



Tax "reforms" were promised by the radical right when Ronald Reagan and Margaret Thatcher came to power at the beginning of the 1980s. PETER POOLE, in his review of the evidence, found that the advocates of reform were really settling for a trim back in the tax rates. Reform has not yet been placed on the agenda.



Margaret Thatcher's Tory manifesto promised in 1979: "The state takes too much of the nation's income; its share must be steadily reduced." It was increased.

Ronald Reagan swore before the American people to cut the Federal Government's budget deficit. His legacy: a record deficit which is crippling the world economy.

Whither the right?

NO ONE doubts that Premier Thatcher is a determined woman who practices "conviction" politics. What she says goes.

In her 8½ years in power she has pushed through sweeping cuts in the scale of public sector enterprise, selling off gas and telephones – and soon electricity – to the private sector.

She has clamped down on trades unions, and is about to fulfil her promise to abolish the property tax on people's homes.

In those 8½ years, she has also raised the share of national income appropriated by the state by 8½ percentage points. Yet in 1979 her Conservative party pledged itself to cut the government's control over the nation's resources. Voters believed her, and installed her in No. 10.

The same contradiction unfolded in Washington, where the best that can be said for President Reagan's promises is that he has swept away many tax shelters – but he will not go down in history as the President who balanced the books. What went wrong with the Right?

THE experiment was launched by the radical Right during the 1970s.

Their chance came with the MAY/JUNE

THE TAX TAKE: BRITAIN – £ bns

	Taxes	% of national income
1978	56,285	43.1
1979	67,479	45.0
1980	82,464	48.1
1981	96,261	51.5
1982	106,596	52.5
1983	115,192	51.4
1984	123,295	51.3
1985	134,680	51.2
1986	143,358	51.6

1974 depression, which discredited the Keynesianism of the postwar years. Arguably, however, the Right's experiment was doomed to failure, so the political mouthpieces of the trans-Atlantic think-tanks (the Heritage Foundation in the United States, and the Institute of Economic Affairs in Britain) have not betrayed their cause.

The broken promises of Reagan and Thatcher are not proof of an inconsistent application of policies. The truth is that they were never equipped with radical policies in the first place.

The demands from the Right boiled down to one issue: the wish to pay less out of profits,

wages and salaries. This was an appealing prospectus which won votes for the skilful politicians who would not listen to the voices that said it was not possible to pull off such a fiscal coup.

Why would it fail? Because the philosophy that underpinned the welter of policy documents proposing tax cuts could not, in the end, tackle the major problem of the past 15 years: mass unemployment.

The likes of Professor Arthur Laffer claimed that tax cuts *would* reduce unemployment. But the reduction in the dole queues of the United States had more to do with old-fashioned Keynesian pump priming – with money flowing in from the rest of the world to buoy up the economy – than the response of citizens to new fiscal incentives.

The supply-siders also said that tax cuts would be good for investment: income earners would save more, so the money would go into capital goods. In fact, the US savings ratio continued its decline: it has been a skimpy 2.4% a year average since 1981.

PEOPLE were forced to impose ever-increasing claims on the State for unemployment and

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• David Myddleton



• Alan Peacock



• Barry Bracewell-Milnes

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other social security hand-outs because they could not find jobs or could not afford to finance their medical and educational needs.

Try hard as they might, Reagan and Thatcher were obliged to allow the public sector to expand to accommodate the crying needs of the mass of people at the bottom of the income scales whose plight would otherwise have degenerated to unacceptable levels (as has happened, of course, to many people: we only have to count the increasing number for whom home is now a pavement in Manhattan).

The welfare state was forced to step in and make good the shortfall in people's needs and expectations. The public sector, far from shrinking, had to expand. So, instead of criticising the political leadership of President Reagan and Prime Minister Thatcher, it would seem more appropriate to ask some hard questions about the philosophy of the so-called radical Right.

Where did they go wrong? And are their ideas today any better with hindsight? An opportunity to assess current thinking was presented by a conference in London organised by the Institute of Economic Affairs, whose monographs on free market economics have invigorated economic theory over the past two decades.

The theme was tax reform, and some of the arch-exponents of

right-wing economics were present to lay out their wares.

Barry Bracewell-Milnes, economic adviser to the Institute of Directors, took the view that "all taxes are deleterious" without exception, but we had to accept the "nuisance value" of some, which he likened to paying a tip in a restaurant.

He argued that the most damage was done by taxes that were visible (taxes on income and capital), and that the least damage was done by taxes which were disguised (on consumption). So: shift the tax burden in the direction of VAT.

ODD MAN OUT . . .



• Stanley Wright

Unfortunately, this doctrine is dangerous because it is not true. Dr. Bracewell-Milnes asserted that "All taxes affect economic behaviour, destroy wealth and distort the pattern of activity." If he studied Adam Smith and other free market economists, he would see that they advocated one tax because it had a neutral effect on economic behaviour, encouraged

the creation of wealth and did not distort the pattern of activity: a tax on pure economic rent.

But this is unacceptable to Dr. Bracewell-Milnes, and he said as much when John Muellbauer of Nuffield College, Oxford, presented his paper entitled "Why we need a national tax on imputed rents."

Dr. Bracewell-Milnes said: "I am deeply sceptical about the idea of taxing notional income. This is administratively difficult, and it creates as many or more problems than it solves." His evidence related to the taxation of the value of buildings, rather than to sites as if they were unimproved.

David Myddleton, Professor of Finance and Accounting at Cranfield School of Management, attacked the welfare state as "divisive", because it denied the average person the right to take advantage of the benefits of the free market. The welfare state presented a "Santa Claus view of the world" — it separated people who pay from people who benefit.

Professor Myddleton admonished Margaret Thatcher for promising that "the National Health Service is safe in our hands". This assurance gave the Professor "nightmares".

Again, in his view, all taxes are bad. He advocated cuts in existing taxes, to enable people to fund their needs directly out of their pockets. The health and

- For the average US worker, a rise in the Social Security tax has swallowed Ronald Reagan's second "tax reform" tax cut.
- 82% of Americans earn \$30,000 or less: a Wall Street firm, Dean Witter, says that all these working people actually lose money after the "tax reform" and Social Security factors are taken into account.

education of unemployed or low-income families could be financed out of the voluntary payments of the rich. He did not explain how the tax system could help to banish unemployment and raise the lowest incomes to levels where no one need rely on the charity of others.

Alan Peacock, Director of the David Hume Institute, urged the abolition of corporation tax and the introduction of a property tax that fell on the imputed rental value of people's homes. The professor acknowledged that he was in a minority on this:

"In no major industrial country is it proposed to tax the imputed income from home ownership. The sacrosanctity of home ownership extends to generous deductions of mortgage interest remaining as an integral part of the system.

"Furthermore, it cannot be

assumed that reform presupposes that the government in any country is committed to a reduction in the total tax burden relative to GDP..." The much-vaunted and influential Reagan tax cuts in 1986, he said, was "clearly an illusion", for it merely sought to transfer the tax burden from individuals to corporations. Even this was a sleight of hand, "for all taxes are eventually borne by individuals".

SO THERE we have it. The Right has a simplistic view of taxation: in essence, it's all bad.

There are no redeeming virtues for taxation *per se*, despite the acknowledgement, by the advocates of the free market, of the unique benefits offered by the tax on the economic rent of land.

Today, there is no attempt to recognise that the right kind of tax can stimulate growth and the quality of life (see Page 35 box). Taxation is condemned as an interference with individual liberty and the mechanism of the market.

The result is a sterile critique of society and economic activity that offers a blinkered set of policies which the imperatives of history must crush, as they have done in the past few years.

A lone voice did express

Monetarism and supply-side economics, two doctrines that provided most of the intellectual firepower for Ronald Reagan's assault on big government, have proved unable either to stave off or to explain the current turmoil... With monetarists and supply-siders beating a retreat, neo-Keynesians are emerging as the only players with a credible economic game plan for the next decade.

— U.S. News and World Report, Feb. 1, 1988

unease at this complacent view of liberty and the tax system. Yorkshire industrialist Stanley Wright had seen the price of the land under his factory double in two years. What, he asked, about the impact on economic growth of people burying their money in "positional" goods — mainly land, but also works of art?

Mr. Wright's view was that it did not make sense for the tax system to encourage people to sit idly on land, instead of creating wealth. In an interview after the conference he said none of the professional economists he had heard, who were searching for the "holy grail", made any provision for this problem in their attempts to define an ideal tax system.

He was right. We have yet to hear from the advocates of real reform.

HOUSE PRICES POSE THREAT TO

NEW JOBS

THE downward trend in unemployment in Britain during the past 18 months is now likely to reverse itself — and a principal reason is the high price of housing.

Because people cannot afford the prices of houses in the booming regions, labour mobility is making no contribution to reducing unemployment.

- There is no net outflow of manual workers from the six most depressed regions, according to a Southampton University study for the Employment Institute.

- There is a net outflow of manual workers from prosperous areas like the South-East, which observers say is related to high

housing costs. This exacerbates unemployment in the depressed areas.

According to free market economist Professor Patrick Minford, of Liverpool University, if the housing market helped rather than hindered people, unemployment could be reduced by 500,000.

The Thatcher government plans to lift some of the rent-control restrictions in the private sector, but in the medium term this will deepen

the crisis: property owners will not be able to provide accommodation fast enough to prevent rents from rising steeply.

Could taxation help? Yes, say the advocates of a tax on the annual rental value of land. Building land is not available at the right prices and in the right places. Even if the planners zoned more land for construction, prices would remain beyond the reach of many families.

But an annual tax on land values, if levied at a high enough rate, would prevent land hoarding, make land available at affordable prices, and enable the government to reduce those taxes which deter people from working, saving and consuming.