CONFERENCE PAPERS

The Buckle Commission: Reversing a Twenty Year Trend –

Can New Zealand be a Crucible for the World?

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Summary

Though containing a trenchant observation or two on each page, the Buckle Report of January 2010 demonstrates theoretic eclecticism, consensus-mongering, policy timidity and group think throughout. The clear delineation of the categories of capital, labor and land developed by Henry George in such 19th- century classics as *Progress and Poverty* are nowhere in evidence. A controlling error of the entire discussion is the delineation of tax types into four categories as follows:

- Personal
- Corporate
- Trusts
- Property

The "personal" category systematically blurs the distinction between the payroll taxes that are usually collected from labor (as George would put it) on the one hand, and personal income earned from capital gains investments, capital "sheltered" in trusts, or exorbitant executive wages on the other, all distinctions imperative if one would make any sense out of contemporary tax policy. "Property" is another vague and undefined term which distracts from the specific category of *land rent*, a category without which the other two chief categories (labour and capital) remain indistinguishable. A complete alternative to the Buckle Report taxation categories, one informed by George's work, would look as follows:

- Payroll (labour's wages)
- Corporate
- Investments/Trusts/Capital Gains Arena
- Land Rent

Tax reform goals made possible by the latter schema might include: lowering (or eliminating) payroll taxes; focusing tax reductions to increase consumer spending and enhance capital flows, i.e., modify behaviour (the latter explicitly eschewed by the Buckle Report); abolish the parity or "alignment" of the taxes in the categories recommended in the Buckle Report via virtual elimination of payroll taxes, this with capital gains, corporate and land value taxation picking up the slack; apportioning rental housing to rent control determinations – landlords with low capital gains and higher occupancy levels should have their taxes reduced, while landlords holding buildings empty for speculation ("Shanghai syndrome") should be the most heavily taxed; eliminate the Buckle Report's bogus dichotomy of revenue from corrective taxes – increased revenues (the likely result of increased consumer spending issuing from the decline in payroll taxes and the GST) would above all be corrective; strictly apportioning corporate tax rates to job creation – lay-offs should raise taxes for corporations, not lower them; re-animate the classic working-class pattern of immediate consumer spending/no savings/no investment – such can contribute to potential growth explosion and "a rising tide lifts all boats" [John F. Kennedy]; and contra the Buckle Report, tax policy should be tightly linked to fiscal practice to set off a growth boom. For the all-

important land rent questions methodically fudged by the Buckle Report, taxes on unimproved land held for speculation should be raised to the point of making them an unprofitable investment, while taxes for productive uses should be lowered. In a word, highest and best use, i.e., measures promoting higher productivity of land, labour and capital via regulation of land transfer practices, regulation oriented toward the productive yield of the land en lieu of speculative holding of unproductive land, should govern land practices. The built-in prejudice against economic growth consistently manifested by contemporary land rent practices in New Zealand must be reversed.

DISCUSSION

The Buckle Report early on presses its "alignment" canard (10), stating company, "top personal" (much better termed executive) and trust tax rates should be aligned. "Trust" taxes states nothing in particular about capital gains, which can come from land speculation, stock speculation or other sources. The effect of the "trust" delineation is to provide a respectfully sober fig leaf for capital gains tax evaders across the board, linking them to responsible planning for the future. And arbitrarily aligning company taxes with the other categories removes from scrutiny the respective companies' employment-developing track record, the chief criterion to be applied when considering appropriate tax levels. Why should companies maintaining or expanding employment pay the same rate as companies conducting massive lay-offs?

Although the Buckle Report does make a fleeting reference to supporting "the introduction of a low-rate land tax" as a means of "funding other tax rate reductions" (11), nothing suggesting a stop-the-speculators drive is in evidence. Real estate speculation has reached the point in New Zealand where the vast majority of the population have essentially become "disinherited" from real estate ownership, un less it is through the happenstance of inheritance. More to the point is the Report's call (15) for a comprehensive capital gains tax (CGT), noting that New Zealand lags behind most of the OCED countries in this respect. Unfortunately – consistently with the policy timidity that plagues the document – the Buckle Report turns tail and flees from the positive policy implications of a comprehensive CGT proposal, stating that the tax changes which would be *least* likely to produce "significant behavioural change" (i.e., least likely to threaten "inelastic" bases) are always "sound" (16). Institutionalized land speculators can breathe easily. Any land value taxes levied, the Buckle report claims, should be so levied as to unobstrusively "broaden" (15) the general tax base, not curtail land speculation with significantly large (if inexorably, under the NZ system, undertaxed) capital-gains potential.

Undifferentiated lowering of "company tax rates" from the late 1980s onward, the Report went on to state, "improved the efficiency and equity of the tax system" (16); the alleged strong point of the latter was the aforementioned alignment of tax rates, a guarantee the corporate rate would be no higher than the "personal" rate and the "trustee" rate, the latter concept in turn constituting a useful means of obfuscating nearly unchecked corporate land speculation. Also of extraordinary obfuscation potential was the personal income/high personal income concept referred to above. "Top personal" tax rates, as preferred by the Buckle Report, have no right to exist, for several reasons. The actual target for overpaid executives should be: overpaid executives. "Personal" suggests socially atomized individuals who just happen to have high salaries. Yet the highest salaries are concentrated in a quite specific area – corporate executive compensation. The televised German tax discussion in the *Bundestag* in February, 2010, for example, focused on a *Spitzensteuer* ("peak tax") for executives. Another reason for the non-viability of the top personal tax idea is that it leaves too many avenues for evasion. The best way to "catch" overpaid executives is not a salary tax, but a universal capital gains tax which will recover a significant quantum of the overpayment when the executives seek to invest it.

Reducing (or eliminating) payroll taxes would alleviate another tax problem the Buckle Report in effect existentialises: WfW (Working for Families) tax credit complications, i.e., the entrenchment of the current system of social welfare transfers. En lieu of the current labrynthine system, which grants tax "credits" for low-income workers, then takes the credits back when income rises, eliminating payroll taxes for ordinary workers will not only increase income, but remove incentives to not increase income. One might think the Report's declaration that payroll taxes are the most damaging for growth (17) might suggest getting rid of said taxes, but the Report's authors are too timid to take that course, no doubt handicapped by a hard-nosed realistic political economy.

The actual danger, it is said, is "fiscal drag", i.e. tax rates increasing when income climbs. Aside from the advisability of those having the most means paying a higher rate ("stronger shoulders should carry a heavier burden"), fiscal drag as a concern is based on the inaccurate (if persistently maintained) position of the Buckle Report that real wages have gone up steadily in Western industrial states (including New Zealand) in recent decades. Several recent reports document falling real wages in the advanced industrial societies and inexorably accompanied by rising household debt. The article "One in four Americans is employed to guard the wealth" by Cory Doctorow, *et.al*, documents the downward class mobility of unemployed ex-engineers resorting to security guard employment in North America. On a broader theoretic plane, Thomas I. Palley's "America's Exhausted Paradigm: Macroeconomic Causes of the Financial Crisis" (June 2009- New American Contract – A Project of the New America Foundation) not only documents the falling living standards unperceived by the Buckle report, but provides a land rent analysis for the decline: housing bubble inflated home purchase costs are passed on to would-be home buyers, who then find themselves relentlessly and unsustainably sinking deeper into debt.

The next consensus-mongering capitulation to things as they are (or things as they are becoming) comes in the area of the relation of New Zealand's 4.5 million member economy to the world economy. Increasing global competition for labor, it is claimed, means a CGT might leave New Zealand at a disadvantage globally, as local talent heads for far-flung shores for higher wages (17-18). This represents a typical – for the Report – distortionary emphasis on small groups at the top instead of the interests of most New Zealanders. Most New Zealanders would never consider going abroad anywhere – including Australia – to work. Such potential employees as consider going elsewhere usually do not do so as a result of calculating tax or wage advantages, either; they consider foreign employment in order to have a job, any job. Truly highly skilled employees seeking premium-level international salaries are quite atypical. What is more, a CGT as part of a comprehensive package to promote unusually high local growth would be attractive to the locally highly salary ambitious. Focusing on multinational corporate job-jumpers is inappropriate so far as tax policy goes, but this is the actual group the Buckle Report is addressing regarding international labor market issues. A far more serious and relevant international labor market dispute – only tangentially addressed in the Report – is international low wage competition with imported workers. This problem would be eliminated by granting the exemption from payroll taxes only to New Zealanders and imposing a special tax on foreign labor. Such would take all the money out of importing cheap labor for New Zealand employers.

On p. 22 the Buckle Report returns to its old gambit of seeking to misrepresent "top personal income" tax levels as typical of tax systems as a whole, illustrating the decline of such taxation in OECD countries since 1984. In order for the graph to have meant anything, it would have had to carefully compare "top personal income" with normal/majority incomes in the OECD so far as taxation goes. This however, would have brought to light skyrocketing taxes in recent years for most working people in jurisdictions such as California. This is in conjunction with plummeting real incomes. Helping along propagation of the fog on such issues is the now familiar "personal income" tax rates expression of the Report, one by all appearances custom designed to blur the essential difference between executive compensation and normal compensation. As preposterously wealth-slantedly distortionary the taxes in graph of p. 22 might be, it takes a back seat to the salary and taxes graph at the top of p. 25. Surveying salaries from zero to $300,000 per year, the actual salary range of more than 90% of New Zealanders – under $90,000 – takes up less than one third of the graph, with the majority of attention focused on the isolated majority earning in six figures. Although such a procedure might be excused on the grounds wealthy high salary earners probably have most of the money, for public tax policy purposes, only what the great majority is paid (or has to pay) can serve as the ultimate basis for generalizations about the system.

More candour is evidenced (and better information provided) in the discussion of capital gains on land sales on p. 25, even if the Buckle Report authors lacked the resolve to refer to land profiteering directly, preferring to speak of "property". The report states "New Zealand does not generally tax capital gains on property", adding that "to the extent that the real value of property rises over the longer term, there is a potential net revenue loss to the government by not taxing these capital gains". Though scarcely a direct reference to a land tax, the passage does implicitly advert to the pernicious revenue implications of the machinations of property speculators.

The Report next turns to an attempt to articulate major issues related to "lack of coherence, integrity and fairness" in the New Zealand system. The genuine lack of coherence is but a reflection in the tax system of the Report's theoretic framework (or lack of same). Adherence to the three fundamental categories of classical economic analysis – labor, capital

and land – would have alleviated several problems. Both vagueness and lack of clarity precipitated by evading the classical categories are illustrated in the Report's initial statement of issues (28):

There are differences in the tax treatment of entities which provide the potential to divert income and reduce tax liabilities, and the opportunities to reduce taxes differ across income groups

Since the "entities" are not identified vis-a-vis labor, capital or land – or indeed not identified at all – although one suspects they are of the legal fiction category such as corporations or trusts - the direction possible reform efforts might take cannot be specified.

But the next problem in the summary is not its void-for-vagueness quality, but something else entirely inaccurate. Although the opportunities to reduce taxes may differ across income groups, the most reasonable surmise in this instance – that differences between higher and lower groups are at issue – is unwarranted. Opportunities to reduce taxes in fact depend on relations to labor, capital or natural opportunities. Though such opportunities are better for forces grounded in control of capital and land, stating differences are based on "income groups" is, from a Georgist perspective, not accurate. "Non-alignment of the top personal, corporate and trust tax rates" (28) – another allegedly major problem – is better seen as an epiphenomenal manifestation of the labor-capital-land constellation, since personal tax liability, corporate tax liability and trust rate taxes only take on specific profiles in their relation to the three foundational factors of production and distribution. Owing to both the fundamental/foundational nature of the three factors and their radically different characters, alignment of them (and hence of any other important factors) would seem to be a chimera. Nonetheless, the Buckle Report authors chose to conclude the Report with a weighing of the respective advantages of an aligned system and the classical (Irish model) and "Nordic" (Scandanavian) non-aligned systems.

Buckle Report Conclusions

a. Tax Alignment

A signal advantage of alignment of personal income, corporate and trust tax rates, it is alleged, is that such an arrangement "increases horizontal equity by taxing different incomes similarly" (39). The question here is: with no specifics as to capital gains, no specifics as to relation to the labor-capital-land constellation and no specifics as to land use practices, what guarantee is there that different incomes (or, better: different income sources) are in fact being taxed "similarly"? Without integrating all the categories with *land rent* – the ultimate and ever popular bailiwick of income evasion – judging whether alignment has really occurred is sheer guesswork, and a definitive judgment as to whether such alignment has salubrious consequences must therefore remain outstanding.

After outlining their preferred tax system, the authors moved on to two versions of non-alignment of personal income, corporate and trust tax rates, the classical and the Nordic.

The classical Irish system, it is stated (40), features above all a low tax rate on company profits, a personal tax rate higher than the company rate, and abandons "imputation". An example of imputation would be imposing imputed rents on people who live in homes they own. This is done on the theory the occupants' decision not to tax themselves in effect generates (imputed) income. An advantage of such a system, it is claimed, is that it could "boost labor productivity with a low company tax rate". Labor productivity is normally "boosted" by reorganizing production. Lower taxes might free company resources for such a task, yet the oftentimes daunting task of reorganizing production does not necessarily follow from lowering taxes. A company might as well simply deposit the savings rather than rushing out to reorganize. A more plausible rationale for lowering corporate taxes would be that it might encourage inflow of foreign capital and discourage outflow of same. But seriously lowering taxes for major economic entities always entails the danger of aggravating the fiscal crisis of the state, as the Report concedes. Thus the first alternative to alignment would appear to have its own limitations. Nothing, however, is said about the fact that Ireland is now one of the great casualties of the global financial crisis, along with Portugal, Italy, Greece and Spain And even less about the even more significant "alignment" of that crisis with rampant real estate speculation in those countries.

Much more promising (and far closer to a Georgist analysis) would be the Nordic non-alignment system of Norway, which carefully distinguishes labor and capital income and argues for differing rates for each. This is seen by the Report writers, likely appropriately, as a "more coherent and systematic" basis to regulate tax rates. Yet – it may be observed – the Nordic/Norwegian system has the same defect as the New Zealand would-be alignment system and the Irish high personal/low corporate non-aligned tax system: land rent is not specifically integrated into the analysis, leaving various holes in policy. Only the tri-partite schema integrating land rents, taxed on an annual basis, would allow for definitive characterizations of the other chief factors of labor and capital.

b. Extending Capital Gains Taxation

Though in no way integrated with land rent problems in the overall analysis, the Report does make reference to the state of affairs that, in New Zealand, "a large component of economic income, capital gains, are not taxed or are taxed in an *ad hoc* fashion" (48). It is quite noteworthy that discussion of income "on accrual" takes place in the Report. Thus the accrual of land value on the part of a land speculator holding land out of development or productive use, would be deemed income. On this basis, land exchange value could rise steadily in a context wherein the title holder is doing nothing with the land. The position of the title holders in such a situation is that no accrual has actually taken place until sale. Despite the fact taxation of such (undeniable) accruals is in an embryonic state in Europe and Australia, the discussion is of considerable import.

c. Land Tax

The two key assertions of the Buckle Report concerning the likely impact of the imposition of a real, cross-the-board land value tax in New Zealand are likely warranted. The first assertion is that the immediate effect would be to lower the value (exchange value) of the land. The owner at the time the tax was imposed would be hardest hit, and if he chose to sell promptly would likely have to lower the price. This would constitute a burden in some cases, i.e., retirees not working the land, economically disadvantaged Maoris, etc. Indeed there would be a loss to any party primarily holding wealth in the form of land.

The second key assertion also has some plausibility, i.e., that effects of a comprehensive land tax could be mitigated by offering offsets to those who are working said land (51). Such practices, it is claimed, might well alleviate problems of revenue sustainability, though land's immobile character renders escheat and resale by the state fairly simple.

The limitations of the exposition are difficult to overlook; with all the discussion of impecunious retirees, Maoris, possible bankruptcies of hard-working, low-income farmers and so on, the real villains – well capitalized urban (or even international) real estate interests holding land barren or under-utilized, on pure "spec" – aren't subjected to any serious scrutiny. The Buckle Report's preoccupation with very atypical parties to the land rent controversy parallels its preoccupation with very untypical parties concerning international labor mobility.

d. Risk-free Rate of Return (RFRM) on Property

Unlike the evasion of the question of the role of large-scale real estate interests in the initial discussion of land tax, the Report's treatment of so-called RFRM explicitly mentions "overseas portfolio shares" and repeats the mantra of international speculators, namely the "market value" of the underlying investment in "real property". RFRM is depicted as an alternative to "taxing the owner on gross rents and allowing a deduction for expenses." Under more classical tri-factor tax plans, taxes are prohibitive for non-use and decline as use becomes more productive. "Taxing the owner on gross rents" would appear to be narrowly confined to landlords in a tenant-landlord relation, i.e., usually an urban situation. But in rural areas where most unimproved land is found, a tenant-landlord relation would be quite exceptional. On the Georgist view, it is the relation of unimproved, rural land to compacted urban land which distorts urban land patterns; urban land use never takes shape in a vacuum. It would seem all RFRM would do would be to streamline land speculation, not get rid of it.

SUMMARY

The fundamental policy thrust of the Buckle Report on New Zealand of January, 2010 is to seek to explore options for the "broadening of tax bases" in conjunction with changes to the system of social welfare transfers. The chief dilemmas are two. First, the changes are to be brought about without any taxation intended to "change behavior", that is, really change anything in a palpable, readily cognizable fashion. The second dilemma is no genuine theoretical basis upon which such changes might be structured. Consensus-mongering and conflict evasion in the final recommendations reflect the gestation process of the study, one in which agreement was hammered out at the expense of conceptual clarity.

A serious look at living standards in Western industrial society would have immediately brought to light the fact that the lack of taxation of economic rents was making a material contribution to the decline in real incomes of millions upon millions of citizens. Will to resist predatory international forces – above all international real estate interests – is by all appearances nil, so far as the Buckle Report goes. Economic rent (land rent), capital (land) gains taxes, taxation of real (inert) property as value accrues, not merely at time of sale – are all issues which could be a basis for a call to action.