Public Talks

Economic Recovery

American-Hellenic Chamber of Commerce, Athens

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When I was first approached about attending this conference it was suggested that I might speak during ‘a tax reform session’.

Upon receiving my official invitation I found I was being billed to speak on ‘The International Experience for Recovery’ – a good, wide definition allowing plenty of scope, but it raises insuperable difficulties.

Both history and experience tell us that every so often slumps happen, sometimes as a direct result of government action, but equally for reasons that cannot be explained. After a time, recovery sets in, possibly followed by a boom, which in turn is followed by another slump, and so on *ad infinitum*.

Many theories are put forward which hold until rejected by a more compelling theory. In all these ups and downs, and as decade follows upon decade, governments appear to be at the mercy of the economic elements. So what lessons can be learned for Greece, or for any country?

Earlier this year, I published a book called *Public Revenue without Taxation*. To those who have not thought too deeply about public finance issues, such an aim may appear to be an excursion into cloud-cuckoo-land rather than a conclusion from a lifetime of economic study. At least, that seems to be the reaction of most politicians, businessmen and with few notable exceptions, the view of acknowledged leading economists.

Greece is now part of the European Union. In relation to the whole Union it is, from the very nature of its position, a peripheral region and as such suffers from all the economic disadvantages of those regions located on the outside edge of a continental customs area.

Thus, those who live, work and earn their living in Greece need, and are led to expect, economic help and subsidies from the more central and prosperous regions of the Union. The economic help and the subsidies, if properly used, should do much to assist local prosperity and Greece's own economic recovery.

But there is a darker side to this. The European Union is at root a continental customs union, and such a union automatically works to the general economic advantage of its central region and to the disadvantage of its peripheral regions. Thus, without financial help from Brussels, joining the European Union is likely to work to the economic disadvantage of Greece.

Of course, local businesses like subsidies and financial help from outside, for it improves their competitiveness; governments like outside help for it is a way of reducing their local taxes.

However, the European Union has no revenue of its own from which it may make payments to its outer regions. Its income is made up of taxes, tariffs and other collections from its member countries which work to the restraint of trade. This fund is limited.

The only net contributors to the European Union are Germany and the United Kingdom – the other members already take out more than they pay in. Remember, geography has not placed the United Kingdom in the economic centre of the European Union but it is itself an offshore island with large areas as much in need of assistance from Brussels as is Greece.

If the European Union is ever to play any part in the economic recovery of both Greece and the wider continent then it must cease to be a continental customs union, and begin to collect a public revenue that is particularly its own.

What Greece and the other peripheral regions of the European Union need for their economic recovery is true free trade – what business men call a level playing field – not a so-called common market half strangled by taxes, tariffs and similar regulations in the restraint of trade. This issue of free trade now brings us directly to a mistake common to all developed trading communities.

The fundamental question is never asked. What is taxation? For most people tax revenue is understood as a synonym for public revenue and accepted as a kind of necessary evil. Politicians rant about high taxes or low taxes while, in the United Kingdom today, the political buzzword is 'fair taxes'. High taxes are bad, low taxes are good, and fair taxes are, I suppose, like a seductive blonde. But what are they talking about?

The question is never asked and so no answer is proffered. Let us investigate. If we are going to talk about something like taxes it is as well to know what it is we are talking about.

The national income of a country, or to give the internationally agreed and precise title, the Net National Product at Market Prices, may be divided into distinct parts.

First, there is 'disposable income from employment', or take-home pay; that is, the after-tax private income one receives from working which is available to purchase all the goods and services those workers and their families need. Second, there is what I call 'disposable property income'. I call it disposable property income as it is not received as a direct result of working, but as a private income resulting from property already owned, such as savings, investments, land, company shares and so on.

Both of these private incomes, according to John Stuart Mill, the 19th-century philosopher, are private property. Mill admitted in his *Principles of Political Economy* that 'the laws of property have never yet conformed to the principles on which the justification of private property rests'. The essential element of these principles, he wrote 'consists in the recognition, in each person, of a right to the exclusive disposal of what he or she may have produced by their own exertions, or received by gift or fair agreement, without force or fraud, from those who produced it'.

But now, if we accept that the property from which we may receive a private income was obtained by gift or by fair exchange: what then of government? Where is the public revenue from which government may cover its necessary expenses?

Having failed to make any arrangements for collecting what is truly the public revenue, governments throughout the world have fallen back on the easy road and imposed taxation.

They appropriate by the threat of law, if not actual force, what is produced as private income – income from employment, as well as property income. In the United Kingdom today tax appropriates between 40 to 50 percent of what is produced as private income.

What then is taxation?

Hugh Dalton, a Reader in Economics and later a Chancellor of the Exchequer in the post-war Attlee government, wrote what for years was a standard work called *Principles of Public Finance*. In this work he wrote: 'A tax is a compulsory contribution imposed by a public authority, irrespective of the exact amount of service rendered to the tax payer in return, and not imposed as a penalty for any legal offence'.

This is a good definition by a practical expert which has stood the test of time, but it misses one vital point. Although not legally an offence, taxation is itself an offence persistently perpetuated by governments throughout the world against the most fundamental principles of private income and property.

In total as much as one half of what is produced as private income is thus appropriated by government without any attempt to render to an individual an exact amount in return. There may be a macro-economic argument for using taxation but there is no micro-economic justification. Put bluntly, it is robbery, albeit legalised stealing.

This government stealing automatically inflates, to use the terms of John Maynard Keynes, the aggregate supply price curve.

In non-Keynesian language, it inflates the total supply costs of individual firms. The inflation of these total supply costs inevitably raises prices, causes inflation, restricts output and employment, and thereby causes widespread unemployment and poverty.

In other words, inflation of the aggregate supply price by the use of taxation is the root cause of the malaise which has become endemic in our trading economies.

Subsidies or other transfers of government tax funds offer no solution. More spending by government requires more taxation, and so the last state is worse than the first. One cannot have fair stealing, and so fair taxation is nonsense. It may be the kind of nonsense we have come to expect from politicians, even from the press and many economists, but let not Greek businessmen be fooled by such weasel words. All taxation is effectively an income tax. It operates by the legalised stealing of some part of a person's private income. One cannot make stealing fair. One cannot reform stealing; the only solution is to stop it – to change the law.

If Greece and other members of the European Union are to set out along the road to a sustained economic recovery then we must first uphold the principle of private property and set out along the road to the abolition of taxation.

To speak of the abolition of taxation raises immediately the question: How is necessary government spending to be financed?

This is a question which orthodox economists do not ask; nor do they proffer an answer. Search the established literature of this twentieth century and you will not find the issue even discussed.

This is palpable ignorance on the part of the modern orthodox economists. Go back to the last century, or earlier, to read Henry George, John Stuart Mill, the Physiocrats and so on, even back to early Chinese civilisation – in these works you will find out much about what constitutes true public revenue, as distinct from mere taxation.

Even the British Constitution, which has an unbroken history of over a thousand years, does not allow for the subjects of the Crown to be taxed. In the annual Finance Act that is passed every year by the House of Commons we are required to make only so-called 'gifts' to the Crown; unfortunately for the subjects a rider is added that these 'gifts' may be collected by the force of law as if it were a debt. Such is the way through constitutional fictional. Nonetheless, the old notion that a tax is an anathema to a free people remains.

However, though constitutional fiction may be both interesting and helpful, let us return to the actual world in which we live.

The ideas expressed by Henry George, Mill, the Physiocrats and others, though interesting and worthy of much more research, are not directly applicable to a modern trading economy.

More applicable to our day and age is the more recent work of Marshall, a former Professor at Cambridge who is acknowledged as one of the founders of neo-classical economics.

In his *Principles of Economics*, Marshall made a distinction between what he called 'private value' and what he called 'public value'. Private value is the value produced by the work and outlay, by an owner or occupier, directly upon the property he owns or occupies for the time being. He has produced and financed it, so, in accordance with the principles of private property, it is his own, and may be disposed of in accordance with the law without force or fraud.

Any income generated by principles of private property is likewise a private income. Thus, any attempt to tax private income is an offence against the fundamental principle upon which private property rests.

Public value, in distinction, is the value produced by the work and outlay of public authorities, or by the general public other than directly upon the property which they own or occupy. Any income produced by public value is, in accordance with the principles of property, a public income, and it should be collected by the public authorities as a public revenue to defray their public expenses. This is not a matter of right, but a matter of a duty which public authorities persistently ignore.

Having in theory reached a conclusion as to the real distinction between private income and public income which, when collected by the appropriate public authorities, constitutes public revenue, this investigation leads to a further question – can public value be assessed so that the public revenue could be collected by the public authorities?

This is a question which properly trained assessors can and do answer, and have answered, in many parts of the world.

In Denmark, for example, the equivalent of public value is assessed and published annually, although the government fails to proceed to a full collection. In other countries, including the United States, South Africa, Australia and so on, many localities assess public value and collect some part of the public revenue as a local public income. Thus the professional assessors demonstrate that it can be done, although the full collection of public revenue does require the active political and legal backing of the central government. Professional assessors demonstrate their ability: what is lacking is the political will.

To sum up, it is good that all countries of this continent should work together in co-operation and in peace. The European Union is a great first step but while there are advantages there are also economic disadvantages, and it would be foolish for a peripheral region such as Greece to rely on cash hand-outs from Brussels to stimulate a sustained economic recovery.

Our difficulties, such as high inflation, unemployment, and poor living conditions, stem directly from total reliance upon taxation as the source of public revenue. Recognise taxation for what it is; get rid of it, and then Greece can look forward to a future of justice, freedom and prosperity.

This talk may not have been quite what you expected. For that expectation you should call upon a hack politician rather than an economic research worker. However, I trust you now know what taxation is and why it must be abolished. This is not a panacea but a long road with assured results. The knowledge and the expertise are available. It is up to us to provide the political will. This is the only sure way towards economic recovery.

This is the lesson for Greece and for any other country.