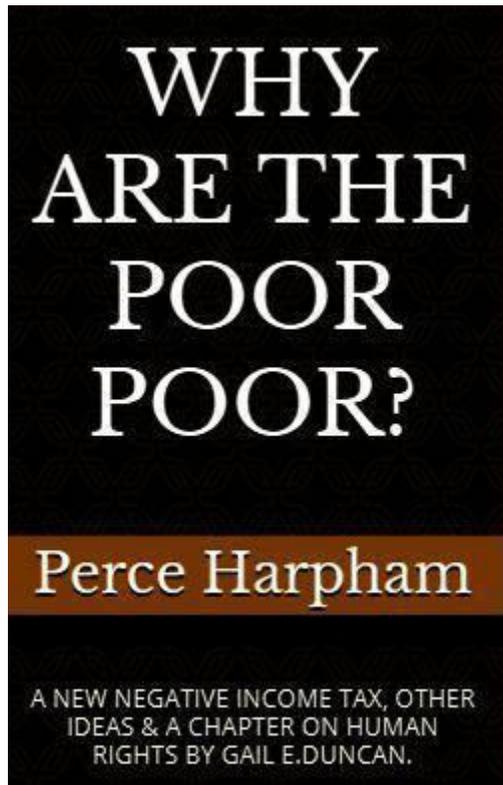


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The purpose of these excerpts is to alert you to the urgency of using the Covid recovery efforts to change an ingrained approach to our personal Income Tax system. The latter is grossly unfair to those on lower incomes. Then I hope that you will spread through your networks the message, and others from my book “WHY ARE THE POOR POOR?”, in the hope that Government will adopt some of these ideas.

The first section of the book dealing with the Harpham Income Tax is a major part of the excerpts. At the end of that, as you will see from the Table of Contents come linkages to allow you to access and distribute either these free excerpts, a full free PDF copy of the book or purchase printed copies or electronic books (ebooks)

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### **Preface**

At 89 I think I am old enough to offer my opinion on all sorts of things. Hopefully my resume at the end of this book justifies that to some extent. I empathise with whoever it was who said "I know I make mistakes – there was once when I thought I was wrong."

Thomas Piketty's book "Capital in the 21st Century" in 2014 was a compelling account of how concentrated wealth shapes the world. And how wealth inexorably increases inequality.

Various solutions have been promulgated, some for many decades. They are now gaining greater traction. Here, I will explore some of the systems used by Governments which contribute to the continued rise of inequality and will propose some solutions. Most of these ideas have had extensive coverage at a philosophical level but almost nothing has been published about the practical difficulties of the

detailed design, transition from the present systems, costs, funding and political acceptability. This book is an attempt to provide a "sketch plan" of some of the work that is required to make the dreams come true.

In some cases I can make suggestions regarding the big problems such as why the Poor are poor – in other cases I only perceive the problems, perhaps vaguely. Often I have found my views to be better expressed by others. So I have used extracts from the work of others quite extensively. I have worked for some years on the potential and problems of Basic Incomes (here I have to thank Bill Rosenberg, Gail E Duncan, Hugh Stevenson and especially my wife for 65 years, Myra, and our children). In some form or another Basic Incomes have been advocated for several centuries and " Googling " Basic Income" at the time of writing yielded 582,000,000 "hits" so I have not attempted to provide a bibliography – just to acknowledge the sources of my quotations.

Much of my writing here is concerned with current problems in my home country of New Zealand. This is a lucky country and, at about 5 million people, it can be seen as a useful "pilot plant" for testing ideas which may possibly be of interest more widely. Certainly it is easier to contemplate being able to take new initiatives on the smaller scale.

I want to convey the need for urgency in transforming our current approach to inequality in the interests of rich and poor alike. By improving our systems we can provide a level of security for our people against the many uncertainties that lie ahead. I will talk of some of these uncertainties in later chapters. The Poor have fewer alternatives available to them. Already, with worldwide media coverage, they are beginning to react, if not revolt.

Previous financial recovery mechanisms have resulted in banks getting the benefit of "Quantitative Easing" so that they could lend money to people in order to boost spending power. Not surprisingly this resulted in a huge increase in personal debt and sowed the seeds for the next financial collapse. One solution is to give money directly to

people, as with a Basic Income, so that they can spend it and stimulate the economy without going into debt.

And the effects of the Covid 19 virus will destroy people, companies and governments. There are now two different situations to be considered - the "normal" situation as it was before this pandemic and where we are now.

## **Covid 19 Needs the Harpham Income Tax**

### **What's in a Name – Harpham Income Tax**

There are many names for variations of the concept of universal payments to everyone. There can be huge confusion and dissension between advocates whose intentions are identical. "BI" is often used with a leading U meaning either "Unconditional" or "Universal". These are attributes of the same thing but "Universal" is often taken to mean that Superannuitants and Adults will be paid the same. Hence others and I have dropped the U part.

Few of the advocates have thought through to the implementation of their concept. Rather than set up a new department the payments should be made through one of the existing departments which already have much of the necessary infrastructure. My choice would be the Department of Inland Revenue which currently makes refunds as well as collecting Income Tax. It also has a database covering most of the individuals who would have to be registered. There is a natural association between any form of Basic Income and the Income Tax that will, at least partially, pay for it.

The term "Negative Income Tax" was first used by Milton Friedman when he proposed a limited form of Basic Income. It is a wonderfully appealing name to many and it does imply, to the arithmetically inclined, something of how implementation of the various proposals may work. In this sense the "Harpham Income Tax" (HIT) that I am proposing in this section is a "new Negative Income Tax".

The (HIT) leads to the payment of a modest Basic Income for adults but while it should be a component of any BI system it is only a component and BIs should ultimately be larger and the extra be funded by a different tax. Preferably one that will reduce inequality. Therefore I do not want to call the HIT a Basic Income with the implication that a HIT is all that needs to be done

There are otherwise intelligent people who refuse to think about Basic Incomes saying things like "Basic Incomes are either too large ( they talk of \$22,000/yr) to be sustainable or too low to be useful". If the generalization was true then we should immediately cease all Job Seeker benefits which are now up to \$13,000/yr. Based on 2015/16 data and allowing for inflation \$13,000/yr would be the figure chosen below for the Adult (18 to 65) Basic Income when the economy has recovered to the stage where a Resource Tax can be established. But, in the meantime, I will explain why a Harpham Income Tax (HIT) yielding a Basic Income of \$9080 per year is needed to correct the long standing unfairness to the poor which is built into our Income Tax system. Also how this correction will be paid for so that it is fiscally neutral.

The HIT component is particularly suited to the present uncertain time. This is because the combination of the HIT payment with a predominantly flat tax corrects a long standing injustice. I can recall paying, I think, 65% tax on the part of my salary over \$70,000/yr. In those circumstances it was not entirely unreasonable that I also then enjoyed all the exemptions from the top rate which applied to those with lower incomes. But when the top rate was whittled down to the present 33% while the top salaries rocketed up then the unfairness became offensive and the correction is long overdue. Also to go to the level of Basic Income required to carry out the improvements needed in our benefit systems another tax would be required. This would be unwelcome. But the self financing HIT, as I will explain, should be welcomed by almost everybody.

This pandemic has, for the time being, totally invalidated much of the arithmetic and data on which the later analysis in this book relies. However the results of that analysis will remain largely valid whatever

the "new normal" becomes. So I will leave that analysis and reasoning unchanged and in this separate stand-alone section will show that the HIT ideas for reform of our systems are immediately applicable to our recovery from this shock. As usual it is the poor who are most affected by any disaster. This Covid 19 disaster will force many changes to the world's established systems. It is my hope that some of the "fringe" or "wacky" ideas will now prevail to lead us from the present confusion, inequality and uncertainty into a new normal which gives the poor the dignity which is their human right.

Since Covid 19 has indirectly caused the collapse of the economy there are suddenly many people and businesses without work .The 2020 and later Budgets are boldly planning to take advantage of the opportunity to build much of the infrastructure that we badly need for the future and thereby to get companies operating and many people back into work. It is also providing for temporary payments to many displaced workers, for free training and many other well thought through provisions. It is an emergency response to get us through the immediate economic collapse.

Instead of seeking a multiplicity of modifications to many of our present systems in order to recover from the Covid 19 disturbances I will show that HIT will contribute to the success of these plans. Other specific payments will still be required for various purposes but can be lower with a functioning HIT

Descriptions of various matters in this section will be repeated or elaborated in the main body of the book.

### **A Major Change In Our Financial System**

Government has done a great deal to improve the functions of Government while working within the "neo-liberal" constraints such as keeping total Government expenditure within a nominated percentage of Gross Domestic Product (GDP). I have never found a coherent reason for such a choice but somehow it has become sanctified in the minds of many. Government has now budgeted to abandon this concept and to do what a Government should always do – namely to use taxes and finances for the long term so as to use the various resources available to accomplish what is required for the physical and well-being of its citizens. This is a major change to make the economy serve the people rather than vice versa.

This is being done in a way that holds hope for the future. Without the pandemic change it was clear that there would soon be a financial crash brought about by the same financial systems which have produced such crashes with monotonous regularity and which have increased the inequality between the many and the few in terms of income, wealth and power. This inequality has been creating the conditions for failure of democratic systems and the emergence of authoritarian "leaders". Many thinkers have been proposing changes to our financial systems to control and reverse these conditions.

Amongst the changes being discussed are two which are closely related. These are "Positive Money" and "New Economics". Both seek to restrain the power of the banks and big corporates.

At root is the peculiarity that banks are allowed to lend many times more than they could pay if all their promises to pay were to be called up. If an ordinary company gets into this position its directors can be liable to the company's creditors for "trading while insolvent". This difference means that banks are able to effectively "create money" up to the "bank ratio" multiple of their assets. And then to lend this money and create debts which have to be repaid with interest. Many of the financial thinkers consider that such creation should be a prerogative of Government only.

One of Geof Bertram's recently delivered papers provides an easily understood understanding of the complexity and practicality of these issues. Particularly for a small exporting nation such as ours. See the video or slide presentation hyperlink at Ref 1 (meaning no 1 in the list of References at the end of this book) .

Another major change is a clear demonstration that the new financial ideas are being applied in an intelligent fashion by the Reserve Bank of New Zealand (RBNZ) and Government. This requires an understanding of the Reserve Bank and its operations. The RBNZ is a "Statutory Body" which means that it has powers given to it by its own statute (law) to determine "Monetary Policy" as distinct from "Fiscal Policy" (taxation) which is controlled by Government. It has no shareholders and exercises its powers independently of any direction from Government although it is part of Government's Balance Sheet and Government gets its profits or losses. Its function is to regulate banks, to keep inflation within the bounds of 1 to 3%, to monitor the exchange rates and unemployment. It does these things by direction

in some cases and by lending or borrowing or selling or buying bonds and overseas currency. The RBNZ sets the interest rate at which it lends " money" rather than this being determined by competitive market forces. In many respects it is the Bankers Bank.

In the same way that Banks are allowed to create "money" by lending up to their bank ratio multiple the RBNZ is allowed to give credit ( issue debt) up to a defined maximum.

This is all a somewhat subtle way of preventing Government from itself creating money without limit or anyone knowing about it. The limitation is intended to prevent the runaway inflation that has afflicted many nations.

My understanding of the details of our complex system is very incomplete but I see hope for the future in the combined actions of the RBNZ and Government. Reacting to the Covid 19 threat to the economy in its own way alongside Government the RBNZ has taken the necessary steps to increase the maximum debt it can issue. This means that the RBNZ will be able to buy Government bonds to what appears to be the extent necessary to allow Government to fund its deficit budget with the minimum of overseas borrowing.

Since much of the Government's budget deficit will be spent on imported capital goods and other necessary imports then to the extent that we do not earn sufficient overseas funds by exporting Government will have to borrow overseas funds either directly, through the RBNZ or through the banks which do their own overseas borrowing.

But Government borrowing from the RBNZ, or selling bonds to it, is essentially Government creating its own money as advocated by the new economic thinkers. The balance of Government's borrowing from the RBNZ will show how much new money has been created. But the country as a whole does not owe this amount to outside agencies so that unlike Greece and other countries it is sheltered from future austerity demands from the overseas or local creditors. And if the overseas borrowing allows us to increase our net overseas earnings then it will not be a "debt burden".

The "creation" of money by the RBNZ is now known as "Quantitative easing". Who gets the money is then very important. It seems to have escaped widespread notice that following the GFC when banks were financed by "Quantitative Easing" and made credit

easily available then this stimulated the economy because people borrowed from the banks and spent accordingly. The total of personal debts skyrocketed. So did defaults - setting the scene for the next crash. But the collapse of our financial system has been pre-empted by Covid 19.

Thus it is important that the created money be, in some way, directed to people as individuals thus allowing them to spend and stimulate the economy without them acquiring debt in the process.

Also see “Repurposing the Cullen Fund” in chapter 7”

### **Negative Interest**

I cannot imagine any normal bank lending money with a negative interest rate and cannot understand why, considering the huge advantage they have with their bank ratio multiple, the idea should be entertained. How would a state-owned organisation justify making such gifts to private shareholders? It is just such gifts that exacerbate inequality.

But when loans are repaid they are usually repaid with interest. So, if the rate of circulation remains the same, more money is continually required to keep prices steady. It seems to me that a case could be made for the RBNZ to buy Government Bonds at a negative interest rate approximating the average interest rate so that Government can keep paying for work that it commissions without increasing its notional debt level. Or raising taxes.

### **Harpham Income Taxes Will Help the Recovery**

It will take time for many of the budget provisions for Government expenditure on physical and other projects to be carried out and paid for so that the money enters other parts of the economy. Hence the provision of short term assistance to businesses and people alike.

But there is a need to provide for long term security so that individuals can see their future with some confidence, can survive, plan, train and spend, spend, spend. Many need money now and the market cannot function if people have no money.

The Budget provisions are necessarily at a high level. Individuals will still face the possibility, regardless of their wealth or position in the income hierarchy that they may be suddenly left with no income at all through redundancy or otherwise. This is a frightening prospect. If everyone had even a small Basic Income people could be clear that

they would never be in this position. So the HIT component of what will later become a more comprehensive income will be valuable.

A Basic Income (BI) is defined as a regular payment to everyone in a particular age group regardless of their income, wealth, sex or relationship etc. Superannuation is a great, if not perfect, example. To avoid misleading people BIs should be tax free and not counted as income for tax purposes.

Basic Incomes can let us escape from the horror of "targeting" and classifying some people as "undeserving poor". The latter get denied any Government benefit. What are they supposed to do in order to live? The higher the Basic Income the more benefits and hardship allowances can be dispensed with.

Later in the book I give an analysis which based on 2015/16 figures arrived at a BI for adults in the 18 to 65 group of \$11,000/yr which allowed many of our benefits to be replaced without any loss to the beneficiaries. This required the HIT plus a Resource Tax which I will describe later. Scaling up from 2015/16 to 2020 would increase the Adult BI to about \$13,000/yr paid for in the same way. So a HIT yielding \$9080/yr would be a good start but the further taxes would be difficult at this time.

Basic Incomes have the merit of injecting money into the economy by giving it to people directly. Their spending will then inevitably work its way through to businesses, banks and the like. "Trickle down" has failed the poor. "Trickle up" will let the market work and allow people to make their own judgements on what is the best use of money for them. They will get a new level of freedom.

Providing loans, while useful temporarily, does not necessarily provide a satisfactory long term effect. It has the danger that businesses and people continue until the owner of the debt calls it in, for whatever reason. Many, particularly struggling small businesses, might be well advised to sell-up while they can get something for their assets. Even an interest-free loan could result in them continuing into bankruptcy. There could be a bankruptcy "pandemic".

I, and others, have long advocated a careful lengthy approach for Basic Incomes. In this approach one would set up an expert study group to engage the public in considering the level of payments to be made, the benefits to displace, the taxes to levy, and the problems of

transforming both the tax and benefit systems. Select Committees and all the usual Government procedures would then follow.

But recovering from Covid 19 is urgent and we need to get a good system of BIs for Adults into operation at some level quickly. And to evolve them from that point. The arithmetic is complicated by the uncertainty in census information and future economic health affecting the tax take.

It is important that the changes to be made now will remain for the long haul in order to provide the security that is needed for recovery.

### **Unfair Income Tax Increases Inequality**

One key to the long run success of BIs (and for social acceptability) is to make our Personal Income Tax system fair. If we believe that the better off are paying their fair share of tax then we do not have to worry about means testing and all the funny little rules that currently surround any payment by Government to people. And if the wealthy are getting the same payments from Government as the poor they should understand the fairness of correcting the structure of our Income Tax system. Many will realise that they may, without warning, suddenly join the ranks of the poor, or the relatively poor. For example a person with most of their wealth in Air New Zealand or other companies which will by-pass dividends in order to survive. Such people can suddenly find that their income has ceased.

Consider that in our current Income Tax system on an income of \$14,000/yr, because the tax rate up to that level is only 10.5%, the saving from the exemption from the 33% rate is \$3,150/yr. Then this saving is added to by the rate above \$14,000/yr up to \$48,000/yr being 17.5%. Then at \$48,000/yr the rate goes up to 30% until the top 33% rate at \$70,000/yr. The savings are cumulative so that at \$70,000/yr the saving becomes \$9080/yr. And this saving is the same for all higher incomes. At the higher level one gets all the exemptions available to those at the lower level and these higher savings are simply not available to those who earn less. What a wonderful way to promote inequality!

In the 2020 election process it is sad that the National Party was, as in 2017, attempting to deal with the problem of "Budget Creep" due to

increased income pushing the lucky recipients into a higher tax bracket. National proposed to exaggerate the very problem that is so unfair to those with no or low income. The more you have the more you get. National's proposal moved the steps from 14,000 to 20,000, from 48,000 to 60,000 and from 70,000 to 90,000. Below \$14,000/yr there is no difference but on top of the present savings from the current exemptions the additional amounts at the different levels of income would be - with no income or up to \$14,000/yr nothing; then on \$20,000/yr and up to \$48,000/yr it is \$420/yr; then progressively up to \$64,000/yr it becomes \$2,420/yr; rising progressively again so that on \$70,000/yr it is \$3,120/yr and finally on \$90,000/yr and above it is \$3,720. These tax cuts would do nothing for the more than 20% who earn less than \$14,000/yr. Unfairness and inequality would be increased.

The other parties, with the exception of The Opportunities Party (TOP), also proposed making changes to the Income Tax system while retaining the stepped structure. The Green Party proposed to exaggerate it while having the courage to propose a Basic Income which would ameliorate the effects. They proposed to pay for the BI with a new Wealth Tax. TOP, a small party, did propose to eliminate the steps by going to a flat tax of 33%, having a BI of \$13,000/yr and imposing a property tax by treating the equity in properties as income earned at a risk-free rate of return on that equity. I applaud this approach with some minor reservations. But, as with the Green's proposal, I do not think that it is wise to be quite so ambitious in the current pandemic situation and to impose completely new taxes in order to start with this level of BI..

If we currently had a tax rate of 33% but paid all those in the 18 to 65 group \$9080/yr free of tax then the people paid \$70,000/yr and over would be no worse off and everyone on a lower income, or no income, would be better off. In fact over 82% of people would be better off. So I take this HIT as the starting point for exploring Adult Basic Incomes (BIs). Superannuitants already get what, after tax, is essentially a Basic Income at a much higher level for the good reason that they are beyond working age for the most part. And Working for Families has been improved for Children and Teen-Agers. Getting BIs

for the children to the carers for children on behalf of the children would help further.

The Adult group is some 4 times larger than the Superannuitant group so the financing problems are larger depending on the size of the Adult BI. The immediate pressure is to get something to the Adult group and to correct various unfair anomalies in the other two groups at a later stage. I refer here to such peculiarities as paying different rates of Superannuation depending on marital or other relationships. To begin with we can continue Working for Families and Superannuation effectively unchanged either as to funding or delivery.

### **A Modest Basic Income for all Adults to Start**

In order to get money into the economy quickly our aim should be to start with only the Adult BI. The fairness argument regarding Income taxes advanced above suggests setting this initial Adult BI at \$9080/yr tax-free with a 33% tax rate on all income for everybody but not on Superannuation itself or on Working for Families payments. It will be shown below that this is close to fiscally neutral or even positive under the present circumstances.

A basic principle to observe in any transformation is to at least retain the income of any present beneficiary. So reducing present benefits in order to pay for the Adult BIs is not tenable. However if the benefit is above the BI then there is no reason why they should not have the BI and the benefit be reduced accordingly. And if the benefit is below the level of the BI then it can be abandoned along with the accompanying bureaucracy, surveillance and harassment.

We already have a substantial rate of unemployment and at the current top rate of "Job Seeker" benefit there will be many getting \$13,000/yr after tax, so making this figure the adult BI is very appealing as we could then get rid of some other benefits and much of the bureaucracy. But I suggest that initially, because of the Covid 19 effects on the economy, we should start with the 9080/yr and 33% arrived at above. Otherwise we will have to impose the Resource or other new taxes in order to meet the costs of the BIs and it would be better to delay such taxes until the recovery is well under way.

The Adult BI must include the "missing people" such as house-partners who currently are denied benefits because they have a partner with a job and the "undeserving poor".

Superannuitants would not have their after tax Superannuation income changed by this change of rate. Any "other" ( non-super) income would all be charged at the new rates. Working for Families payments would also be adjusted for the fact that the carers were getting the adult HIT. The claw back for earning would be abandoned as the income would be taxed at 33% anyway.

The effect of these changes would be that there was about the same cost for Superannuation and Working for Families as at present and payment arrangements would not change,.Other benefits for adults who are below \$9080/yr would be simply replaced by the HIT. And those above the Adult BI would be reduced by the amount of the HIT. Before looking at the balance of costs of such HITs and the changed Income Taxes we need to consider the special circumstances in which we now find ourselves.

### **Government Will Get Money Back**

I once asked Jas Mackenzie (he had a distinguished Treasury career as an economist and then as Secretary of Labour – sadly he died on 19 April 2020) how much Government would get back if it gave away more money. To my surprise he answered promptly that a study had been done and concluded that Government would get back 1.6 times what it paid out. He quickly pointed out that this was on the assumption that there was unemployment and available productive capacity. These are, of course, the very conditions we fear will apply in the immediate future due to Covid19.

The Treasury's "Total Outturn" data for the Year to Date to September 2020 gives some support to this idea. From about March of 2020 Government responded to the Pandemic by abandoning its Budget Responsibility Rules and pumping money into the economy. The GST collected by Inland Revenue Department ( IRD) is shown in the Treasury Report as being some \$1,324million ahead of forecast.

There is certainly the possibility that some of the money paid out will be returned to Government very quickly. Our Goods and Services Tax (GST) applies to all purchases with no exceptions. So for every dollar spent then GST at 15% should return \$0.15 to Government. There is a problem because GST cannot be collected from various illegal activities, "mates rates", "cash jobs" and exchange of services without financial transactions etc. And smaller companies do not have to register to pay GST. But assuming that such activities consume one third of the GST payments then government would still get back some 10% of what it paid out. But if the Government pay out came from taxation it would have been spent anyway so there would be no recovery for Government. However the pandemic crisis has changed the situation.

To support the economy Government is acting in an unprecedented manner making loans and support payments on a massive scale using funds derived by the Reserve Bank (the RBNZ) buying Government bonds in order to provide this "new money" which has not been taken away from anyone who would not have spent it because they never had it. And this new money now exists. It can be used by the recipients as they see fit. And even if Government does not get its full GST when it is first spent the total amount remains in circulation. And each time it is spent Government gets its 10%.

Some actions (as well as putting it under a mattress) stop the circulation of this new money. The most obvious is if it is deposited in a bank. Then, unlike ordinary businesses, the banks are able to lend more than they have without being declared insolvent. If the operative ratio is 8 then they are able to "create money" and lend 8 times more than the deposits. This could give Government 8 times as much GST as they would have got from the taxpayers initial spending. And the new money made by the banks can also circulate. That depends on people being prepared to take on the debts needed for them to get the money from the banks in order to spend it and restore the economy. (The increased personal debt burden would be likely to lead to further financial crashes.)

The reasoning about the returns to Government are, of course, a great simplification especially as present benefits are either spent or saved and many of such benefits would be subsumed into the HITs and spent or saved as before. Nonetheless any “new money” paid out could be returned to Government both through the mechanisms above and the boost to economic activity – especially in times of a downturn in activity. It should help to cover some shortfall in the difference between the cost of the \$9080, the income from the amended taxes and any errors in the calculations shown below. Indeed, with the increased Income Taxes being paid by the recipients of the HIT it appears possible that the HIT would be a profitable investment for Government – certainly until the economy recovers and Government ceases to issue bonds and borrow money.

I will go into more detail below about the cost, if any, to start with a HIT of \$9080/yr. But we will not want to continue to sell bonds to the Reserve Bank and, as the economy recovers, profits, employment and Government's other tax revenues will improve. With the HIT in place the time will come to raise the HIT payments to a higher (Basic Income) level that allows most of the current benefit structure to be abandoned and the problem of inequality to be addressed. My suggestion then is that the BI/HIT be raised to \$13,000/yr, and something like a Resource Tax of between 0.5% to 1% of Improved Property Values used to also finance several other changes.

For this purpose we need to have the local bodies setup to collect the Resource Tax at the same time as their local body rates. We could then make superannuation payments tax free and, free of any marital arrangements, as well as set all of them at the same rate as the present living- alone rate after tax. And abolish the present Working for Families by having a different BI for all children and teenagers. Thus there would be some additional payments at the same time as the Resource Taxes start to bite. Inequality of accumulated wealth would start to be reduced. At this point the whole system becomes the one that I have earlier envisaged – probably with less difficulties of transition from the old systems.

## Getting Started

In my earlier work I have assumed sufficient time to study the problems and to put in place solid safeguards against mistakes and misdemeanours. But the urgency now means that implementation of a robust system needs to rest on current foundations which are currently imperfect. They can then be modified at leisure. The current unemployed should be able to be started almost immediately on the NIT and 33% tax rate on other income. These people are already identified and being paid. They would still have a smaller unemployment payment to keep their total Government payment unchanged but stand down periods and the “poverty trap” etc would disappear.

The people who are going to be paid the HIT and who will also pay the new Income Tax need to be properly identified. There is currently no such register. We are fortunate that Internal Affairs have their Realme identification system operating and proven at a reasonable scale. It could be progressively enhanced with facial recognition systems, voice prints and fingerprints. But to begin with we need to make use of all the existing databases to establish a close to perfect and complete database of all those who qualify for the Adult (18 to 65) HIT, hopefully with no duplicates and no omissions.

At present there are many Government Databases – the Electoral Roll, Inland Revenue, Social Welfare Department, Internal affairs (passports, civil unions, births, deaths and marriages etc) as well as many others in Corrections, Customs, Transport and the like. Possibly these should all use Realme as the primary identifier and be cross-linked in many cases using this identifier. The many duplicates, multiple names and addresses will need to be purged. And decisions will be required on the treatment of those on working visas and the like with continued payment of the BI possibly being dependent on their continued return of Income Tax to IRD as well as still being alive and remaining in the country.

Short run, the IRD's database is likely to be the closest approach to having a comprehensive list of all NZ residents who would get the Adult BI. The 2018 Income Bands table from IRD lists 3,860,180

"customers". Statistics Dept gives the NZ population as at December 2019 as 4,951,500 with about 3,200,000 adults in the 18 to 65 age range. So it seems to me to be likely that the IRD will have a very large proportion of the Adult 18 to 65 group which would be eligible for the Adult BI. IRD will also have addresses and ages on record. More recent figures put the total population at 5,000,000 so let us increase the number of adults to 3,250,000 for current calculation.

The logistics of setting up this new database and the associated payment systems will largely determine the time needed to start HITs. The new Income Tax has to be collected and the new BI paid out. Clearly IRD will collect the money much as it does now. But the recipients need a convenient bank card system for withdrawals from their accounts. And IRD can well pay into bank accounts just as it does now.

With payments from IRD channelled through KiwiBank, as I have suggested elsewhere, then Kiwibank will have to produce and distribute some 3,250,000 bank-cards as well as to coordinate with IRD, Internal Affairs and others. There is therefore a possibility of getting a substantial Adult BI into place quite quickly using the IRD database as a starting point for the data matching, leading later to the full Realm database and then to add to it over a few months as "missing people" register. This database would be expanded by cross matching with others and in all cases there would have to be validation by email or otherwise (as is done with electoral rolls) and similar cross checking as with passports.

For those who were still missing they would have to enrol with IRD by getting their Realm identifier and their tax number. This responsibility would be advertised and they would be entitled to have their payment backdated to the start of the BI. Existing Realms, subject to not having been recorded as dying or migrated etc, would have to be renewed in perhaps 9 months, and again, maybe, every 3 years. There are currently 86,130 people listed by IRD as having no income. There are also many who, as a human right should get payments from Government but who currently do not. An example is a woman bringing up children but who is not eligible for a benefit

because she has a working partner. Those who don't fill in required forms and identify themselves or accept the identification process don't get the BI.

The process set out above could well be truncated in the interests of urgency. There will be people who currently have two IRD identities in order to split their income to use more of the exemptions. They are unlikely to also have two National Health Identifiers (NHIs) under the same names. So many people could be started on the new tax rates and BIs with certainty very quickly. And it will be in the interests of most people to join the system as soon as they can – with the "mopping up operation" to follow after some months.

### **The Cost for a HIT of \$9080/yr**

Note that all cost calculations need to be reworked. Forecasts will be needed of the new situation that will exist with increased unemployment, possibly reduced wages and salaries, reduced taxes and property valuations. However for what they are worth the available numbers are interesting. Particularly considering further taxes which could be considered before moving to the BI level of \$13,000/yr with its attendant Resource or other tax.

The IRD 2018 taxable Income bands show 3,860,180 people with a total assessed tax of 35,706 million dollars. If, as I suggest, the income tax was levied at a uniform rate of 33% on all income the assessed tax would be \$58,201m. So this change would net roughly 22.5 billion more. This would be increased by about 1.4bn by raising the rate above \$180,000/y to 39% and applying it to all income. This new step is now being established by the Labour Party Government following the 2020 election but unfortunately they are allowing the benefit of all the earlier exemptions to still be applied. (My suggestion in "Choice of Tax" above would raise more if were implemented). So my suggested Income Tax changes would have raised some 24bn in 2018. Because incomes and taxes will be reduced with the pandemic let us ignore the inflation from this 2018 figure which would normally have occurred.

The increased rate to 33% would not be applied to the tax-free portion of superannuation. On the 2015/16 figures that I have this

would have been some \$1.64bn so the above figure is overstated by something like 2bn. So we can expect the gain from the increased taxes to be, say \$22.5bn. (Note that this figure excludes Superannuation and Working for Families etc but does include Superannuitants "other income".) But the cost would be much more certain. With 3,250,000 people in the 18 to 65 age band the cost at \$9080 each is some 29.5bn. A difference of some 7bn if the rates were raised on higher salaries as suggested. Where might this remaining 7bn come from?

It would probably be recovered by the HIT paying part of benefits, excluding Superannuation and Working for Families but including accommodation supplements. For example if, as forecast, unemployment reaches 8% then the first 2.3bn of their benefit would be from the HIT payment. The net benefit would remain unchanged. Beneficiaries would not get both their normal benefit and the HIT payment. There would be some saving in the cost of bureaucracy which would occur gradually and not be fully realised until later. It might then be of the order of 2bn. The bureaucracy will be needed to set-up and stabilise the transition. Also making a large number of civil servants redundant at a time of high unemployment is not attractive so let us ignore this at the beginning.

There is another major issue which disadvantages the poor. This is their inability to profit from moving some or all of their affairs into a company or trust with the tax advantages they would then be able to access. One of the most obvious issues here is the 28% tax rate for companies and trusts. The apparent reason for this being less than 33% is the power of companies and their shareholders. It is discussed in chapter 4 below but it is not suggested that this should be dealt with in the current circumstances.

Finally, in "Government Will Get Money Back" above I have pointed out that when the HIT payments are spent then, under current circumstances, Government will get successive Goods and Services Tax (GST) returns which on only 4 cycles, and assuming one third of GST is not reported, will return it some 50% of what it has paid out.

And another 4 cycles would then total 75%. So any money which Government would pay out as “new money” would likely be almost returned to it.

Of course people’s behaviour might also change as they have more or less money. Some of those above \$70,000/yr of income may well have unemployed partners who will be \$9080/yr better off. They may choose to spend it in which case Government gets its GST. Or they may put it into a bank where, if people are prepared to shoulder these debt burdens and the banks are prepared to allow them to do it the GST return to Government could be much higher. And the total of personal debt could become horrendous.

It should be clear that the HIT will be close to fiscally neutral or more - even positive. I have no information on the “velocity of circulation” of money – particularly under the circumstances we are facing . Let me guess that 4 cycles of GST would be completed within a year and that the maximum of loan money that Government would require would be, perhaps, 7bn for 6 to 9 months and to then have it repaid with a positive cash flow thereafter. Using these same 2018/19 figures the 82% of people who earn less than \$70,000/yr will be better off by an average of nearly \$4,400/yr. At incomes outside the brackets and with annual savings compared to the current income tax inside the brackets the result is: - 0(9080); 14,000(5930); 48,000(660); 70,000 and above (0). Note that a non-working partner who is currently denied any benefit will get their individual HIT payment even if the working partner is on an astronomical salary.

Those on \$70,000 to \$180,000 will be in exactly the same position as at present while the nearly 2% above \$180,000/yr will, on average, pay an extra \$19,185/y with the Labour Party boosting their rate to 39%. However Labour will still be allowing them the \$9080/yr HIT benefit which will compensate for the loss of the earlier exemptions.

When the economy is running at capacity it will be time to increase the Basic Income including the HIT component and funding it with another tax specifically intended to reduce inequality of wealth as well

as income. This may be a Resource tax, as I suggest, or something else.

### **Timing and Cash Flow Problems**

Even with this first step for NIT we are talking of a major transformation with a number of component parts. The systems to be put in place before starting operations require a number of Government departments and later (when the payment is increased and we move to a full Basic Income) requiring local bodies to amend and extend their systems in order to collect the Resource Tax. These will have costs. And even when the latter are ready and go into operation the outflow of money is likely to be going to exceed the inflow for some time.

Paying the HIT and charging the new Income Tax rate will occur more or less concurrently but the Resource Tax later will have to be collected at the same time as the local body rates so there will be a deficit until these rates are collected unless there is careful timing of the revised payment and other benefits.

With the \$9080/yr rate for the HIT then the deficit between cash inflow and outflow will be at a level which will be recovered a little slowly by the extra Goods and Services Tax (GST) recovery as noted above. And we make the final changes to the larger HIT (possibly then called a Basic Income) and other benefits under less pressure. Clearly there is a lot of planning to be done but the Public Service is well able to deal with the challenge. The community and other benefits noted in Chapter 3 below will follow.

Increasing the base Income Tax rate beyond the 33% could be counterproductive in the current circumstances. So could increasing the tax on trusts and companies although it should happen as soon as possible as a matter of fairness. I conclude that the best way forward is to just proceed with the \$9080/yr HIT and to judge when to move to the higher level of BI payments and improvements with an accompanying tax such as the Resource Tax. This is described in detail in Chapter 6.

The payments in BIs could well be seen as if Government was investing in the business of gathering taxes and therefore paying citizens so that they could later continue to pay taxes. Indeed that repayment will start immediately the money starts to be spent. But the important thing at the present time is to introduce HIT as a means of making our Income Tax system fair to all. Instead of those with the most getting more benefit from exemptions than those with the least.

### **The Numbers are Compelling.**

The IRD kindly publish annually, in spreadsheet form, thousand dollar bands of income showing the number of people, their declared income and assessed tax. The most recent publication is for the 2018/19 year. As well as the elimination of unfairness with tax exemptions the numbers easily derived from this publication seem to me to be absolutely compellingly supportive of the HIT approach:

1. The 82% of people who earn less than \$70,000/yr will be better off by an average of about \$4,770/yr. Those with no income will be better off by \$9080/yr.
- 2 Those with an income over \$70,000/yr will pay \$9080/yr more and receive \$9080/yr so will be unaffected by the change..
- 3 There are no steps in the tax scale to "creep".
- 4 The cost of the HIT payments will be about \$29bn.
- 5.The extra amount collected by removing the exemptions will be some 22bn
- 6.Benefits (possibly including ACC and accommodation allowance) can be reduced by the NIT amounts that are being paid without altering the beneficiaries net position. This may well cover the difference.
7. If It is necessary for Government to make up the HIT payments by borrowing this means that it has not been taken from others in taxes. So Government's payments will result in new spending which would otherwise not take place. The economy will be stimulated and Government will get 15% back in Goods and Services Tax (GST) every time there is resultant spending or saving. Even making a generous 33% allowance for evasion and other factors then, as noted above, even after only 4 rounds of spending Government will have recovered from GST some 50% of its input and after 8 rounds

some 75%. Government will also gather taxes from the jobs and profits that are created by the HIT payments.

8. It is clear that the HIT will be fiscally neutral or, more likely, positive.

9. Many of the community benefits that are expected from a higher payment as a Basic Income incorporating the HIT would be achieved at the lower level.

10. The HIT gets money into the community where it can be spent without incurring personal debt as would be necessary with money supplied to the banks. If the money had to be borrowed before it could be spent then personal debt would increase raising the possibility of future financial crashes and increasing inequality.

### **END OF COVID SECTION**

**Now that you have read this first section you may be interested in seeing the whole book or knowing more about the authors. In either case, or if you have already decided to go further click “Go To top” below and then choose your option from the table of contents. If you need more information about the book in order to make a decision then first read the Summary below.**

### **Summary**

A self-contained section at the start deals with the need for the urgent initiation of what I call the Harpham Income Tax(HIT) for Adults as a part of plans for economic recovery from the effects of the Covid 19 pandemic. HIT is all about reforming the current Income Tax system. HIT is a component of a more complete and larger payment package referred to as a Basic Income. The latter goes further to replace large parts of the current Benefit System with all its attendant problems of administration and surveillance etc. This requires a further tax and would take much longer to become operational. The HIT would be largely administered by the Inland Revenue Service and could be put into operation relatively quickly with the other features and payments added later. It will be shown that HIT will provide a modest Basic Income and be substantially fiscally neutral or, possibly,

even profitable for Government during the Covid 19 recovery.

The rest of the book after the first section goes into more detail using data from the more "normal" situation in (2015/16) that preceded the pandemic. This analysis will be relevant as the recovery progresses. It may well be the case that HIT is retained as the name for the larger change but the rest of the book following this first section will revert to discussing the more complete system under the name of Basic Incomes. With the more complete system the discussion "Repurposing the Cullen Fund" in chapter 7 suggests using this fund with Basic Incomes to support the Reserve Bank's efforts to stabilise the economy.

Part 1 is concerned with the more complete case of Basic Incomes including a HIT. And to use the BIs to replace our benefit systems with a more effective, complete and kindly system. The idea of the state making payments only to the "deserving poor" is heavily entrenched. The corollary is that there are the "undeserving poor" who should get no assistance. What can they, or the "working poor", do?. They are collateral victims and a cost for the repressive response to their needs.

Poverty is very much a matter of comparison. The present size of the inequalities of both income and wealth and the widespread communication of this information has created a situation that requires people at all levels to be concerned with why the Poor are poor. The latter now realise that their poverty should be alleviated but that their established system of Government is not working for them. Hence the many huge demonstrations for different ostensible reasons. People everywhere want change – without knowing what change. Chaos is emerging in many countries. The stage is set for a new "- ism" competing with socialism, fascism, communism and capitalism. It is being labelled as authoritarianism.

So the first chapters explore the consequences of inequality which mean that everyone who wants to maintain democracy as we understand it has an interest in the well-being of the Poor. "Nobody is above the law" is a catch-phrase of democracy. "Fairness for

everyone” should be another. Exemptions from taxes favour particular groups or individuals. In a democracy when Governments are giving out money or benefits everyone should get their share. Tax exemptions also promote an avoidance “industry” whereby calling something by a different name or complex manipulations can save tax payments.

By considering particular structural reasons for poverty, some suggestions are made for the reduction of financial inequality in New Zealand. Primarily this means using a common rate of tax for most incomes and paying Basic Incomes (BIs) at a realistic level. A sufficiently large BI also allows most benefits to be replaced - largely eliminating bureaucracy and surveillance. Basic Incomes are exactly that. They are basic payments made to everyone regardless of their wealth or income. This is the case with Superannuation which is paid to those aged 65 and above. It needs to be at a higher level than for those of working ages. So Adults 18 to 65 would have a different level of BI while children/ teen-agers would have a lower level again.

A chapter based on the slides from one of Gail E Duncan's presentations succinctly establishes WHY we need Basic Incomes (BIs) and that they are a human right which is incompletely recognized under our current legislation. The latter treats those who are unemployed but whose partner is employed as “undeserving” of benefits and similar anachronisms.

This is followed by a discussion of the social improvements that can be expected from BIs, examining the principles to apply to BIs and HOW to implement them. Paying for the additional cost is explored. Some possible tax changes are considered with preference given to a flat Income Tax at some level followed by increments at intervals applied to ALL of the recipient's income. And an accompanying Resource Tax collected with local body rates as a levy on the improved value of properties. The net effect of the combined BIs and Taxes as well as the problems of transition are discussed.

By applying a tax on the value of properties one would expect the resources of, land, materials, construction effort, infrastructure and

maintenance to be used more carefully. It is appropriate to call such a tax a "Resource Tax". It will bear more heavily on those who use the earth's and human resources more heavily.

The transition from present benefit and taxation systems to the new, much simpler, systems are non-trivial and some of these issues are outlined for a transition in "normal" times.

At a larger level the inadequacy of the Justice and regulatory systems are explored. Their structures and cost could almost have been designed to oppress the Poor who are not served well by present systems. The suggestion is made that civil disputes should be resolved by an expanded Disputes Tribunal and Arbitration instead of using the same costly and lengthy processes as for criminal cases.

Deficiencies in local government are discussed. These centre around the escalating burden of regulations administered in many cases by council officers who endlessly reject proposals without stating why and without constructive suggestions. This has converted New Zealand from a Do it Yourself nation into one forever filling in forms, ticking boxes and finding high priced specialists to put their mark on details.

Part 2 is largely commentary on a miscellany of difficult, financial, social and global issues which importantly, if less obviously, bear upon the Poor. A need for self reliance in nations is developed but mechanisms for achieving it are not. However there is a recommendation for considering having general tariffs based on the level of unemployment in each country and eschewing targeted tariffs.

There is a discussion of the possible transformative effect for New Zealand of making HIT payments or the later enlarged version which I will often call Basic Incomes (BIs) through Kiwibank (essentially Government owned) thereby giving them, in practice, a massive capital injection and moving towards the goals of the New Economics advocates who want to have Government issue debt instead of the banks.

(The New Economics advocacy rests on the fact that whoever creates the document, book entry or coin etc uses their reputation to assure any holder that such an issue can be used as "money" for making multiple trades and will always be redeemed by the issuer providing value for the "money" even if this was only in fact a book entry. And the debt created by the issue will always have to be repaid along with interest. So, when the debt created by the issue is redeemed then the issuer will be better off by the amount of the interest. Further, with an expanding economy more money is always required and will remain in circulation. So the issuer may never have to return value for this extra money. It is a fascinating idea and could be a great way to help finance Government.)

Finally emphasis is given to the need for New Zealand to have a sense of responsibility as a world "pilot plant" as well as the courage to once again be the first to move on difficult issues

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[https://www.youtube.com/watch?v=TQ24nnwb\\_8l&feature=youtu.be](https://www.youtube.com/watch?v=TQ24nnwb_8l&feature=youtu.be)

Or his slide presentation which is readily readable and faster

[https://docs.google.com/presentation/d/1djAK\\_gZOH0O3P5VMRzozf-zmHNLTAxAljPx0Nfq4JY/edit#slide=id.p1](https://docs.google.com/presentation/d/1djAK_gZOH0O3P5VMRzozf-zmHNLTAxAljPx0Nfq4JY/edit#slide=id.p1)

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### **Gail E. Duncan**

B.Sc., PG Dip Public Health, MPH, PG Dip Prof Economics.

Gail Duncan graduated from Otago University in 1987 with a BSc in microbiology. Following that she worked for 14 years in various technical management roles in primary industry. Her experience included introducing statistical quality control to a major meat plant, and quality assurance in the brewing industry.

In 2001 Gail joined the then Food Safety Division of MAF and has remained with the organisation through its various restructurings and is now a Specialist Advisor with MPI. In 2007 Gail received the NZFSA Director's Award allowing her to complete a Master's Degree in Public Health from Otago University School of Public Health. She has recently co-authored a chapter in an international publication on the Economics of Food Safety and has published and presented on the potential benefits of universal funding of individuals as economic units in an integrated society.

In her spare time Gail is an amateur musician playing the flute, composes and occasionally sings with various choirs. Gail is a member of the St Peter's on Willis Anglican Church Wellington vestry

chairs the Social Justice Group, and has a strong interest in the impact of policy on wellbeing.

### **Perce Harpham**

B. E., M. Sc., FIITP, Dip Bus Stud.(Dispute Resolution)

My formal background is that I was born in Tauranga and graduated as a Chemical Engineer and Mathematician from Canterbury University in 1955. I got 2 New Zealand University Blues in rowing.

I was President of the Computer Society in 1973-74. It is now the Institute of Information Technology Professionals and I am a Fellow of that body.

I have given numerous lectures on technical and political topics including being a keynote speaker at a conference in Beijing in 1989.

I stood for the Green Party in Hutt South in 2002 but joined the Labour Party in 2006.

So having had a long, interesting and fortunate life I hope that some of my opinions may be of interest to others. They have been formed by many influences and experiences.

I was raised in "The Depression" of the 1930s by my four siblings and wonderful parents who lost their farm early in 1929 when the price for wool dropped below the cost of production and freight. Then I had great teachers at school and universities as well as mentors in my employment at Dulux New Zealand for 14 years. This included being sent to the United Kingdom to study "anything interesting" in the ICI group of companies.

The ICI Board of Directors had made what I have always regarded as an impeccable main board decision. This was to put a computer from each of the leading developers into one of their divisions. Then to do as they were told in using the computers for three years before evaluating the results and considering putting computers into all their companies world wide. So in 1957 I visited six ICI divisions and reported back that computers were not cost effective. I did not foresee that in the next 3years the cost per unit of usefulness would drop by a factor of about 9.

Then as an Operations Researcher in Australia reporting to the Technical Director I was able to study all sorts of management

problems at a high level and to improve a number of operational practices. I returned to NZ as Factory Superintendent then Production Manager at Lower Hutt. Next I was responsible for investigating and installing for Dulux the fourth computer in NZ and joined the management team.

I left Dulux in 1968 because of the threats of recession and staff unemployment that accompanied the UK joining the Common Market. I established, Progeni, the first software company in NZ. Its story of success and failure is on my website ([perce.harpham.nz](http://perce.harpham.nz)).

Progeni prospered for 21 years with offices throughout NZ and Australia as well as Chicago, Los Angeles and Beijing.

We had provided 80% of the joint venture staff who developed the software for the Wanganui Computer System (for the police, justice and transport departments). I know of no other large project which was brought in on time, on budget and exceeded the specification. We made a profit and paid tax on it.

We were responsible for most of the Poly computer development. We took it over when the Government wretched on its undertakings to buy these computers which were specialised for educational purposes.

My wife, Myra, was Co-Director of the Commission for the Future and alerted me to the future of China. We first visited China in 1982 and by 1989 had made a few sales leading to us adding Chinese character-handling to a new range - the PolyC computers.

We had earlier recruited Zhao Ling, a recent immigrant to New Zealand. She was incredibly well connected having been an interpreter for Zhou Enlai (first Premier of the People's Republic of China) The results were amazing.

We established an office in Beijing and brought 12 Chinese from different organisations to NZ to work with us. The world was wide open ahead of us. The Tianenman Square disaster halted things for a year but we retained our presence and marketing efforts.

I prize the following photograph which shows me signing a contract to supply PolyC computers to the Beijing Institute of Aeronautics and Astronautics. It shows us being watched by Zhao Ziyang, Premier of the Peoples Republic of China with his entourage, and David Lange,

Prime Minister of New Zealand with his entourage, in the Fishing Palace in Beijing, March 1986.



But then came the 1987 share crash! The Bank of New Zealand was owned by Government which rescued it. ( The whole scandalous business of this and the "wine box" has never been told) But this was not enough and the BNZ was desperate. It put receivers into companies where it thought it could recover money quickly. Nonetheless Government had to put in more money and ultimately sold (gave away?) the BNZ. In the meantime in December 1989 Progeni was put into receivership. A week later the vice-president of the Agricultural Bank of China ( It only had 1.5million employees and 40,000 branches) came to NZ and signed an agreement to use the PolyCs for all their education needs. It was of no avail. Progeni was killed.

Fortunately Myra and I were running our finances separately. At age 57 I went from having been, mistakenly, named on the NZ "hundred rich list" to being unemployed with no income, a personal net worth of \$8,000 and no unemployment benefit because my wife had an income. .

I then ran a small consulting business and completed a 2 year Massey University post graduate course in Arbitration and Mediation in readiness for the projected computer problems in the year 2000 which were mostly avoided.

The point of all the above is that systems of management and control of both people and systems have been an interest of mine from the time I graduated as a chemical engineer. I have been able to pursue this interest in other areas and other countries. Along with my wife and family, people of different ethnicity, creeds, nationalities and religions have informed my views in many different areas – particularly as regards governance and the management of our world.

I enjoy sailing. My wife, Myra, as well as my three children and eight grandchildren are less enthusiastic so I have often sailed solo, such as a return voyage to Sydney at the age of 71 in my 25 foot yacht. My book about my sailing life is referenced below.

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### **An Earlier book.**

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" SOME VOYAGES AROUND NEW ZEALAND & ELSEWHERE" is similarly available to purchase as a printed book from <https://www.amazon.com/dp/B00BPBKG70>

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<https://www.smashwords.com/books/view/314823>

They each show samples to begin with.

This book makes a very nice present for anyone interested in sailing. I hold copies for sale in NZ priced as above.

### **Other Free Bits**

My website - [https://perce.harpham.nz/The Health of Nations.pdf](https://perce.harpham.nz/The%20Health%20of%20Nations.pdf) gives a link to a free out of print book "The Health of Nations" published in 2001.

"The Story of Progeni – Success and Failure." is at [https://perce.harpham.nz/The story of Progeni.pdf](https://perce.harpham.nz/The%20story%20of%20Progeni.pdf) This is a free chapter from a New Zealand Computer Society book marking its 50 years of existence.

I would appreciate emails to me - [perce@harpham.nz](mailto:perce@harpham.nz) - with comments or questions but please do not expect a rapid response.

**THE END.**

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