

TAX REFORM: THE NEED FOR A STRATEGY

Review of themes for two Action Pact workshops

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BRITISH AIRWAYS is one of the world's leading airlines. Nonetheless, it is currently "re-launching" itself with new flying colours to define a new public image; and it is restructuring its organisation. To remain a market leader it knows that complacency - retaining the old ways of doing things - is fatal. If a successful company has learnt the lesson of what it takes to remain on top of the competition, there are probably lessons for challengers who want to take over from the leaders.

The lessons for those of us who wish to replace one tax philosophy with another ought to be obvious: we need to redefine our identity, to make our proposals more accessible to the people who need to "buy" them.

Henry George's *Progress and Poverty* was published over a century ago. In my view, very little has been done to re-launch the philosophy to make it politically palatable. The time has come to represent the Single Tax in a form which would make it acceptable to the general public, and therefore to democratic politicians. The challenge with which we are confronted is enormous, for we are not talking about changing a few pieces to the existing jigsaw. Ours is a fiscal policy with comprehensive ramifications. Practically no major social institution or form of social behaviour would be left untouched by the adoption of the Single Tax. This is, at one and the same time, a strength and a weakness.

The strength is that one administratively easy-to-implement reform can resolve a vast range of social problems. It is unmatched as the most effective tool for reform.

The weakness is that people would find it hard to believe that they could benefit so extensively from a seemingly simple shift in taxation, elegant though the idea may appear in theory. That is why we must analyse the ripple effects of the Single Tax, in the process of which I believe we would acquire new supporters for the reform.

Time has been lost. For decades, Georgists have merely restated the basic economic truths. The outcome is a shallow treatment of what is actually the richest political philosophy that you could hope to find in the literature going back to the ancient Greeks. But no-one would believe that claim who is familiar with the literature on the social sciences and philosophy.

THE RENT THESIS, to be explored properly, will engage scholars and activists for several generations. We have to be practical, and select the tasks that can be accomplished with existing resources and which are most likely to attract the sympathies of the people and agencies that wield the power today.

We cannot limit our responsibilities to the commitment to keep the philosophy alive: that is a cop-out. The philosophy will take care of itself whatever we do. Our responsibility is to inform the policy-makers who currently make decisions that affect the world. A moment's thought about the environmental issues will make us realise that the rent thesis is at the heart of the concerns of governments and the general public. This means that we are not devoted to a philosophy of peripheral interest. And yet, even the most informed and well-intentioned ecologists are woefully ignorant of the Georgist lexicon. Whose fault is that? *Ours!* We have failed to

engage in the discussion at a depth of philosophy and level of activism that can arrest the attention of ecologists, equipping them with the analytical tools that they need to enable them to develop the appropriate remedial policies. In other words, we are losing out in one of the most important current debates.

Selecting themes for action

THE WORLDWIDE Georgist movement should be concerned with organisational reform, and even with the names with which it portrays itself: these are part and parcel of the concept of re-launching the philosophy. But given the constraints (national entities, charity status) it may not prove possible to create a single coherent organisational structure. That is why I stress a looser confederation capable of fostering action based on a task-oriented, cellular structure. In other words: teams of people, each working on a priority task. These cells are Task Forces. We need to identify the tasks that ought to be tackled. The selection of themes has to be undertaken on the basis of a realistic appreciation of

- ☐ the possible rewards (within a clearly defined time-frame); and
- ☐ the resources at our disposal (the evaluation of which ought to take into account the replacement of existing activities).

There were few dissenting voices raised against the proposals outlined in my two Action Pact newsletters dated March 20 and May 18, 1997. This encouraged the IU to set aside time for two workshops, which will discuss 10 themes. Conference participants will be invited to identify what they see as the order of priority for action, which may help the organisations to formulate a strategy on the basis of finite resources.

The five topics to be discussed on Tuesday are directly linked by the sharp focus on public finance and the economy.

THE WELFARE STATE

THE WELFARE State is bankrupt, financially and ideologically; but to enhance the credibility of the alternative social system (and the philosophy that underpins it) we must define the steps that would move us away from the statist solution of income redistribution in favour of a society in which everyone was economically independent of the state's patronage.

THE FEDERAL LAND TAX

DEBATE in the United States is hampered by the claim that it is not possible to institute a Federal Land Tax. Is this true? Henry George did not think so; and he offered a formula for accommodating the wording in the Constitution. This is what he wrote (from *The Standard*, Jan 20, 1887):

Now, if Congress could collect two million in 1798 and 20 million in 1851, requiring from each State a quota proportioned to its population, to be raised by a direct tax upon land according to values, why cannot congress collect all the revenues of the federal government by requiring of each state a quota according to its population to be raised by a direct tax on land values alone?

What can be done to educate the policy-makers and their advisers? Are lessons to be learnt from federal countries like Australia which have employed a federal land tax?

A LAND PRICE INDEX

GOVERNMENTS shape day to day policies on the strength of changes in their favourite statistics, which are not selected at random; they are the result of an ideology which tells them what is important about the economy. If the rent thesis offers a fruitful theory of the economy, should we develop an index of trends in

prices that equips us to enter the public dialogue from a unique perspective?

If trends in land prices do not enable us to forecast the future, there would be no purpose in producing an index. Henry George, in articulating a theory of recessions that imputed a "leading" role to land prices, would have contended that an index was of value. If we cannot restate his case in convincing contemporary terms, we should abandon this project: for government statisticians will not encourage policy-makers to spend money on refining statistical data unless they can fall back on well-researched papers that demonstrate the value of such information for policy-making purposes.

There are two distinct (but related) reasons why we would want to calculate the true extent of rental income in the economy. (1) Is rent a sufficient fiscal base? (2) Can we claim that land-price booms herald a slump?

The statistics for New Zealand are excellent; better, perhaps, even than Denmark's. Ron Ward has begun work on the New Zealand data which should be illuminating: *see his contribution below.*

Dr. Michael Hudson adds: A land index *in itself* is not very interesting to people who already do not find land interesting. It is only interesting if we relate land prices (and the overall national valuation of land) to an overall theory of the *total* economy, including what other people ARE interested in. My starting point is *not* land values. I start with the volume of savings, and calculate their exponential growth (the rate of interest for bonds, and of dividends for stocks). I then examine what proportion flows into the stock market, the bond market, bank loans, and real estate financing. This supply and demand correlation indicates to me what the growth will be in land values and stock market values - but no longer interest rates, for these are set by the central bank in response to balance-of-payments flows. It therefore is necessary to factor in these too. I am interested in the volume of capital gains for land, compared to other assets. My interest in land is only as the major part of national *asset values*. I use it to study the inflation of bubbles. Hence, I am interested in a bubble index.

BUDGETARY REFORM

THE TAX BURDEN imposes enormous costs on the wealth-creators. Governments know that they do not have all the answers, but they cannot visualise how to neutralise the frictions. The shift to land rent and resource taxation is the ideal, but what are the implications for the budget? Can a government adopt transitional mechanisms to avoid the "shock therapy" inflicted on Russia?

THE URBAN CRISIS

MOST people experience life within the urban context. They see many individual problems, including those related to inadequate public transportation, shortage of good houses, pollution, poverty; but they cannot see how these stem largely from a single flaw in the fiscal system. Can we develop an analytical framework to make sense of the problems and relate that framework to a contemporary urban crisis, such as the one that confronts Washington DC?

The Wednesday workshop addresses the following major themes.

ECOLOGY

FAILURE to intrude into the debate that has been raging for the last 30 years. We need to offer a model of the sustainable society. Observations by Jeff Smith as attached below.

RELIGION

PIOUS people are not working for social reform because their religions do not faithfully teach

some of the basic lessons of the early prophets. Can we persuade the world's churches to unite in a common cause of effective action?

INTERNATIONAL AID AGENCIES

MILLIONS of people donate money to voluntary sector agencies which are trying to combat poverty. Those agencies are largely failing, but could be more effective if they understood the source of poverty. What would it take to attract their attention?

RUSSIA

THIS COUNTRY, because of the state of turmoil among its leaders remains the single most interesting testing ground for our proposals. What are we prepared to do to maintain our presence?

LAW AND THE CONSTITUTION

A DEMOCRATIC shift in taxation is not possible without a corresponding adjustment in people's perceptions of property rights. Were we betrayed by the Constitution makers? What would it take to change the Constitutions and Bills of Rights to make the law consistent with people's natural rights of equal access to the fruits of nature?

Specific Targets

These ten themes are general categories requiring a variety of forms of activity. The results of work would take several forms, including the production of reports which could be published as books; contacts with governments, professional and activist organisations; and so on. But I have not identified specific targets for priority action, although these more limited objectives also need to be considered as part of any overall strategy for a co-ordinated plan of action. Two examples illustrate what I mean.

- (1) The World Bank. This institution exercises enormous influence in the world. If it could be made to review the rent thesis as part of its ongoing internal reappraisal of goals and methodologies, it might improve its performance. At present it claims to have no general policy on land taxation. The reason it offers for this is that land taxation is a highly controversial issue, circumstances vary widely in different countries, and this makes it difficult to formulate general policy conclusions across countries. This position is a spurious one. The World Bank and the IMF impose exceedingly controversial policies across the world despite the variations in the circumstances of individual countries. The truth is: land taxation is excluded from the ideology which structures policies imposed by the World Bank and IMF on client countries. The problem is to shift the focus of that ideology.
- (2) Professional organisations engaged in property administration in the public sector ought to be at least decently informed of land taxation as a policy option. In Britain, for example, the Institute of Revenues Rating and Valuation is apparently somewhat sceptical about the feasibility and desirability of replacing the crude Council Tax with the sophisticated site value tax. Nonetheless, this does not inhibit the Institute from recommending the possibility of adopting other taxes not by reference to feasibility and desirability so much as topicality. A job of education needs to be undertaken, because if the professionals were properly acquainted with the facts, they would be better equipped to advise policy-makers. Given the global nature of information and professional interaction (e.g. congresses), one enlightened professional body is likely to end up influencing the equivalent organisations in other countries.