

SOME EFFECTS OF PRESENT-DAY TAXATION

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(From an Address at the Henry George Club, London, on June 3rd)

PART II

EXEMPTIONS AND ABATEMENTS

These are numerous and complicated, so that only the more important can be discussed here. Perhaps the most important in its effects is the exemption for life assurance premiums. This concession was made many years ago, when the income tax was only a few pence in the £. To go into detail, you could pay not more than one-sixth of your income into a life assurance company and you were exempted from paying income tax upon that amount. During the few years before the war the effects began to be serious, because the tax was increasing rapidly, different rates of tax were introduced, and the special abatements got taken off at the highest rate which the particular taxpayer was being charged. Obviously, people were discouraged from building houses and putting their savings into productive concerns, when they could get a huge subsidy for putting them into an insurance company. In 1915 the "standard" rate of tax was 3s., in 1918 it had risen to 6s. in the £, at which it was maintained for four years. Six shillings in the £ seems a large subsidy, but it is far from conveying an idea of the actual operation. To the individual who is saving, it means 6s. upon 14s., or about 8s. 7d. in the £. In other words, for every pound he could put into—say—building houses he would have had it made up to £1 8s. 7d. if he paid it into a life assurance company. During the rise in the rate of tax, more and more premiums were being paid, chiefly on short term "endowment" policies, for the sole purpose of evading the heavy tax—which evasion is, of course, at the expense of the other taxpayers. It is no wonder that houses were not built and that the third issue of War Stock was something of a failure.

It is interesting to notice that a part of the amount which the Government sacrificed in taxation in this way came back to it as a loan. The insurance companies were able to take up a good deal of the War Loan, some of the largest taking over a million. Let us trace what that really means. Probably the most which an established company can devote to new investment is an eighth part of its premium income. In that case it would appear that the State must have relinquished the tax upon about eight millions of premiums, at anything from 3s. to 6s. in the pound—at 4s. it would be £1,600,000—to get £1,000,000 as a loan!

It is not a matter for surprise that, especially after the outbreak of war, insurance was increasing while ordinary capital was not being maintained. Even railways, important as they were in war, were not kept fully up to the mark, though preference was wisely given to the maintenance of the track at the expense of other departments of the service.

DEATH DUTIES

Taxes upon Bequest or Inheritance (the true incidence has been a puzzle even to the House of Commons) appeal strongly to those persons who have no property and no expectation of inheritance. They appear better, on the whole, than the Income Tax. They are levied more uniformly, and they are generally rather easier to pay. The man who receives something as a gratuity can better afford to pay a portion to the State than the man who depends upon earnings or trade. The "gratuity" comes in larger and less frequent doses

than does the income. And these taxes do not discourage the acceptance of an inheritance in the same way that an income tax discourages industry.

As with many other things, the advisability or otherwise is a matter of degree. Some taxation upon inheritance would seem to be good, as an equalizing tendency which makes a partial counterbalance to the tendencies to inequality resulting from modern conditions. It seems repugnant that an individual who once accumulates a great property should be able to ordain that it must remain the possession of his representative to all eternity. (Yet, to many a Tory of the old school it seems repugnant that it should not so remain.)

But, taking the larger view, Death Duties, at least on the scale we now have them, mean the taking of huge sums of productive capital and applying them to current expenditure. That reverses the process of industry and thrift by which the capital was accumulated. It is the policy of the spendthrift, a policy which is instinctively condemned, which not only brings himself to penury but diminishes the amount of working capital in the country. Perhaps the extreme Marxians, like many superficial observers, might take the view that the spendthrift (individual or government) "makes good for trade."

The incidence of the Death Duties upon land, like other taxation of land values, is of course different from those upon capital.

TAXATION AND MARRIAGE

The income of husband and wife has long been regarded in this country as one income for purposes of taxation, though some modification of this view is seen in the legislation of the present century.

There has been, especially during this century, some agitation to treat separately the income of a wife from that of the husband. That meant that a double abatement—£320 instead of £160—was to be allowed. The agitation applied chiefly to property; magazines and newspapers have been flooded with articles and letters, of which not one ever touched the root of the matter. To treat the joint income as one was even alleged to be a penalty on marriage—some enthusiasts went so far as to say that it fostered irregular unions. They did not stop to consider that the concession (like all such) had to be made good somehow—in fact by penalizing the *natural* marriage, where the man provided the home and the position of the wife was practically that of a partner. They forgot to consider whether it was probable that a woman with an income would contract an irregular union, or remain single, just because she could not put her share of taxes upon her poorer sister.

But in 1912 the Government allowed a special abatement up to £160 upon the *earned* income of a wife. To get this, however, the husband and wife must not be working in the same business, but the concession applied when both husband and wife had Government jobs. Again, this encouraged the wrong sort of marriage, and the worst type of it, at the expense of natural unions. Later, this problem was partly solved (or shelved) by an abatement simply for marriage. This is now £90, and for the "earned" income of a wife it is £135. This difference is probably not in the national or individual interest, and would be better cancelled.

COMPULSORY INSURANCE

This is not officially included in taxation, but the amount dealt with is 130 millions, or more than the whole Government expenditure up to very recent times. But a compulsory payment conditional upon industry (employment) must be regarded as taxation, and it produces the same results. To speak of it as "compulsory thrift" is a euphemism, an excuse for those

who believe in it. It is a charge upon industry—a fine upon employment; it adds to the expenses of production and to the cost of living, it restricts the volume of business and places the country adopting it at a disadvantage in foreign trade.

It would be difficult to show that the National Health Insurance has improved the general health, while it is clear that unemployment has increased during, and because of, unemployment insurance. Compulsory insurance has caused deterioration of character in those who are connected with it. It is not surprising that people seek every chance to "get something out of the Act," especially when payment is compulsory. As for unemployment, it appears to have been assumed that no person would be out of work for the sake of a dole, but this assumption has largely been dispelled by experience.

SOME CONCLUSIONS

To sum up: the plan of taxation in operation during the twentieth century is much inferior to that of the nineteenth.

It penalizes production and imposes a fine upon saving.

It takes large portions of capital and uses it for current expenditure.

It differentiates between individuals in the most arbitrary and unjust way. Those who are penalized are not encouraged to be loyal, honest or industrious. Those who are privileged show the usual results of privilege in their character.

The official phraseology defines the highest taxation as the "standard," and the privileges as "reliefs," "allowances," or "exemptions." To the balanced individual, who sees things as they are, the minimum tax is the "standard," and all which he has to pay in excess of that is of the nature of a fine or penalty, a fine for engaging in productive work, for saving and for putting his savings into productive capital, for providing against his old age and not becoming chargeable to the State, for making a natural marriage, and for most acts which have been regarded as virtuous and beneficial to the community.

There appears to be one sound general principle on which the apportionment of taxation should be based—that what a man makes is his own. For the defence of the country and for public business he must expect to contribute. But no Government has a right to impose penalties upon particular persons or classes for the purpose of relieving others from their just share of public burdens.

"A Conservative Working Man," in a letter to THE SPECTATOR, says: "It is becoming increasing rare to find an avowed working man Conservative. Much was expected from the creation of the Unionist Labour Association, but it is now generally admitted that it is the most lamentable failure of modern movements. The working man is generally suspicious of any movement in which the term 'Labour' is employed, when he learns that stock-brokers and other financial magnates are connected with it."

Oh no, we never mention him, his name is never heard!

G. A. G., North Wales, writes (16th August, 1924:—
"It is now more than 40 years since I first read PROGRESS AND POVERTY and ever since I have been trying to make others study the Land Question, to see Henry George's point of view. During the last six months I have succeeded in arousing a keen interest in an average of at least three strangers a week, before then I hardly averaged two converts per year." All such are cordially invited to join our list of subscribers.

MAN LIVES BY USING LAND

The area of land is limited and in this country it is all owned.

Our present system of taxation leaves the market value of unused land free from rates and taxes. This makes it both easy and lucrative for the owners to restrict the supply of land on the open market.

It is obvious that in and around all our towns and cities there is valuable land lying absolutely waste. It is equally obvious that although there is a demand for this land, the owners are not prepared to sell it, except at their own price.

To withhold land from use costs the owners nothing for warehouse, insurance, or labour and every plot they sell tends to increase the price obtainable for the unused untaxed plots they keep in reserve. This would not be of much public interest if man could either produce land or live without using it. But those who do not own land, must pay for the land on which they are housed, and also for the use of the land from which their food is produced. On no other condition can they live as free men.

The price of land is therefore of vital and universal importance.

How long must the withholding of land remain untaxed?

Does not common sense dictate that we should alter our assessment laws and provide that the minimum assessment for all land, used and unused, must not be less than 5 per cent. the price at which the land can be bought?

Such an alteration to our laws would not interfere in the least with the existing assessment of any productive enterprise. It would, however, reduce the price of building and mineral-bearing land, and it would also reduce the rates and taxes now levied on those who produce and supply the things we want.

G. A. G.

G. W. Price writes in the DAILY MAIL (London) 19th August: "Land values, too, are far higher with us than abroad. A mill-owner who was enlarging his factory on the outskirts of Milan, the chief Italian cotton-city, told me that he had bought the requisite additional land at sixpence a square yard.

"Moreover, Italian cotton concerns have to bear nothing like the crushing burden of rates and taxes that cripples British industries. In Milan the rates on factory property are not more than 4s. in the pound. With us not only are rating assessments excessive and the rates often 12s. or 14s. in the pound, but the burden is one which constantly increases in geometrical progression, for, as mills in any given locality close down, an additional share of the rates is thrown upon those which remain open."

Though the writer fails to draw the inference, what he says bears on the case for untaxing industry and taxing Land Values.

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An International Free Trade Conference will be held at Caxton Hall, Westminster, 29th and 30th September and 1st October, 1924. There will be six sessions of the Conference, one each in the mornings and afternoons of the three days. Persons residing in Great Britain who desire to join the Conference must signify their intention to the Secretary of the Cobden Club before the 15th September, 1924, and must pay a fee of £1 to the Treasurer of the Club. No charge will be made for members of the Conference coming from Overseas.

For further particulars address: International Committee to Promote Free Trade, Broadway Court, London, S.W.1.