

Your Pound in their Pocket

A general election is almost upon us. The three main political parties - and the Scottish, Welsh, and Northern Ireland parties too - will all be offering variations on the familiar themes of taxation on production, earning, saving, spending, and dying. None will propose a change to financing government by collecting the rental value of land.

The Conservatives, in office since 1979, have three main achievements in economic affairs. (1) They acted to curb trades union power and shake loose restrictions in the working of the labour market, which helped bring about increases in productivity. (2) They de-nationalised significant sectors of state-run industry. This has had the double effect of enabling private companies to make changes in activity and structure that would have been difficult in the politicised air of Whitehall, whilst at the same time freeing government of the need to provide capital funding and loan finance which now must be raised in the City. (3) They simplified and revised personal and corporate taxation, cutting the standard rate of income tax to 25% with one higher rate of 40%.

Against that, there are five important failures. (1) Local government finance has been a disaster area - rate-capping, the community charge, the council tax, and, to a lesser extent, the uniform business rate. (2) The European Community continues to run away with money, notably the ridiculous Common Agricultural Policy. There are also the distortions from constraining sterling within the monetary system. (3) Indirect taxes have risen, with v.a.t. now more than doubled at 17.5%. (4) Despite revenues from North Sea oil and gas, despite privatisation receipts and not having to provide for formerly nationalised industries, and despite a declared determination to curb state spending, taxes and expenditure are higher now than when the Conservatives took office. (5) Although there was success in the middle years in balancing budgets, matters are now again going seriously out of control. This year the deficit will be £12 billion and it will be twice as great next year even without additional commitments. National finances are in a mess.

I have not listed the failure to take note of feverish land speculation after 1985 and to foresee the current deep depression. None of the other parties did either. There is still no inkling that any of them understands how we got here or has any idea of how and when we may get out. The cry that "something must be done" is accompanied only by banalities, generalities, and the certainty that there will be more government spending at a time of falling receipts. If the Conservatives are returned, they too will doubtless be spending - and hoping.

There is no doubt that Labour wants to spend and tax more. This will redistribute income but taxes are harmful, they extend the bureaucracy, encourage high spending and probably fail to achieve the desired results. Nevertheless, there are some interesting observations to be made on Labour's proposal to levy a 9% National Insurance contribution on all earned income. This removes the last vestige of pretence that this is anything but income tax. Insurance implies a premium, and a premium does not depend on what one earns but on what cover one is buying. No improvement in cover is being offered to the higher earner; he is just being told to pay more because he earns more.

In reality, Labour will have tax rates of 34%, 49%, and 59%, against a progression of 34% via 25% to 40% now. The increase is steep, but might be felt tolerable provided it could be guaranteed to stop there. The parallel surcharge of 9% on allegedly "unearned" investment income over £3,000 panders to the politics of envy, especially when linked to statements that tax-free capital gains limits will be lowered. This is bound to deter the small saver and direct the big investor off-shore.

ELECTION POSTURES?

Labour has been careful to limit its firm spending commitments, but of course there have been many pledges of spending (on health, housing, social security, transport, education, employment training, overseas aid, EC enthusiasms) "once the nation can afford it". The nation is not going to be able to afford it for some time to come. Either these pledges are mere electoral posturing, or they presage yet higher taxes and yet bigger budget deficits (which imply high interest rates, and ultimately inflation and devaluation of the £, EMS or no EMS).

The Liberal Democrats frankly offer higher taxes to finance their spending aims, and would combine income tax and National Insurance. Their upper rate would be 50%, but as they also want a local income tax, that is not going to leave some people far behind Labour's 59%.

You may be lucky and actually have a candidate declaring for land value taxation. Elsewhere the choice on taxation and economic policy generally, seems to be between rewarding the Conservatives for getting us into a mess, and voting Labour or Liberal Democrat knowing that either would dig us in deeper. My advice is just to make your decision on some other aspect of the parties' policies.

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