

CONTROL OF PUBLIC SPENDING

By A. J. Carter

THE BUDGET ESTIMATES for 1963-4 totalled £6,139 million, an increase of £527 million, or no less than 9.4 per cent, on the estimates for the previous year. This unduly large increase reflected the Government's aim to "spend its way out of the recession," but was nevertheless part of an established trend. The following are the percentage variations in the estimates for the previous twelve financial years, taken from *The Guardian* of February 16, 1963:

1952-3	— 0.2	1956-7	+ 2.6	1960-1	+ 7.2
1953-4	— 0.5	1957-8	+ 2.8	1961-2	+ 5.7
1954-5	+ 7.5	1958-9	+ 4.6	1962-3	+ 8.2
1955-6	+ 0.2	1959-60	+ 5.5	1963-4	+ 9.4

It is not surprising that the first two years' figures are reductions, since the previous year's increase was 23.8 per cent on account of the Korean war. The figure for 1954-5 seems to be exceptional for its time. Since then the percentage increase has itself been increasing. The only check to the upward growth was in 1961-2, when the figure of 5.7 per cent was still more than double the Government's later target of two-and-a-half per cent. With that exception the rise has gone steadily upwards year by year from 0.2 per cent to 9.4 per cent.

One of the reasons why the Budget figure of £6,139 million was so large was that a number of projects temporarily pigeon-holed were brought forward, and it might therefore have been expected that the 1964-5 increase would be compensatingly small. In fact it turned out to be 6.7 per cent, mercifully breaking the upward trend but still frighteningly substantial, especially following such vast increases in the previous two years.

It may be asked whether facts like these have any relevance to unemployment. Although the problem of rising public expenditure is not connected directly with unemployment, the resort to government spending to cure unemployment is a contributory factor. In any discussion on public expenditure one is therefore up against the entirely creditable feeling that people matter more than accountancy; that if men are out of work, the problem of increased government spending is no more than academic. It is for this reason that I wish to speak of what I consider to be the grave dangers of the rise in public spending in a context where my main concern has been with unemployment.

Clearly, public spending is out of control. Self-discipline in the Treasury or other government departments is no substitute for outside supervision. The scrutiny exercised by Parliament is weak — as weak as Parliament itself

when compared with the growing power of the executive. The House of Commons Estimates Committee, although it sounds an occasional warning, cannot be really effective when the government, merely by using the party whips, is able to secure full support in almost all circumstances. There is also a Public Accounts Committee which considers accounts of expenditure already made, but both committees usually meet for only a few hours each week. Such committees are in any case no answer to the problem, for to a large extent the government is simply fulfilling its duty to carry out the wishes of the electorate.

It is true that some government spending is due to policies for which only the government can take responsibility. There was a great deal of concern about the 1962-3 unemployment, and the public will was that the Government should reduce it, but there was no feeling about the means of doing so — this was left to the Government, which alone therefore must take the praise or blame for the consequences of "spending its way out of the recession." There are more obvious examples in defence policy, where the waste of money from, say, initiating and then cancelling the development work on the Blue Streak missile is due entirely to the Government's incompetence. In view of Mr. Thorneycroft's earlier record, it is very disappointing that he has not been more successful in keeping defence expenditure within bounds, yet the increase in the defence estimate for 1963-4, though as high as 7.3 per cent, was less than that for civil expenditure, which was 10.3 per cent; and that for 1964-5, also 7.3 per cent, was not much in excess of the civil increase, which was 6.4 per cent.

The desire that more should be spent on health, education, modernisation and social benefits is almost universal, and it is the people, not only the Government, that must bear responsibility for these civil increases. One should not in this context condemn the Government for doing what the people want it to do. Nevertheless, the growth of government expenditure is disturbing, for two reasons, which taken together are more important than the natural and perhaps proper appetites of the electorate.

The first reason is that it leads to inflation. A graph published by the Council for the Reduction of Taxation in their booklet *Cut Taxes! The Source of Inflation* indicates that the number of notes in circulation has fairly consistently since 1938 been approximately one quarter of the combined public expenditure. The rise in public expenditure has been shadowed by an almost exactly similar rise in the number of notes in circulation, and this of course has been accompanied, as the graph

also shows, by a decline in the value of the pound.

The second reason why increases in public expenditure are disturbing is that they entail a greater transfer of wealth, and therefore of power, from individuals to the government. (The proportion of total national expenditure spent by national and local government, including nationalised industries, is now about 45 per cent.) Initiative and skill are already penalised by heavy taxation. Self-reliance is giving way to dependence on the state. The principle of personal responsibility is in jeopardy. Respect for the individual declines. The end of this road is full-blooded socialism and the complete loss by ordinary people of independence and significance.

The problem — and it is an urgent one — is therefore this: *how can we stop ourselves from spending even when we want to spend?* The solution can lie only in some kind of constitutional check, the essential feature of which must be the limitation of government income.

To achieve this, borrowing and inflation should be abandoned as means of raising revenue, and the tax system revolutionised by the substitution of one inflexible tax for the present multiplicity of taxes, the rates of which can be so easily and conveniently varied. The textbooks, it will be recalled, list flexibility as one of the desirable qualities that a tax should possess, but this attitude stems from the failure to question the peculiar way in which governments handle money. The existing procedure is first to estimate how much is to be spent, and then — either by taxation or by less wholesome methods — to raise the revenue required. It is a procedure that has developed because there was once no distinction between the revenue of the country and the revenue of the king: national revenue was royal revenue, and when the king wanted



money, money had to be found. However, when this hal-lowed procedure is compared with the practice of individuals its weakness becomes apparent. The individual estimates his income and then decides what to spend it on; he does not (or should not) buy goods beyond his income and then steal, or write dud cheques, to pay for them. There will be no restraint in public spending until the income of government is considered before and not after its expenditure.

The effect of these changes would be to oblige the government to spend only what it received in income from the chosen tax. Expenditure would be curtailed because income would be fixed.

It will be argued that if the government were given a fixed income many of the highly desirable projects that can now be undertaken would have to be shelved. This is quite true, and we must not shirk what it means. It

means not only less money wasted on prestige but fewer new schools and hospitals. It means that things we all want we must do without. We must do without them for the same reason that a man with a small income must do without a motor car, invaluable as this might be to him. If a man wants a motor car but cannot afford to buy one, nobody seriously suggests that he is justified in cheating the dealer in order to get one. Inflation — and borrowing leads to inflation — is cheating. The natural discipline that is imposed on individuals and which should be imposed also on government is the elementary one of honesty.

It is often said that people today dislike discipline, whether it comes from others or from within themselves, and it may be thought that the prevailing laxity in personal behaviour does not augur well for the acceptance of stringency in public matters. It may be, however, that this dislike is partly a reaction against too much of the wrong kind of discipline — against petty restrictions and misguided government policies such as the pay pause. The people of this age, like those of every other, would respond to discipline if it were the right kind. The school-boy does all he can to destroy his master's preservation of order, and he is as contemptuous if he succeeds as he is resentful if crushed by domineering and unfair methods, but there is no one he respects (and likes) more than the master who is strict and just. A rigorous integrity in the conduct of fiscal affairs, even though it demanded sacrifices, could have a bracing effect on the country.

Exception may be taken to the comparison of a motor car — a so-called luxury — with such things as new schools and hospitals which can be considered as social necessities, but for someone in a remote district a motor car, which if he cannot pay for he cannot have, might well be a "necessity." The division between luxuries and necessities is impossible to pinpoint, for the reason that it does not exist. It is so easy to look at something highly desirable and call it a necessity; there are such good reasons for wanting it! Yet the principle remains that financial discipline — indeed, financial honesty — must if necessary override the desire for benefits.

It should at this juncture be made clear that it is not the intention so to starve government of revenue that organised society relapses into chaos. It does not mean, because government has a limited income, that it cannot also have a sufficient income.

It is not vital in theory that the fixed income of government be derived from one tax only, but there are very few taxes that are suitable. Most of the current taxes are levied at specified and variable percentages, whereas what is required is a tax whose yield is dependant on the achievement of a social purpose other than that of raising revenue. One example would be a tax levied to eliminate the receiving of wealth by inheritance (the tax being equal to the total amount of each bequest), but this would deter people from accumulating the funds from which the government drew its revenue, would be wide open to evasion and would in any event be of little use after the death

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for development the Government proposes to empower local authorities to requisition land in advance, but the principle of compensation is not clear. Moreover the value of land in the vicinity also rises. "It is felt," says M. Remondet, "that development by private interests would be stimulated by the increase in values resulting from government action" and thus the difficulties of compensation would be avoided. But if high land prices stimulated development there would be no problem at all! When land is requisitioned several years in advance for later development by state action, private building is automatically arrested. Both high land prices and government action designed to circumvent them thus check redevelopment "French real estate deteriorates slowly but steadily," says M. Remondet. "In spite of all the new legislation," says M. Rosselli, "you find that the price of land is going up all the time; I am told by property experts that it will have the effect of putting up prices even more than before and it will not make land more easy to find."

M. Maziol, the Minister of Housing, evidently realises that present efforts at redevelopment break down on the question of high land prices. He proposes a scheme, to come into operation in two years' time, whereby when land is requisitioned the owners are granted sixty-year leases on condition that they sub-let to development companies. But the details have not yet been settled and "some obvious difficulties remain to be resolved." However, says M. Remondet, "it is hoped that the government will find some way of putting into practice this new theory of partnership between the local authority, the land owner and the developer."

M. Jeantet says that the small *tax locatif* levied by some local authorities on land is regarded as of no consequence in relation to redevelopment. But M. Remondet remarks that the Government, "in an effort to encourage urban development, intends to levy a ground tax on the owners of underdeveloped land in order to induce the owners to sell." Unfortunately he gives no further information. The tax might be on area or on value—in which case some machinery will be required for valuation—or it might be on some computation of the degree of underdevelopment, which would need to be defined. Unless higher compensation is offered because of the tax one does not see why the owners would be stimulated to sell rather than redevelop the land themselves. And in equity it might be asked why some land owners should be saddled with a tax while others are not.

But if this tax comes into operation and focuses public attention on the whole question of the value of land, which so obviously arises from community action, general redevelopment might be facilitated without requiring the vast expenditure and the armies of administrators and lawyers whose efforts have so far proved abortive. The Whitstable survey has demonstrated that the value of land is easy to assess, even at its first application. The French people are alleged to be adept at dodging taxation, but

a straightforward tax on the value of land cannot be evaded. Land owners faced with a tax they can pay only by putting their land to its most profitable use would soon find it profitable to come to terms with developers, to their mutual advantage and without all the cumbersome machinery of government intervention. Redevelopment might proceed, not at immense cost to the public, but to the progressive benefit of public funds, and other taxes, imposed on industry and initiative, could be progressively remitted.

No British Minister is bold enough to propose a ground tax to aid redevelopment. Perhaps opinion in France is more fluid on this subject. We sympathise with M. Maziol in his difficult task and would respectfully draw his attention to the lessons of the Whitstable survey. British reformers would rejoice to see a measure of genuine land reform in operation for the benefit of France; and the example would have repercussions in other countries.

Space does not permit reference to the articles in this pamphlet on the housing situation in Belgium. But the basic property law is the same and the problems and methods to deal with them are very similar to those in France.

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of the first generation. There is a tax far better fitted to the task than an inheritance tax, and that is a tax on land values.

A one hundred per cent tax on land values, levied to fulfil its purpose of securing the equal rights of all men to land, would yield in any one year a definite amount of revenue. If it were the only tax, the fixed income of government would be assured, since the rate could be varied neither upwards (for the tax must then fall on something other than land value) nor downwards (for it would then cease to fulfil its function). It is of great importance, however, that although the tax would yield a definite amount in any one year, this amount would increase in each successive year as the activity and progress of the community enhanced the value of land. The government — central, regional, and local — would have every year a specific sum within which to contain its expenditure, but that sum would be constantly rising.

We are thus brought to the conclusion that the policy which appears as the main answer to unemployment, if implemented in its fullness as a single tax, would also be the main instrument for the restraint of public expenditure. After the single tax was introduced, it is conceivable that the term "tax" would fall into disuse, reference being made merely to rent on the one hand and to the income of government on the other. This is not so surprising: there was a time in English history when nearly all Crown revenue came from land, and taxation had not been heard of. It is a point to ponder that in those days unemployment was not heard of either.