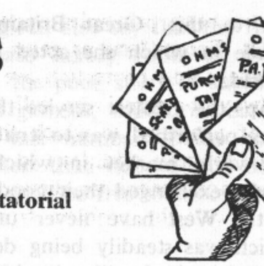
Unprincipled Proposals



By PAUL KNIGHT

"Merely to grab additions to spending power is to return to the most primitive dictatorial practices in taxation . . ."

THE PURPOSE of death duties "is or ought to be to reduce the more extreme inequalities of wealth within the community," and the purpose of taxation in general "is to restrict consumption to release resources for government purposes so that government expenditure does not create inflation."

These are the views of Mr. C. T. Sandford and they form the background to his booklet *Taxing Inheritance and Capital Gains**. Mr. Sandford, who is Head of the Department of Social and General Studies, Bristol College of Science and Technology, argues the case for a new legacies tax to replace the present estate duty, the tax to be integrated with a tax on all capital gains in the form of a personal "capital receipts" tax ; it would be progressive and cumulative throughout a taxpayer's lifetime.

The system reflects the author's view that wealth should not be accumulated by the few. The tax is certainly vicious and leaves scope for high rates on those of modest wealth who attract the tax ; relative hardship would undoubtedly arise and exemptions multiply.

For anyone wishing to grasp within the scope of a few pages the history, administration and economic affects of estate duties, this booklet is highly recommended, and given acceptance of Mr. Sandford's views as to the purpose of taxation, the booklet gives some interesting fiscal food for thought.

We would, of course, take issue at once with the author's concept of the purpose of general taxation. Since government expenditure *as* expenditure can no more *cause* inflation than can private expenditure, we can only assume that the restriction of consumption "in order to release resources for government purposes so that government expenditure does not create inflation," means that the government has to tax the community so as not to have to resort to the debasement of the currency to pay its way. This may be true when it comes to making up the difference between estimated income and actual expenditure, but to say, as Mr. Sanford does, that the purpose of taxation *in general* is to restrict consumption, is to give taxation a surrealist touch. The manner and incidence of taxation may have become a major weapon of government economic policy, but that is another thing.

As for the bland acceptance of death duties as an instrument for equalising the inequalities of wealth in society, Mr. Sandford keeps company with the best of socialistic thinkers in all the political parties. One is asked to accept that because something wrong in the working of the economy has enabled some men to obtain more than their just share, wealth should be redistributed by arbitrary government authority.

* *Taxing Inheritance and Capital Gains* by C. T. Sandford. Hobart Paper No. 32. Published by the Institute of Economic Affairs, 1965. Price 6s.

That it might be more sensible and more fruitful to question the *origins* of large-scale wealth accumulation seems not to have occurred to Mr. Sandford. A clear distinction between incomes arising from land and privilege on the one hand and labour and capital on the other would provide us with a radical (root) remedy for dealing with genuinely unearned incomes, rendering the makeshift and complicated palliatives of death duties and the like completely unnecessary.

However, to return to Mr. Sandford's proposals.

Law divides property into two classes for purposes of taxation — "income" and "capital." Since "income" is well taxed, the inequalities in wealth distribution, it is argued, must have arisen through dealings technically classified as "capital" and escaping tax.

The author supports his case with government statistics showing that 50 per cent of the wealth of the country is possessed by under 2 per cent of the population, and three-quarters of the net wealth by about 8 per cent of the population. Clearly, therefore, if the concentration of wealth is not to continue, with its monopolistic tendencies weakening the forces of competition, "capital" must be taxed, argues Mr. Sandford. Further, capital should be taxed on grounds of equity because it yields advantages in the way of security, economic opportunities and social benefits that are unaffected by income taxes. Also, as the accumulation of "capital" often bears no relation to the efforts of the taxpayer (e.g. increments in land values), a tax thereon has less disincentive effects than a tax on earned income.

As problems of valuation make impossible an absolute taxation of "capital" (a wealth tax), it is only practicable to tax upon receipt, says the author. Moreover, at this point liquid funds can be made available more readily. Since all gains other than "income" are lumped together into that remaining class termed "capital," they are, *ipso facto,* deemed to be a proper subject for taxation.

The old principle of taxation in the United Kingdom is that "income" as defined shall be taxed and all that remains (i.e. "capital") shall be left intact. This has resulted in the current abuses by which those with the greatest power and wealth arrange their affairs so that their gains are technically "capital."

Now that present social demands call for this latter category to be taxed, surely the time has come to re-think completely the basic principles upon which the structure has been built. For so long as gains from land monopoly, legalised privilege and protection are permitted to remain, there will always be some who will hold a disproportionate volume of property, to which they are not justly entitled. Merely to grab additions to spending power is to return to the most primitive dictatorial practices in taxation and to tackle the problem from the wrong end.

The time has come to seek a radical review of the whole taxation system unimpeded by the present huge volume of statute and case law which is continually needing revision to close abuses.

The full circle has now been turned from "income" to "capital" taxation and the present system has become a mockery of self-contradiction, with no truly moral principles to support it.

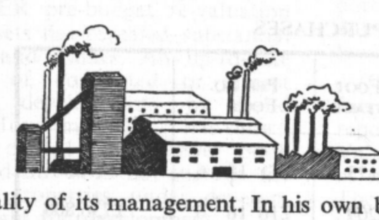
Scraping the Surface

By B. W. B.

ONE OF THE DANGERS of choosing a question as the title of a book is that the reader may expect the author to answer it. And the regrettable fact is that in many, many cases the reader is disappointed. Sometimes the answer given by the author reveals not so much his grasp of the facts as his slanting of them. Sometimes he makes no effective attempt to answer his question at all, the title, like the cover of a modern paperback, being merely to entice, or to whet the appetite.

For all the merit of its contents Rex Malik's *What's Wrong with British Industry*?* falls roughly into the last category. The author clearly does not take his title too literally for on the very first page he warns that he has not seriously discussed labour relations or trade unions, the nationalised industries, the relations between industry and the City, transport, the inhibiting effect of "our crazy tax system" — or many other relevant topics.

To examine the state of British industry without fully discussing any of these subjects is rather like considering the tower of Pisa without noting the fact that it is leaning. And after reflecting on all that the author has left out, the reader would be justified in asking what there is left in. However, to do him justice, Mr. Malik gives his answer with clarity and force. The central theme of his book is that British industry has only one basic problem



— the quality of its management. In his own blunt words, he sets out to "clobber the managers," and in this limited sphere, he makes a reasonable job of it.

Competently and concisely he surveys some of our major industries — chemicals, aircraft, electronics, engineering and all, and makes his criticisms of their organisation and/or achievements. Companies should not have reorganised vertically but horizontally (or *vice versa*); the managements invested in research when they should have expanded production. They resisted the introduction of new processes when they should have gone overboard for them. They tried to make too many things at once. They lacked cost consciousness. They made this when they should have made that.

If a major criticism of British industrial managers is that they have lacked vision and have failed to seize their opportunities (weaknesses more easily observed, of course, with the benefit of hindsight), then the author has British management pretty fairly in the dock. But even so, Mr. Malik will hardly claim that the criticisms probe deep into the basic causes of British managerial inefficiency — even assuming this to be established. He makes no bones about his belief that British managers are less competent than their counterparts in Europe, but he does nothing to remove the obvious thought in the mind of the reader that the faults in British management may lie not so much in the qualities of the managers as in the environment in which they have to operate.

Briefly, oh so briefly, the author touches on this side of the question. He concedes that the aircraft industry "has been so mucked about by the government that its leadership seems to have lost its nerve." He refers to "the farce" of Lancashire's cotton industry modernisation programme. He glances at the inefficiency bred by tariff protection. But he does not develop these points sufficiently, preferring to take his stand on the intrinsic demerits of British managers as the basic problem.

For a further brief moment he dallies with the problem of competition and the evil of monopoly. Competition — yes, he's in favour, but it must be "effectively policed." In other words, it must be the best competition that government can plan. Little in the book causes the reader such despair as this particular passage.

What, then, are Mr. Malik's positive proposals for solving the problems of British management? With little supporting reason or argument his plea is for more gov-

* *What's Wrong with British Industry*? By Rex Malik. Penguin special. (Penguin Books Ltd. 3s. 6d.)