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Canvassing the Chancellor

WITH Christmas past and the January sales in full swing thoughts turn to the April Budget. The Chancellor receives pleas and advice by every post and newspapers print reports, letters and articles on the distressing subject of taxation. Altruism jostles with self-interest, criticism and despair with ingenuity and ill-founded optimism.

Economists and businessmen, trade associations and trade unions, politicians, journalists and laymen all take a hand in this futile annual exercise. Most say or write much to which no responsible person could take exception; all base their arguments on an enormous fallacy.

Their common mistaken assumption is that the Chancellor has no alternative but to continue taxing the fruits and rewards of effort and abstinence by means of income tax, surtax, profits tax, estate duty, customs and excise duty, purchase tax and all the other paraphernalia of extortion.

Thus fettered they can suggest only that Government expenditure should be reduced or contained—a worthy but demonstrably impractical suggestion — or that here a tax should be lightened and there the incidence rearranged to exempt some present payers or, alternatively, to bring others within its scope. It is as though convicts, blind to a breach in the wall through which they could escape, petitioned the Governor for sauces to season their diet and flowers for their cells.

The means of escape from wrongful taxation is readily at hand and plain for all to see. We refer to the huge reservoir of land value, constantly replenished and thousands of millions of pounds deep, which the Chancellor could put "on stream" if he were so minded. That would flood present tax irritants out of the economic system. He does not do so because, aside from our friends, all too few, nobody asks him to do so.

Those who mould public opinion spare never a thought about the land beneath them as they write and speak, of how valuable it is, and why it is valuable, and how peculiarly and properly its annual rental value is suited as the sole or primary source of public revenue. Yet they cannot be unaware of the price and value of land in Britain today.

One would have expected that among all the clever, educated and influential people there would be at least some tens of thousands who would have stumbled across the simple truth which Henry George and others before and since discovered, and that they would have made this known.

The simple truth is that the rental value of land comes into existence wherever people congregate and is maintained by their presence and economic activity. This is as obvious as many of the physical laws with which everybody is familiar, easier to understand and far more important than many matters normally intelligent people understand and discuss. Because land rent is produced by society it should be collected by the agent of society, the Government. It is as simple as that. Economists galore have testified that a tax on land rent stays put—i.e. it is not shifted to make goods, services or occupation of buildings more expensive, rather the contrary—and overseas experience proves conclusively that such taxation is administratively and politically practicable, economically and socially beneficial.

So much for the broad picture. Elsewhere we list without comment a selection from recent reflections on taxation. Here we wish to examine in some detail the proposals put forward last month in two *Daily Telegraph* articles by Mr. David Howell. As a prominent member of the Bow Group of aspiring Conservative politicians his views command some respect.

The tax system, Mr. Howell suggested, should (1) be efficient, (2) be fair, (3) encourage personal saving and the wider spread of ownership, and (4) "contain the minimum disincentive to, and where possible should actively encourage, risk taking, enterprise, exports and investment in efficient production methods". *Excellent.* "Conservatives have been content to accept a system which works against their declared objective of more widespread property ownership." *How very true.*

Some twopenny-halfpenny suggestions were advanced: the graduations in the rates of income tax should be made "more gentle and less forbidding" and extended up to a ceiling of 15s. in the £ so that surtax could be abolished. Assessment of the joint incomes of husband and wife should give way to separate assessments. Estate duty should long ago have been replaced by a Legacy Duty — "duty paid on the inheritance received rather than what is left."

Meeting the Labour Party more than half way, Mr. Howell suggested that while a capital gains tax is not a general panacea, neither is it an unmentionable heresy. It could be discussed on purely empirical grounds. Small savers should be granted further incentives and company taxation, at present "complicated", might well be replaced by a straight corporation tax.

Broadly speaking, this is unexceptionable aside from the reference to capital gains. If it would not take us far on the path signposted by the four canons of taxation cited above, at least it could hardly worsen and it might even marginally improve the present position.

NOT SO Mr. Howell's proposal for supplementing the local authorities' rate income. Like Mr. Gaitskell and some of the Labour "intellectuals", he revealed himself a disciple of Professor Nicholas Kaldor. Campaigning earnestly for a tax on spending, he asked: Why not a local sales tax? This would be in addition to the purchase tax (of about £535 million this year) and other indirect taxation levied by the central government.

The argument in favour is two-fold: taxes on money spent do not discourage enterprise as do those on income: the local authorities must be enabled to raise more money themselves. Both points are valid.

It is perfectly true, as Mr. Howell pointed out, that the yield of rates is necessarily limited and that in many parts of the country that limit may soon be reached. Equally true is his further point that the trend for the central government to provide more and more of the cost of local services is seriously threatening local democracy. But these considerations do not justify a proposal to raise the price of goods and services. Heat, light and travel are already dear enough in all conscience, and constantly rising under pressure of currency debasement and monopoly, without subjecting them to what Mr. Howell chose to regard as a low rate of sales tax—5 per cent or 1s. in the £1.

Inferentially though not explicitly, Mr. Howell would exclude housing and plain food (though not "luxury food" and restaurant meals) from the scope of the tax, and would include clothing, furnishings, kitchen equipment, books, magazines and many other items. As he is not the Chancellor, his particular predilections are unimportant. Once the net was cast those enmeshed would agitate for it to be spread more widely.

Exemptions or no, obviously the poorer people, the elderly and others on fixed incomes, would suffer most. Every price increase hits them sharply already: how much worse if every future increase carried a 5 per cent tax.

Those who do not pay income tax would suffer absolutely. In a self-contradictory passage Mr. Howell vainly attempted to dismiss this point. To make the sales tax both fair and politically feasible, he argued, it would be essential so to arrange matters that it would tend not to fall on the budget of the non-income-tax payer. That simply could not be achieved.

A MUNICIPAL sales tax at a low rate, it was contended, would not be difficult to administer. Difficult or easy, it would require additional staff in town halls throughout the country. This would raise the cost of local government and reduce the number of people available for producing wealth and rendering service. It would swell the over-extended bureaucracy. Needless extra work would be thrown on traders, to the detriment particularly of the smaller concerns. In that way the trend towards monopoly would be accelerated.

All other considerations apart, the proposal is not practicable in the absence of a decimal currency. 5 per cent of the price of a Rolls Royce or a mink coat or even an article selling at £1 presents no problem, but what is 5 per cent of a shilling or of the price of a loaf of bread? Obviously, for a vast range of goods, mostly in the lower price range and including many everyday necessities, the taxed price would have to be rounded off to the nearest penny or half-penny, probably upwards as happened with milk last month when the farthing was de-monetised. This would destroy the whole tenuous argument of fairness and uniformity. This, though, is a detail.

A more important point. In the great conurbations a sales tax would tend to operate in favour of the central areas where people work and against the districts where they live. Each week most city workers make at least one or two small lunch time purchasers—a packet of cigarettes or a pair of stockings—which could just as well be bought locally. Married women office workers buy many of their household requirements in this way. As a result, local authorities such as those for the cities of London and Westminster where land values are highest would be able to reduce their property rates. Land values would then rise to even higher levels. It would be a case of taxing the shopping basket and putting the money in the land owners' pockets.

Is that Mr. Howell's notion of "fairness"? Would he argue that even dearer land would encourage "the wider spread of property" or that it would actively encourage enterprise, efficient production and the rest? Presumably not.

Clearly unaware of the land values solution and rightly concerned about the threat to local democracy and the plight of ratepayers, he sees only the harm done when production and incomes are taxed. Perhaps he may be excused for urging that the tax spanner in the works should be re-positioned. But this dangerous local sales tax nonsense must be vigorously opposed.

For far too long society has stumbled from one expedient to another, replacing evils by here a lesser one and there a greater. It is time to approach the whole question from a different standpoint.

A tax on land values, whether imposed and collected nationally or locally alone fulfills the criteria which Mr. Howell has provided. It is efficient because it is cheap and easy to collect. It is fair both absolutely and relatively: nobody is mulcted by it of anything to which he is morally entitled; payment can be neither evaded nor avoided and both the rich man in his castle and the poor man at the gate contribute towards the upkeep of society at the same rate, without regard to their personal circumstances and other irrelevancies.

By stimulating production and competition and freeing machines, goods and incomes from taxation a tax on land values raises living standards so that more people have more to save. By discouraging mere speculative investment in land, and by cheapening land, it promotes investment in buildings, plant and machinery.

By reducing undeserved poverty and undeserved wealth, and by these other means, a tax on land values brings into being more property in the true sense and leads to the widest possible ownership. Such a measure deserves the thoughtful attention of all who, like Mr. Howell, would try to save Britain from drowning in the tax morass which threatens to engulf and destroy our society.

NOTES OF THE MONTH

Conservocialist Transport

A TAX-EATING white elephant bequeathed by the Labour Party is one reason why Government expenditure is so enormous. We refer to the nationalised transport system. The White Paper (Cmnd. 1248) reveals that by the end of 1960 the total deficit was about £500 million and that it is increasing by about £100 million a year. Additionally, more than £100 million is being invested annually on the railway modernisation programme.

Obviously this cannot and must not be allowed to continue. Equally obvious is the solution: the whole system should be broken up into units and sold. The total investment is said to amount to nearly £1,600 million; if only one-half or one-quarter that sum were realised the exercise would still be attractive to taxpayers.

In private hands service would improve immediately, investment would continue and certainly the bulk of the people employed at present would remain at work in the railway and other transport services. Competitive transport undertakings would seek to attract new custom instead of driving freight and passengers on to the roads by for ever raising their charges. Many branch lines, now uneconomic and being closed, could be kept open if users were willing to pay fares commensurate with the cost of the service provided.

An alternative and better solution is not practicable in present circumstances. However there is no reason why those circumstances should not be changed. This is that the land and attached heavy capital, such as track, stations and signal boxes, should continue to be publicly owned, as are the roads with their ancillary equipment, traffic lights, bridges, and so on. The cost of maintaining and augmenting these basic requirements should be met out of a levy on land values since public transport greatly enhances the value of the land it serves. Rolling stock, etc. would be sold by tender and competing private companies would operate services as the coach companies do on the roads. They would have to pay a rent for the opportunity to use national property but would (or should) be exempt from tax on either their capital or materials—coal, oil, etc—or their earnings. State, taxpayers and transport users would all benefit and the pressure on the roads would be lessened. This, too, would ease the taxpayers' burden, and help manufacturing industry, to say nothing of saving lives and limbs.

The Government has shied away from anything so radical. Transport is to remain nationalised and to be merely reorganised.

The financial situation of the British Transport Commission and the railways is admitted to be so serious that they cannot now carry on without large-scale support from the Exchequer. A drastic scaling down of debt is said to be urgently needed to give the railways a new start. The net capital liabilities of the B.T.C. are approximately £2,000 million. Some £1,600 million relates to the railways. The Government proposes that of this £400 million should be written off and £800 million placed to suspense account where it will carry neither fixed interest nor fixed repayment obligations. The railways will be left to pay interest on the remaining £400 million plus certain other liabilities and new borrowings.

The Treasury will assume all responsibilities for existing British Transport stock (£1,400 m.) in the hands of the public. What this means is frankly stated in the White Paper: "*These heavy liabilities, though removed from the railways, will not have ceased to exist. They will only have been transferred to the public in another*