

THE BUDGET AND NATURAL TAXATION

By W. R. Lester

[The following article has appeared in a large number of newspapers throughout the country as a letter to the Editor. It has been reprinted by the Yorkshire League in the form of a small pamphlet.]

At a time when all the world is busy talking and paying taxes you may perhaps find space for a few general reflections.

Most men will probably agree that the ideal tax would be one which, while providing the necessary revenue, would have no tendency to react by drying up the sources of production from which the revenue itself is drawn. Yet if judged by this standard it is not too much to say that practically every tax imposed or proposed in the Budget fails.

If examined, with ordinary care and with due regard to fundamentals, every one of them (with the doubtful exception of the war profits tax) acts in restraint of production, which indeed is an irony at a time when the nation is so fervently enjoined to increase the means of livelihood. This restrictive effect holds good of taxes on income unless in so far as they are levied on the profits of legalised privilege like land monopoly. Taxes on incomes other than derived from monopoly do not stay where they are put. They have a tendency to slide off on to the price of goods, and so are in the end paid by the general consumer. They also make for a rise in the rate of interest. This is particularly true of the income tax imposed under Schedule A (on the rental value of lands, houses, &c., in occupation), which has precisely the same effect as the much condemned local rating system. The increase in the income tax has simply raised house-rents all over the country; witness the grievances that are finding expression in most of the great towns. This part of the income tax is certainly not borne by those who are assessed to it by the Treasury, but shows itself in increased house-rents.

Taxes such as were proposed on sugar, tea, tobacco, petrol, foreign motors, cinema films, hats, or glass simply make such things dearer, and hence limit their production through diminished demand. In every case we trace the taint of restriction in such taxation. Every Chancellor of the Exchequer knows that there is a point beyond which he cannot continue imposing taxation on these lines. Beyond that point his revenue begins to vanish owing to the effect of his taxes on sales and production.

A system may always be put to the test by pushing it bit by bit to its limit and observing what happens. If when applied to the full the result is still good we may safely conclude that the system itself is good. If, on the contrary, it breaks down and shows results which are harmful and the very opposite of those intended, we conclude that the system must be faulty and the sooner scrapped the better. Now apply any or all of the above taxes with sufficient severity and it is certain we shall find they arrest production. The more thoroughly we apply them the more scarce become the goods and the lower the revenue; the more our aims are frustrated and the more are we self-stultified.

I am well aware that so inured are most people to taxation on these lines that they would strenuously dispute the possibility of devising taxation from which the taint of restriction is absent. Yet some of us have faith enough in the eternal fitness and beneficence of natural law, whether applied to physical science or to human relationships, to maintain that revenue for the support of the State can of a certainty be obtained without discouraging private citizens in the performance of useful work; without the checking of production at its source. We refuse to believe that in performing its legitimate functions the State is bound to impose hardship on its citizens. To say so would imply a

discord and clash of interests which cannot be shown really to exist. To say that the State can only live by depriving of their earnings those who perform useful service is to say that the State and the individual have interests which of necessity are in eternal conflict. It is to say that the State must ever be at war with the individuals who compose it; that human society is a discord and a contradiction.

If we seek to discover the natural laws which govern society, surely we are entitled to expect with every confidence that, just as there exists a natural wage which is the just reward of the man who performs useful service, so there also exists a fund which is the natural "wage" of the State and which the State can and should draw upon without depriving any individual of what is rightly his own—the full value of the services he performs. The doer of useful work produces a value which is his natural wage, and belonging as it does by right to him, the State cannot in equity encroach on it. May we not also find that the community, by the performance of useful public services, also brings into existence a value which is communal; which, therefore, belongs to the community, and which could be drawn upon to the last penny piece without depriving the private citizen of what in right belongs to him? Here, indeed, is harmony in contrast to discord.

Examination of the nature of the economic value of land will show that here is the fund which fits in with every condition. It is, as defined by the Prime Minister, a "communal value" because it is the creation of the whole community and not of any individual. It could, therefore, be taken by the State for the support of Government without inflicting hardship or encroaching on the earnings of any useful private citizen. It could be appropriated by the State without in the slightest degree drying up or even imposing the smallest check on production. Here is nature's tax, for under it both the State and the individual get all of what is theirs.

To apply our test, we shall find this kind of taxation in direct contrast to other taxes, for the more drastically a tax on land values is applied the more is production stimulated; the more are natural resources of every kind driven to their fullest use, and the more is industry encouraged by lifting from its shoulders the load of taxation it is now forced to bear. Of course we know that to-day this "communal fund" is appropriated by the landowning class; but this in no way lessens the force of the contention that no system of taxation could be more just or more beneficial than that those who are permitted by the community to appropriate to their private uses what is a public value should be called on to make special contribution to national needs, in proportion to the amount of the public value they appropriate.

For these reasons, many of us are deeply disappointed to find the Chancellor of the Exchequer, in his Budget, making not the slightest move towards tapping this natural public revenue; but at a time when he calls on the nation to produce as never before he is content to continue on the old line of taxation, which, through its restrictive, repressive action must largely frustrate the very end he has in view.

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