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## FOLLY AND INIQUITY OF THE PURCHASE TAX

It is axiomatic that taxation is unpopular among those who are called upon to provide revenue for governmental expenditure. This understandable dislike is common to all taxpayers whatever their colour, creed, class or sex and is to be observed in the most diverse cultures and in every degree of social development. The reason is not hard to find. Everywhere and at all times men and women endeavour to satisfy their desires with the least exertion; taxation reduces the sum of desirable things that their labour would otherwise command or obliges them to work harder and longer for the same return. Feeling instinctively that what they produce is properly theirs, confiscation of their property for whatever purpose, however altruistic, is bitterly resented and fiercely resisted. Patently the only tax with any claim for popular support is one which leaves unimpaired to the producer the full value of his efforts. And this tax, the tax on land values, is either opposed—and bitterly—by those vested interests whose monopoly privileges it threatens or it is ignored by those who do not understand its bearings.

Many hold that the inquisitorial apparatus employed to pry into the citizen's personal affairs renders the income tax the most objectionable form of taxation. Some consider poll taxes the cruellest. Others again regard as the very worst form of taxation yet devised the protective taxes since these are levied not to raise revenue but to endow selected groups with a monopoly privilege at the expense of their fellow citizen. Whether the purchase tax is as bad or is worse than these taxes is largely a matter of opinion; what is beyond dispute is that it is universally hated, thoroughly bad and long overdue for repeal.

Before examining some present aspects of the purchase tax it is as well perhaps to recall briefly the circumstances in which it came to be foisted upon the British people. Presenting the first war-time Budget in April, 1940, Sir John Simon, the then Chancellor of the Exchequer, announced his intention to introduce such a tax later that year. This he justified on the grounds that it was necessary to "discourage consumption." Additionally Sir John prophesied with remarkable foresight that the tax would augment handsomely the revenues flowing into the war coffers; his right-hand man, Captain Crookshank, the then Financial Secretary to the

Treasury, ingeniously remarking that it "lends itself to evasion on the greatest scale." And, like a robot which once started no one can stop, the purchase tax, now helping to wreck Britain's post-war economy and to reduce living standards, is doing precisely what was required of it in 1940. It is discouraging consumption.

The protests against Sir John Simon's proposals were successful only in delaying the introduction of the tax, which took effect in the Supplementary Budget (July, 1940) of a new Chancellor, Sir Kingsley Wood. His purchase tax proposals differed from Sir John's in one respect only: instead of a uniform rate of tax being applied articles were separated into two categories, one of which bore tax at the rate of one-third of the wholesale value and the other at one-sixth. The tax came into operation October 21, 1940.

Sir Kingsley Wood took occasion to explain that he considered the taxation of land values could not be brought into operation at that time because "the ascertainment of the value of land, which is the necessary preliminary, is a long and difficult process." This plausible and convenient—though invalid—excuse offered in 1940 throws into sharp relief the underlying reason for maintaining purchase tax in 1953; the Government *must* have revenue and since it refuses for one reason and another to collect the unimproved value of land for public purposes it has perforce to tax millions of business transactions each year.

Ladies' lipsticks and long-distance lorries and thousands of other articles, large and small, necessity and luxury, are subject to the tax introduced thirteen years ago to discourage consumption. From the length and breadth of the country and with monotonous regularity the press reports protests from manufacturers, traders and consumers. These protests provide a veritable arsenal of facts, figures and arguments against the tax which takes its toll whether one purchases a packet of razor blades or a powder puff, a propelling pencil or a packet of envelopes, a cigarette lighter or a limousine. An extensive and detailed survey of these objections is beyond the scope of this article. It will suffice to examine a random sampling of press cuttings. The period chosen is from November 18 to December 6.

By far the largest number of the cuttings relate to the purchase tax on motor vehicles—which yields £43 million a year to the Exchequer—seeming to indicate a well-organised campaign conducted jointly by the manufacturers and distributors. Lord Nuffield, Chairman of the British Motor Corporation, said, November 24, that there was "abundant evidence that the present rate of purchase tax is a deterrent" to selling cars on the home market. Earlier, at the Motor Show, Mr. Leonard P. Lord, Chairman of the Austin Motors, had said: "The trade recession is here . . . we must be able to sell our cars and we cannot do that unless purchase tax is reduced." Sir William Rootes, Chairman of Rootes Motors, Ltd., declared: "There is no longer any justification for retaining as an anti-inflationary measure the present (purchase) tax on motor cars and commercial vehicles. We have outlived the period of restrictive economy; it now undermines the foundations of our international trade." A flourishing home market was

essential if British manufacturers were to be able to sell their cars abroad at the right price.

Mr. Sydney Guy, Chairman and Managing Director of Guy Motors, Ltd., said in a statement circulated to shareholders, November 26: "When the cost of transport plays such an important part in the economy of the country and affects the cost of every kind of food, clothing and household requirements, it is ludicrous that a purchase tax should ever have been put on commercial vehicles. They are not and never were luxuries but a vital necessity and the complete removal of this tax is long overdue."

The Chairman and Managing Director of Jaguar Cars, Mr. W. Lyons, speaking at Coventry, November 27, asserted that the country had more to lose than it had to gain by the retention of purchase tax on cars at its present level. An early announcement of a substantial cut in the tax, or better still its complete abolition, would add impetus to an industry which was called upon to play a leading part in the country's economic recovery. He was supported in this view by the President of the Society of Motor Manufacturers and Traders, Mr. H. Spurrier, who said that the Society was pressing the Government to abolish the purchase tax on cars.

The revenue needs of past governments have often led to the imposition of taxes which have directly affected the health of the people—the window tax and the "breakfast table" taxes are classic examples. These are matched by the purchase taxes on safety devices levied by the present Government and its predecessors. Several instances were reported during the last fortnight of November. The *Evening News*, November 21, reported that the Royal Society for the Prevention of Accidents was supporting the efforts being made by the Bermondsey Council to have purchase tax removed from children's safety reins.

Purchase tax on the crash helmets worn by motor-cyclists received particular attention in the press, partly because the Duke of Edinburgh drew attention to the need for their general use by motor-cyclists. The *Leicester Mercury* in a leading article, November 18, entitled "Safety First—Plus Tax!" wrote: "The Government, interesting itself in the high accident rate of motor-cyclists, has encouraged the use of crash helmets. All dispatch riders and motor-cycle telegram boys wear them. But what happens when a citizen goes to buy one? He is told that the crash helmet costs 47s. 6d. and the Purchase Tax 11s. 1d. Crash helmets can be used for no other purpose than safety . . . and yet the national Exchequer demands 11s. 1d. tax on them . . . If the Government is sincere in its concern for the safety of motor-cyclists it should remove the levy it imposes on that safety and encourage the riders to save themselves, tax free. As the law stands at the moment they are not disinterested parties in the sale of these helmets!"

The *Municipal Journal*, November 28, also criticises the tax on crash helmets remarking, "this is not the only article of protective clothing on which the Board of Customs and Excise levy purchase tax . . . Following representations from the Royal Society for the Prevention of Accidents, the Government has already removed purchase tax on that most essential of safety devices, the fireguard. It has thus implicitly admitted that a tax on safety is wrong. The principle applies

equally to other safety devices. Action should be taken now to remove the tax. The Treasury should be left in no doubt that local authorities expect it to be dropped when next year's Budget is presented."

The purchase tax on electric radiators is condemned by the North Western Electricity Consultative Committee. The *Electrical Review*, November 21, reports that the Committee believes "that the indiscriminate application of 100 per cent. tax on all electrical radiators is unwise because it increases considerably the difference between the prices of radiators without safety devices and those with them." Was there ever such nonsense as this? The Government endangers the lives of the people of this country to raise revenue which it then spends on the Health Service to save lives.

Anomalies and absurdities are inseparable from the operation of all taxes on labour products but no tax in recent times has made legislators and tax collectors appear so ridiculous in the eyes of the public as has the purchase tax. An example is afforded by the *Leicester Mercury* in the leading article already quoted, namely, "the relief of tax upon any vase that by the application of a cross can be used as an altar ornament, the result of which is that manufacturers make vases with easily detachable crosses." The *Sheffield Telegraph*, December 1, gives another instance: "in the case of fish-eaters there is a far different tax if the forks are fitted in the lid of the canteen from that when both knives and forks are fitted in the base." But the most remarkable of the anomalies revealed by this random sampling of press reports refer to the incidence of purchase tax upon Coronation souvenirs.

The *Daily Express*, November 25, reports that full purchase tax will be charged on all Coronation souvenirs which include portraits of the Queen and the Duke of Edinburgh taken before the present reign but more recent portraits are exempt; the *Manchester Daily Dispatch*, December 4, reveals that cut-glass paper weight souvenirs are taxed at 66½ per cent while plain glass paper-weights are subject to only half that rate of tax; manufacturers are "worried" and are making a determined attempt through the Board of Trade to get the tax substantially reduced, arguing that the manufacturers of china ware have received much more favourable treatment.

The *Ironmonger*, December 6, gives prominence to some of the anomalies revealed by Mr. J. Hunt, Regional Chairman of the Fancy Goods Association. "He cited a spirit thermometer which is normally Tax free, but becomes taxable at 100 per cent because the makers have added the figure of a crown on top. Curiously enough, had the crown merely been embossed on a disc or on the article itself, the thermometer would not have become chargeable. But there are many other useful lines of hardware which suffer the same fate when specially adapted for the Coronation trade. Examples are: Companion sets, toasting forks, door stops, table mats, egg timers, serviette rings and nutcrackers. None of these is subject to more than 33½ per cent in its ordinary form, but once they incorporate a figure as a separate entity, or are decorated by hand painting, or are made as a miniature of some other article, then they incur 100 per cent Purchase Tax. It does not matter whether the figure in question is a dancing bear or a head of the

Queen. There is no discrimination against Coronation souvenirs as such. On the other hand tea strainers incorporating a figure, like nearly all goods designed for use primarily in the storage, preparation, or consumption of food or drink, are exempted from Tax." But as we have seen this does not apply to canteens of fish-eaters!

Dozens of similar absurdities have been reported but that which has attracted the most unfavourable press comments is the tax which is levied when a small crown is added to the propelling pencils which many local councils plan to give as souvenirs to school children. The crown itself will cost less than one penny but it lifts such pencils from the category of "stationery or office requisite" into an "article of fancy," increasing the tax from 33½ per cent to 100 per cent. According to the *Scottish Daily Express* "this little embellishment will add 2s. to the price (of a 2s. pencil) when the bill reaches the taxpayer." That taxpayer is the local authority and, in the final instance, the ratepayer, the man who is fined annually according to the size and state of repair of the house he occupies.

During 1951 goods bearing the Festival of Britain emblem were placed in a special category for purchase tax purposes. Manufacturers expected a

similar dispensation this year for the Coronation. They went ahead with new designs, tooled up their factories and went into production. Now hundreds of home orders are being cancelled. This in turn will increase prices for export souvenirs, and may be expected to result in further cancellations.

The irony of the situation is that protectionists in Parliament last summer (as *LAND & LIBERTY* reported in July) secured for home producers a monopoly in the manufacture of Coronation souvenirs for the home market. Industrialists are now tasting the bitter fruits of Government interference—even German and Japanese competition would have been better than this!—while the poor, tax-haunted consumer, the ordinary citizen who had hoped to be able to enjoy the Coronation celebrations, will have to draw his belt in a notch to be able to pay 100 per cent purchase tax on his British made souvenirs.

It has been possible in this article to focus attention on only a few of the complaints about the purchase tax published in the course of a three-week period. The hotel, textiles, light clothing and furniture industries, local chambers of commerce, trade associations, individual manufacturers and consumers swelled the chorus calling for repeal or considerable reduction of this pernicious tax.

P. R. S.

## THE CASE AGAINST LAND NATIONALISATION\*

By Rt. Hon. R. R. Stokes, M.P., Minister of Materials in the last Labour Government

As one of those whom *Tribune* has asked to contribute to the "Labour Next Time" series, I cannot do better than set out what I would strive for if I were on the Executive. In a short article it is impossible to cover the whole programme, so I propose only to tackle the main question—the land.

Everything we do to improve the social order, every increase in production, puts up the value of land. Unless we tackle the land question first, we shall create a growing obstruction to our own efforts by having to pay ever-increasing rents to the landlords. The longer the delay, the more we shall have to pay each time before we can get on with the next move. Meanwhile, we pour more and more wealth into the pockets of the landlords.

We talk loosely about nationalising the land, but do those who do so really understand what they mean or what would be involved? For instance, it would be crazy to pay the landlords for something which the community created and which the landlords did not. "Buying out the robbers" is what I called it in the recent debate on the Town and Country Planning Bill. There is all the difference in the world between compensating owners of created wealth, when for example nationalising the railways, and compensating the landlords for land values which the community created.

There are three accepted ways of dealing with the problem—confiscation, nationalisation and taxation.

It is quite certain that few in a free country would agree to confiscation, so that is out. Yet compensation would mean paying so much out that the national debt would be doubled at one stroke.

The land value of this country has never been assessed, but a comprehensive valuation made in New Zealand in the early part of this century worked out at nearly £200 per head of population. No one will argue that land in Great Britain is of less value per head than land in New Zealand, so we get a figure at to-day's depreciated value of the pound of not less than £20,000 million—probably a great deal more.

Suppose we paid that large sum, nearly equal to the National Debt, to get back what we have ourselves created—what then? We should then have to set about acquiring many of the capital assets on the land, which would run us into figures even more astronomical.

We should find ourselves in as stupid a position as we did over the coal mines, only many times worse off. We then let a Tory Government nationalise the coal in the ground and paid the royalty owners between £60 million and £100 million for their rights—not for getting the coal out of the ground, but simply for their ownership—and then we had to nationalise the collieries in order to acquire the machinery whereby the coal could be got!

In paying the royalty owners we hung a millstone of about £4 million a year round the neck of the community and created a perpetual loss to the Treasury of £8 million a year. If we adopt the same policy with land, the millstone will not be £4 million a year, but £1,000 million! *Who wants that?*

The third alternative is to tax and rate site values, compelling the owners to pay a tax on the value of each piece of land whether they use it or not. By this method we would stimulate the use of land, making it unprofitable to keep good land idle or any land improperly used.

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