

# THE NEW SOCIETY

*There are a thousand hacking at the branches of evil to one who is striking at the root.*

Henry David Thoreau

Almost a century has passed since Henry George visited Australia to present what must have been, under the circumstances, a new, and certainly unorthodox, Tax reform which proposed to abolish present taxes in favour of a single tax on land values to provide public revenues. It became a hot topic of public interest and debate. But the general public were as apathetic as they remain in spite of the enormous promise the proposal held for them. George's campaign left some leaders, including political leaders, convinced but their resolution was overcome by the weight of opposition from major land holders and traders determined to retain the privileges that go with holding land for speculation or trading. Society is much the poorer for that initiative having been lost.

Certainly the century has brought great material advances in our standard of living through technology, the growth of population, better housing for the more fortunate and labour saving devices of every kind to release millions from drudgery. But the distribution of benefit has been grossly uneven.

The gap between rich and poor steadily widens. Unemployment has become endemic, society is in torment about the rising incidence of drug abuse and crime. Our education system is under funded with one University Authority warning that our universities are in danger of becoming second class institutions in an ever more demanding environment. From every corner of the country there is a call for more funds for health services as costs

rise, medical technology advances and waiting lists for elective surgery, grow longer.

Through all of these developments, some good, some bad, society is left with problems having to do with the denial of human rights and the frustration of human aspirations which we are obliged to accept cannot be solved within our present economic and social arrangements. For these and more reasons, it becomes imperative that the tax system be put under scrutiny.

Debate on tax, particularly on tax reform, is always too confined for tax does not stand alone. Its effects reach into the very fabric of our economic and social life. Almost every tax inhibits production directly, as by income tax, or indirectly through reduced consumption as by sales tax. We create unemployment now so serious and continuing that it is taking control of public policy. Decisions which should be made on their merit are now being made on whether they will "create" employment or result in more industrial job cuts. The stakes are high for every stakeholder in the community as I hope to show and we ought not to carry the burden of historic mistakes any longer than is absolutely necessary.

It is officially suggested that P.A.Y.E. taxpayers are carrying too much of the tax burden brought about by "bracket creep" as wages have steadily advanced through the long years of high inflation but without raising the standard of living. Sales Tax is now admitted to be unsatisfactory. It has never been anything else but arbitrary, confused, costly to administer and unfair. If we could extend the "unsatisfactory" tag to the taxes which deserve it we would certainly be on the way to reform!

However tax reform is the political promise for 1998 - but of what kind? The portents are that we will have some more tinkering with individual taxes when, quite obviously, it is the system that is at fault.

There is gathering support for a broad based tax on Goods and Services despite its having been decisively rejected only a few years ago. It is another tax which can hardly avoid being riddled with administrative difficulties. Undoubtedly the effort to balance its application to people on opposite ends of the income scale will result in a mass of arbitrary and biased concessions and exemptions to say nothing of a spate of administrative paper work. There is no word of reducing tax, only moving it from one place to another.

If we are to seek a broad based tax in what is being anticipated as a major tax shake up, let it be the broadest tax of all - that on land values - to which everybody will make a contribution according to the benefit they receive from the public domain with no latitude for evasion or avoidance.

We have dealt with the justification for tax system reform and to conditions which make it not only possible but easy. We already have a land tax but with exemptions. Reform would abolish those exemptions and certainly raise the rate of tax substantially but with the ample compensation of the abolition of all present taxes as well as the substantial tax component of almost everything the taxpayer buys.

We have established that, in equity, the land belongs to the people and shown how it passed illegitimately into the hands of a land monopoly. The public ownership of land cannot now be reinstated. But there is some correction if the holders and users of land and natural resources were obliged to pay to the community a tax or rent proportional to the privileges granted to them by society, in other words, a land values tax.

Now let us notionally apply that tax!

From that action two interactive and mutually supportive streams of beneficial reform must flow, the first

from the abolition of the cumbersome, wasteful administrative nightmare of present taxation. The second replaces it with a simple, cost effective method of raising public revenues, makes significant reduction in the cost of administration and opens the way for social benefits as no other reform can.

The change must cut a swathe through the entire tax industry. With tax now assessed at a uniform rate on known and accepted land values, albeit with periodic revaluations, the workload of the Tax Office in processing millions of tax returns and assessments is no longer necessary. Nor need they continue the everlasting scrutiny of taxpayers' affairs, the continuous audit of major taxpayers or their concern about the variety of devices now in use to minimise tax, trusts for income splitting, tax havens, transfer pricing and so on. Land tax cannot be evaded.

Shedding this administrative burden could well render two thirds of the Tax Office's 18,000 staff redundant together with the employees of Australia's 25,000 plus tax agents and a significant number of clerical employees in commercial business organisations working on compliance related tax matters.

The bad news is that, all told, they could add perhaps 1% to the present 8% of the workforce unemployed. But Australia has lived with higher numbers than that in times gone by. The better news is that the effects of the change moving through the economy will reasonably quickly enliven the employment market offering them, and the standing army of unemployed, new work opportunities. To be brutally realistic, it might be kept in mind that these people, whose work is essential under the proven system, not only produce nothing marketable or consumable but actually inhibit the work of wealth producing taxpayers. It is an enormous waste of

human effort. Our growing reliance on the "service" industries for employment promises more of the same and calls for close consideration. Rather than their redundancy being seen as loss of jobs, it can more realistically be described as release from non productive to potentially productive employment. The emphasis must be on wealth production.

For years our industry and commerce have sought relief from the effort and cost of compliance with Tax Office requirements that has persuaded thousands of small businesses and countless individuals to employ Tax Agents to steer them through the complexity. With no tax returns to be lodged and no records to be kept beyond domestic requirements at the cost of compliance with ATO requirements would disappear saving the estimated \$3 to \$4 billion per annum but suggested by the tax office itself to be possibly higher. Add to that a potential saving of \$500 million through reduced Tax Office operations.

There's a new day coming for industry and commerce when the abolition of taxes brings freedom from the tiresome, responsible and expensive task of collecting taxes from P.A.Y.E. through Sales Tax, Payroll Tax, Fringe Benefits Tax and so on, all now consigned to the dustbin of commercial history where they belong. For employers the savings in time and cash would be very real.

There can be no doubt that the reforms presented would bring a completely new environment to Australian industry and commerce. In that new environment, nothing would give greater incentive to growth in wealth production than the lifting of taxes on the earnings of industry and employees alike. Despite the fact that both parties would know that they must pay tax in another form, industry would have the most powerful incentive to increase its earnings above the level of taxation where those earnings would be completely free of any impost.

Industry might thus generate the capital for its own expansion so to reduce, to some extent, the increasing control of the Australian market by foreign capital. A stabilised labour market must do something for industrial production and productivity.

Growth must generate capital for investment and, as recent industrial "floats" have indicated, there is a willingness to invest if we can renew our faith and confidence in our own national ability to win a worthy place in world markets. Removing taxes that discourage effort might well bring us closer to that desirable state.

If the introduction of land values taxation did no more than put a more positive face on our commercial activities that, surely, would be enough. But the application of land tax is, in every way positive, confirming and complementing the benefits already outlined.

In exposing some of the Myths of Unemployment it has been shown that land speculation, or the non use of productive land, lies at the root of job shortage. Now, with tax falling on the value of land at its best use and reviewed from time to time, it must be expected that tax will be sufficient to force land into use thus clearing the blockage. Combined with a reinvigorated industrial climate a substantial fall in unemployment is possible. Its effects could be wide spread; increased employment would make substantial inroads into the present level of poverty. The contribution to the G.N.P. of the hundreds of thousands newly returned to the workforce must raise living standards and put an end to the distortion of work patterns now developing.

If we could approach anything like full employment, which is possible, the saving to the taxpayer could amount to \$5 or \$6 billion in Social Benefits to say nothing of the uplift of the spirit of a society whose doubts about our national future run deeper than many imagine.

The lifting of tax on personal effort must repeal the traditional objection to working overtime leading to greater production. It would banish the guilt of many "moonlighting" or engaged in the black economy with low grade avoidance of tax. No doubt this new situation could be accommodated without injury to the integrity of the Social Service system with its means test. The Tax Office could even cancel its proposed "crackdown" on practitioners in the black economy!

Not insignificant in its potential to promote industry and a more stable society at less cost to the revenue is the housing situation.

Over the years governments have spent enormous amounts of public funds in the provision of low cost housing, subsidised rents and so on and still a hundred thousand families, it is said, are looking for domestic accommodation. Most will have to make do until some vacancy appears whereas under land tax it must be supposed that land would become more freely available and perhaps at lower cost. Presently crown land could no doubt be made available at rental thus avoiding the cost of mortgage interest on the land component of the project.

As in everything else so in housing, materials required are all earth sourced directly and must become more readily available at lower cost than at present. When contractors are no longer subject to company tax and labour is free of income tax it could be that the construction of reasonable cost rental housing would again become a viable investment so relieving the housing shortage and the taxpayers of the substantial cost of it.

From the Report of the Committee on Land Tenure and the statement of Winston Churchill, there can be little doubt about how land captures the increments in values which continue to rise because of increased population and the development of civic infrastructure, the whole

presenting an identifiable picture of unearned capital profit for the landowner who makes no contribution whatsoever to the process. Now this increment will be caught in the periodic revaluation of land and taxed for public benefit. The increment which now flows into the pocket of the land owner would be diverted to the community whose efforts created it in the first place. Where the present Capital Gains tax seeks to recover some of the unearned increment on sale of the property or death of the land owner, land values tax recovers it as it occurs.

Two things become clear. In the first place the tax keeping pace with nearby infrastructure development indicates that here is the proper source of developmental funds so that public works expenditure could be moved from capital to income account. In addition, the arrangement would discourage some of the demand for public works before their time as landowners realise they would pay the bill.

There is always an enormous public demand for funds for community projects most of which, while serving the neighbourhood also add to the value of nearby properties. It would be a powerful discipline to the sometime exaggerated demands of potential beneficiaries if they knew that they must do the paying. The lesson to be drawn from this situation is that taxing rising land values is the logical source of funds for civic development. It would avoid large borrowing for public works.

Enough has been said to establish the soundness of the principles upon which the reform would stand. Undoubtedly there are other minor benefits which would appear on closer examination just as there are compelling reasons for supporting change, either for personal benefit, concern for the depressed state of a big percentage of our society or for the most practical reason of all - that land values taxation is simply a better system to serve the best



interests of Australia and Australians.

The reform could be achieved with little disturbance to the present tenor of life and business. It involves no dispossession of land or any diminution of the right and ability of the land owner to give, sell or transfer his occupancy. It contains no proposal for confiscating or redistributing present wealth. It proposes that the sole obligation of citizens is to "Pay the rent" on the land they occupy directly or indirectly. Indeed it must be expected that considerable wealth can sometimes be created without the use of land. Such wealth would go untaxed.

It is difficult to visualise disadvantage either to business or individuals in taxing the land on which they trade and live. In the case of business the tax would fall most heavily on central business sites or more extensive areas for industrial plants and others contiguous to markets so that tax would find its way into costs, thence to prices and be distributed to consumers in a way somewhat similar to a goods and services tax but without its well known disadvantages. For residential land users there is a very close co-relation between incomes earned and the value of their land. For the majority earning at or above the average wage, the lower value of land in what are usually referred to as "working class" suburbs would probably see their taxes decline, when incomes and domestic requirements are untaxed.

Whatever impression the proposal makes on Australia, we are now firmly convinced that Tax Reform is imperative, we cannot pass it by without study.