

Taxation & Unemployment

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WARNINGS that we are speeding down a road leading to economic disaster are not unfamiliar to hardened doom-watchers. Warnings that are accompanied by a cogent analysis of the problem and suggestions for a solution are less easy to come by. Thanks, therefore, are due to Ronald Burgess, who, in *Full Employment and Public Spending**, gives us a sanely reasoned examination of our current economic situation.

To start with Dr. Burgess says that the post-war full employment objective was never given any economic meaning. "It was a political concept which rapidly deteriorated into an emotive slogan justifying profligate spending policies, which were in themselves self-defeating. Successive post-war governments have only succeeded in adding inflation to unemployment."

The reason for this, according to Dr. Burgess, is that the steadily rising level of taxation has itself been a major factor in creating inflation and unemployment. This is because any increase in taxation is off-set by employees demanding higher wages. Over the last 100 years employees' take-home pay has remained constant, fluctuating around 50 per cent of the "domestic cake". It therefore follows that: "Contrary to common belief, the imposition of these additional taxes raises employers' labour costs rather than depressing the take-home pay of employees. Faced with rising labour costs, firms reduce their demand for employees and attempt to raise the prices of their finished products. Those firms unable to cover their tax-inflated costs by charging higher prices eventually cease production." So more unemployment is added to government-created inflation.

It is clear from reading this paper that the proportion of labour costs is determined not so much by what employees receive as by taxes on employment. The slice of the cake received by employees

remains static but the slice represented by labour costs has in this century expanded by 60 per cent. There is, and Dr. Burgess has statistics to prove it, a direct positive association between labour costs and unemployment. Attempts to subsidise employment from taxation merely mean more public spending, which leads to higher taxes and an intensification of the job destruction that the government is trying to prevent.

The tax burden has reduced profits to near non-existence, and the final straw for the British economy, says Dr. Burgess, has been the massive public authority borrowing requirement of recent years. "First, governments appropriated by all forms of taxation (not merely corporation tax) the income firms needed for essential investment to continue in competitive production. Then, through extensive borrowing operations, governments proceeded to appropriate such funds as became available on the open market."

Little wonder that British industry is in decline. A government faced with the problem of trying to maintain personal freedom in the all-embracing welfare state, is faced, according to Dr. Burgess, with an impossible task. It must, to avoid economic chaos, depress take-home pay—which is what incomes policies and the social contract are all about. "The development of socialistic policies in a welfare state is incompatible with free wage bargaining, collective or otherwise."

What is the solution then? Dr. Burgess believes that nothing less than a radical reform of the present system of public finance will suffice. He wants to see a reduc-



tion in the burden of public authority spending combined with tax cuts in a way that will allow for a sustained expansion of out-

IDLE RESOURCES

THE industrial floorspace survey compiled by King and Company, one of the leading firms of industrial estate agents, shows that 83.7 million sq. ft. of factories and warehouses were empty during April compared to 84.9 million sq. ft. last December.

put. In other words any reduction of jobs in the public sector to be speedily compensated for by an increase in jobs in productive employment. This can be achieved, according to Dr. Burgess, by reducing direct taxes on employment—taxes which drove labour costs in 1975 to an all-time high of 74 per cent of the share of the product. With these reduced it would again become feasible to create new jobs and many marginal enterprises would become viable again. As a start, Dr. Burgess recommends the removal of the damaging National Insurance surcharge.

This is an important paper. Successive governments and their advisers have failed to understand the significance of their own tax policies. They have not seemed to distinguish between the results of different forms of taxation, or ever thought that there might even be some limit to the taxable capacity of this country. *Full Employment and Public Spending* clearly says that there are limits, and that there are right and wrong ways of taxing the community. Let us hope that the message gets through to the policy makers before it is too late.

Books Received

The Future of Scotland Ed. Robert Underwood. Croom Helm. H.B £5.95, PB £2.95.

Industrial Relations: A Textbook by Michael P. Jackson. Croom Helm. HB £8.50, PB £3.95.

Aid and Development in Southern Africa by David Jones. Croom Helm. £11.95.

Dynamic Investment Planning by M.H.I. Dore. Croom Helm. £9.95.

Asian Drama by Gunnar Myrdal. Abridged in one volume by Seth S. King. Penguin Books Ltd, £1.75.

*Aims for Freedom and Enterprise, 50p.