LAND & LIBERTY

Journal of the United Committee for the Taxation of Land Values, Ltd.
Sixty-second Year. Established June, 1894.

By Post 10s. per annum.

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NOVEMBER—DECEMBER, 1955.

Prosperity Through Restraint

THE CHANCELLOR'S AUTUMN BUDGET

Proposed changes in taxation were announced by Mr. Butler in a supplementary Budget statement on October 26. He estimated that his proposals would yield an additional £15 million during the current financial year and thereafter £75 million from the purchase tax, and that direct taxation would yield an additional £9.5 million next year, and thereafter £37.5 million annually. Changes in direct taxation would yield a negligible additional revenue increase during the present year.

The Chancellor proposed an all-round increase of one-fifth in existing rates of the purchase tax and to levy it in future at 5, 10, 30, 50, 60 and 90 per cent instead of at 25, 50 and 75 per cent as hitherto. At the same time he proposed to make chargeable at 30 per cent kitchenware, tableware, and household goods which had not been taxable, to remove certain anomalies, and to withdraw the "D" scheme under which wearing apparel, domestic textiles, furniture and various other goods were largely tax free, being chargeable only if the wholesale value exceeded a fixed amount, and being taxed on that excess. A few articles in this range are to remain or to become tax-exempt and the rest will be subject generally to the new rates of 5 or 10 per cent, and some will be charged 30 or 50 per cent.

An Untenable Contention

These proposals are an onslaught on the living standards of the British people. Mr. Butler sought to justify them with the argument that there had been "a significant degree of internal inflation due to wage claims and rising personal incomes." There had also been "external inflationary pressure," and rumours and uncertainties about the future parity of sterling and other matters that had given him concern, but, as far as one can follow his remarks he was concerned chiefly because people in Britain had been spending and consuming too much, that the nation was living beyond its means and that, therefore, there was inflation.

The charge is absurd. Isolated exceptions apart, individuals cannot and do not spend beyond the limit of their income plus, perhaps, any savings they may have and what they can borrow. But since before one can borrow another must lend, it is obvious that the totality of individuals which comprises a nation cannot overspend or live beyond its means. When the individual wage earner finds the prices of everything rising, of course he demands higher wages, and often enough he is successful. Leaving aside the forger, he does not resort to the printing press to close the gap between what he earns and what he wishes to spend. And if he attempts to borrow he must first offer collateral.

Currency Depreciation—Whose Fault?

Unfortunately Government is not similarly handicapped. It can, and invariably does, spend in excess of its tax-revenue by its adept control of the issue of currency. When seeking to borrow it relies on its power to tax the future earnings of its citizens, and is able to repay its debts by the simple and inexpensive expedient of printing more money. It is Government, and Government alone, which is responsible for inflation, and for the constantly rising prices and incessant demands for wage increases resulting from that action.

Since inflation is a monetary and not a budgetary, phenomenon, the Chancellor's proposals are powerless in themselves to combate that menace. The whole key to the problem of arresting inflation is to bring government expenditure within the limits of the tax-revenue. That may best be done by drastically curtailing government services, grants, subsidies and other lavish spending, but the same result may be achieved by increasing tax-revenue until it equates with government spending. The Chancellor is applying both policies simultaneously, and if, but only if, the government henceforth refrains from meeting demands on it by printing further paper money, and lives within its income, will inflation be arrested.

It is not possible fully to predict the consequences of the tax increases. Undoubtedly they will be harmful. The incentive to save may be reduced and the financing of industry will be distorted by the increased tax on distributed profits. The Chancellor's apparent belief that the export trade can be promoted by curtailing home consumption is wholly fallacious, and his purchase tax measures are bound to affect overseas trade adversely. He should have reduced or, better still, abolished the tax and thereby enabled manufacturers to improve the quality, increase the volume and reduce the unit price of their products in both home and foreign markets. Such a policy would have benefited industry and trade, wage earner and pensioner, and would have both encouraged increased personal saving and discouraged the lodging of further claims for increased wages. By choosing the opposite course, Mr. Butler has placed an increased burden on those who are least able to bear it, making them the scapegoat for government's misdemeanours, and paving the way for a new round of wage claims, the first of which have already been announced.

Political Expediency

Mr. Butler gave a clear indication that no significant reduction in Government expenditure, which now takes 26 per cent of the gross national income, is contemplated. The Government apparently is reluctant to make those major policy changes affecting one or more of such costly functions as law and order, defence, social services, national insurance, and assistance to farmers, which the Chancellor said were necessary if "big money" is to be saved. Taxpayers must be content with his assurance that all possible economies in administration would be made, that military expenditure and the food and farm subsidies would be judged by the criteria of economy and efficiency, and that capital outlay on expanding existing services would be restrained.

These remarks show beyond a shadow of doubt that the Chancellor has had to pay greater regard to what the Government considers to be politically possible and expedient than to purely economic and financial considerations. With Government taking so large a proportion of the material income for its purposes, mere restraint in the rate of development falls far short of what is required to establish a flourishing and expanding economy. It is obvious that although some reduction in the level of farm subsidies may be expected in due course, the Government intends continuing on its present irrational course of making foreign food scarce and dear and, in effect, if not by intent, of reducing incentives to maximum production on the best land while encouraging uneconomic production on marginal and poor land. Ultimately the beneficiaries of that policy, as has been repeatedly demonstrated, are those who are able to appropriate the economic rent of land, either by virtue of owning their holdings or because they pay less than the market rent for their land. In between are the monopolistic rings which exploit the farmers' artificially increased ability to pay. The farm subsidies should be drastically reduced immediately and withdrawn at the earliest opportunity. Nor need the social services and national insurance be regarded as politically sacrosanct. A Tory Chancellor could safely double the shilling charge for prescriptions which his Labour predecessor imposed, and if at the same time he removed the purchase tax from medicines, people would be less tempted to use the health service every time they want a bottle of linctus. Expenditure on national insurance could also be reduced and economic freedom increased by permitting those who wish to do so to contract out of the scheme.

Wilful Gift to Land Monopoly

The annual sixty-year Exchequer subsidies paid to local authorities in respect of existing municipal dwellings amount at present to £47 million a year and as each new council property is erected the annual burden is thereby increased. The Government has decided not to reduce that burden, but merely to arrest the annual rate of its growth by altering from £22 to £10 per annum the sixty-year subsidy to be paid on all future "general purposes" municipal dwellings. The new Bill providing for this and other alterations to housing subsidy rates is briefly described in another column. It will be noted that the reductions that are being made are largely offset by increasing the subsidies for dwellings built for other than "general purposes" so that the Government itself cannot say what the net result is to be. The Bill perpetuates the amazing practice of relating certain subsidies to the cost of land bought by the local authorities, a wilful gift to the all-prevailing land monopoly by which the very land that should make the greatest contribution to municipal income, in fact, imposes the greatest burden on the taxpayer. It is a savage comment on the Chancellor's assertion that his proposals had been framed so as to create a healthier economic climate—and that by every section of the community exercising restraint.

Local councils have been asked to restrict their expenditure on both current and capital accounts, and in support of that request the Chancellor announced various monetary measures to be taken which will both relieve the Exchequer and compel local authorities to consider more carefully how the money is to be found before incurring new commitments. Those which are able to borrow on their own credit will in future have to make full use of the stock and mortgage markets and the Treasury, for its part, will continue to bring local loans rates into line with prevailing market rates.

The rest of the Budget speech consisted in the main of a medley of minor window-dressing measures designed to effect very slight reductions in government and nationalised industry expenditure, and to raise postal and telephone charges by £26 million a year. This severe additional burden on production which the Chancellor declared is necessary to bring charges more into line with costs will, of course, be passed on to the consumer in yet higher prices. One other point. Manufacturers, merchants and all who together form what is called the "private sector" of the economy are asked to restrain their expansion and activities. This can only mean less production, less wealth, fewer things to buy. So the wheel will turn until we are all impoverished into prosperity. Such is the Utopia Mr. Butler has pictured in his supplementary Budget just six months after preaching the need for expansion and extolling the beauties of economic freedom.

P. R. S.

"Irrelevant and Unnecessary"

During the House of Lords debate on the Economic Situation, November 1, LORD DOUGLAS OF BARLOCH said:

It is agreed that the troubles from which the country is suffering at the present moment are due to inflation. That is the thesis of the Chancellor of the Exchequer; it is accepted, I understand, by the ex-Chancellor of the Exchequer, and I do not gather that it has been contradicted by anybody who has spoken to-day. But if that is true—and I personally agree—then surely the autumn Budget is quite irrelevant to the situation.

Inflation is not a budgetary phenomenon, it is a monetary trouble. It is true that it may be connected in some ways with budgetary problems. It can arise if a Government, instead of raising the taxation which is necessary in order to meet its expenditure, expands the note issue or the circulation of credit. Conversely, if inflation has taken place it can happen that the amount of revenue which is being obtained out of the Budget is no longer sufficient to meet expenditure upon a higher price level. In those ways, it is true that inflation is connected with budgetary policy. But it is quite untrue to say that it can be put an end to by fiscal measures, because it does not arise out of them and is not directly connected with them.

Here is the curious position in which we stand at the present moment. It is not suggested that there is any great difficulty in balancing the Budget. The amount of extra revenue which will be obtained in the remainder of this fiscal year is a relatively small amount and, therefore, these measures are not required for purely fiscal reasons. We are told that purchase tax is being increased in order to prevent people from spending—or rather that what it will do is to prevent them from getting as much for the money which they do spend. It will not prevent them from spending, but it will divert part of what they spend into the Exchequer. What is the result of that? It is an addition to the cost of living.

The Probable Consequences

It is all very well for the Chancellor of the Exchequer to say that increases in taxation should not be made the basis of claims for increases in wages. In principle, that doctrine is absolutely true; but every one of us knows that when prices are raised as a result of indirect taxation of this kind, the ordinary man and woman is quite unable to know how much of the increased price which he or she is paying is due to extra taxation and how much is due to other causes.

If my memory serves me correctly, I believe that in the compilation of the cost of living index indirect taxation, such as the purchase tax, is taken into account as part of the prices by which the cost of living index is determined—one of those things which, in all wage negotiations, is most fre-