INCENTIVE TAX

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AS this country moves steadily towards national bankruptcy and what Jo Grimond calls "corporate fascism", those of us who still retain the desire to stand on our own two feet rather than be creatures of the State machine, look with increasing desperation for practical, positive solutions that will halt the growth of bureaucracy, taxation, inflation and unemployment, as well as their accompanying handmaiden the erosion of liberty. These factors are not unrelated as Nigel Denton* demonstrates. It is, he says, our taxation system itself which, in part, causes our poverty. To alleviate this poverty, taxation is increased causing yet more poverty.

The booklet sets out to prove that this happens because we take our taxes from the wrong segment of what it calls the "configuration of wealth". The value added per employee will vary throughout the country due to natural advantages and location. This configuration is reflected in site values. Our taxation system ignores these inbuilt variations. For example, in the most favourable location in 1968 (the South-East) the highest value added less net earnings (£1, 730) was paying employment-based taxation at 12.7 per cent. On the least favoured location (in Northern Ireland) value added less net earnings was £644 and taxation 27.2 per cent. This form of taxation sets an artificial margin to the production of wealth. Many enterprises, says Mr. Denton, could flourish in locations at present completely unviable if these taxes were repealed. We have at present what Dr. Ronald Burgess, on whose pioneering work this booklet draws, calls "statutory" (i.e. largely determined by the level of taxation) unemployment.

A vital short-term solution is, according to Nigel Denton, a partial or total cut in Employers' National Insurance Contributions. This will provide immediate relief for the whole company sector but especially those near the margin of production. It will also reduce the need for government expenditure to aid or take over companies.

In the medium or long-term, taxation must be transformed from its present regressive incidence in respect of the configuration of taxable capacity into one in accordance with that configuration, that is: whatever the value of a company's location, sufficient value added should be left for growth and competitiveness. The one tax that fulfils these requirements is site-value taxation, and this the booklet recommends.

It goes on to suggest a pay-roll tax, levied proportionately to the advantages of location, to replace the present rating system. While agreeing wholeheartedly with SVT, I hesitate at the prospect of using it as a basis for another tax. Having taken your site values, which is just, one has ironed out the natural financial disparities between different locations. To try and take a second bite with a weighted pay-roll tax would, it seems to me, be unfair, and would, I suspect so alter site values as to be counter-productive.

This paper is an important contribution to the debate on taxation and public expenditure. For once we have an inquiry into fundamentals rather than the useless proposals for tinkering with the existing system that is all our political parties can ever get round to doing.

The Configuration of Wealth, by Nigel Denton, Centre for Industrial & Commercial Policy Studies, 1976, £1.25.