wishes to reduce the size of the public sector. He is not interested in niceties such as

§ People should not be taxed on the value which they create by their labour, to produce goods and services that add value to the wealth of the nation;

§ People should not be allowed to privatise income that depends solely on the collective efforts of the community for its existence, and which constitutes the taxable capacity of the nation.

In the administration of government, what matters is not *how much* is raised from the public, but *how* it is raised. A government is abusing its power when it over-taxes the wealth creators. But it is also abusing its power when it under-charges the public for the services which are provided through the public domain.

By under-charging, two consequences follow.

§ First, some people are enjoying the benefits of services without paying for the full cost of their provision.

§ Second, the deficit is a burden shifted on to others – and in the main, the lowest paid who are the sacrificial lambs on the altar of conventional fiscal wisdom.

None of this disturbs the gentleman who occupies the West Wing, whose mindset is rigged to favouring the private plundering of both nature and the public sector on behalf of Corporate America.