

NZ look at life's certainty

WE WON, YOU LOST. EAT THAT!: A POLITICAL HISTORY OF TAX IN NEW ZEALAND SINCE 1840 by Paul Goldsmith. David Ling, 384pp, \$39.99. Reviewed by Paul Walker.

In his introduction, Paul Goldsmith points out that, "Tax has always aroused passions." Unfortunately, those passions have generated rather more heat than light. Goldsmith's book lowers the heat-to-light ratio. The book, which is more descriptive than analytical, offers a history of taxation in New Zealand from the first customs duties imposed in 1840 up to the present day.

One implication that flows from much of Goldsmith's narrative is the impossibility of forcing the government to credibly commit to policy, tax or otherwise. No government can bind the hands of those that follow.

In 1868 two distillers were allowed to open facing an excise tax which was half that of the customs duty imposed on imported spirits. When it was realised that customs revenues had stagnated, in part because of the success of the local distillers, the excise tax was raised, even though, as Goldsmith notes, a select committee "agreed that no-one would have gone into the business in 1868 if they had known they would only have six years of the protection they had been promised". The committee thought, however, that it wasn't "a matter of bad faith for the government to alter things".

Another implication is that convenient politics rather than good economics drives much tax policy. In the 1957 election campaign both National and Labour offered a rebate on income tax. National offered a 25 per cent rebate but with an upper limit of 75. Labour offered a 100% rebate. In the last week of the campaign Labour's newspaper, *The Standard*, put the question to voters in its billboard, "Do You Want 100 Or Not?" They did; Labour won.

A third implication is that incentives matter. Much effort being put into taking advantage of, or trying to stop, tax evasion and avoidance, is one example. High marginal rates of income tax and no capital gains tax, leading people to become income poor but asset rich, is another.

But perhaps the main point to come from Goldsmith's book is that governments are addicted to tax and it's an addiction they don't want to give up. Central government tax as a percentage of GDP was around 5 per cent in 1880, 17% in 1940 and 34% in 2000.

At times in the book a little economics would help. For example,



Paul Goldsmith

Goldsmith writes that one reason given for a "sin tax" on cigarettes is to "discourage unwanted behaviour". Economics would ascribe a different motive. Cigarettes are taxed heavily precisely because the tax will not discourage unwanted behaviour and will therefore raise large revenues.

We are also told that in 1890 the discussion was about the use of taxes to force the break-up of the large land estates. The argument was that these land holdings were not being used productively. But this does raise the question of why these holdings were formed if not to generate the maximum possible income? Why would anyone buy an asset and then deliberately not use it productively? Goldsmith doesn't explain the reasoning, or evidence, behind the argument.

At another point Goldsmith writes that at a time of war there is a risk of inflation if the private sector, government and military compete for resources. He then says that the risk of inflation can be reduced if the government increases tax, since the private sector spends less and thus aggregate demand is reduced. But this is only true if the government saves the tax revenues it gains. If it spends them, and history suggests it would, demand will not be reduced and thus the danger of inflation remains.

Overall, the Goldsmith book is an interesting and informative read which has much to offer anyone interested in New Zealand's political or economic history.

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