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The Bondage Budget

Heavier Taxation and Deeper Debt

Private spending is inflationary; public spending is disinflationary. At least so we are told by Government speakers. To illustrate: A wage earner after meeting all his normal commitments is left with one pound in hand. If he spends it on a spade with which to dig over his allotment, his demand for wealth is said to be "excessive" and therefore "inflationary," for the two words have come to be interchangeable and to all intents and purposes synonymous in this context. But if the Government curbs his excessive demand by taxation and spends that pound on defence or social services, or gives it as a subsidy to a farmer working a barren hillside or as compensation to a landowner, that is said to be "disinflationary." Miraculously and despite all appearance to the contrary, consumption is assumed to have been curbed. The contention is demonstrably absurd. Rather more plausible though no less fallacious is the complement: "excessive" private demand holds back from foreign markets goods that otherwise would be exported and stimulates imports. In this way "precious" gold and dollar reserves are run down and a balance of payments crisis is created. To complete the trilogy and exonerate the Government from all responsibility, wage demands and dividend payments are said to be inflationary. That nostrum was examined and exposed in our last issue.

On such false premises Mr. Harold Macmillan contrived and defended the tax proposals he presented in his April 17 Budget speech. He recommended that taxation this year should be imposed (with minor alterations) at the same rates and in the same manner as last year. The tremendous volume of evidence of the harmfulness and injustice of such exaction, and the teachings of political economy were calmly ignored. In effect he asked Parliament to enact legislation to deter and hamper and penalise production; to have regard only for expediency and never a thought for justice; to impoverish the able and industrious and thrifty; to raise prices and lower quality; to restrict imports and close overseas markets for British exports; and to maintain the division of society into tax-patrons and tax-paupers. Taxation has done all this—and more—in the past and yet the Chancellor had no hesitation in asking that it should continue to damage society.

Blandly Mr. Macmillan admitted that it will be "a far better thing" when "a Chancellor can begin to reduce the terrible burden of taxation, so oppressive to energy and effort, and enterprise, in so many spheres, and when he feels that he can do this without risking a serious degree of increased consumption and a fresh inflationary crisis." Last April his predecessor, Mr. R. A. Butler, said much the same. Reducing the standard rate of income tax by 6d. he put on trust those who "benefited" to save rather than spend as large a proportion as possible of what they "gained." Alas, the trust was misplaced. With no General Election in the offing this year, Mr. Macmillan is under no compulsion similarly to "liberate the human spirit."

The rash improvidence of all who might otherwise spend the money they receive in return for wealth produced or service rendered, or money invested, is to be restrained (in the national interest) by a far-sighted and benignant Government. And although Mr. Macmillan described his proposals as a "Savings Budget," even the tax free investment allowances introduced last April are to be suspended. It is almost superfluous to remark that the patient speculator whose long-withheld land has ripened under the rays of community endeavour is left to gather in his golden harvest without interference from the tax collector. Seemingly money derived from the sale of land, when spent, is not considered to be inflationary.

Principal Tax Proposals

The chief tax change proposals are to increase the tobacco duty and the profits tax, and to reduce the stamp duty on house purchase. The first £15 interest on Post Office and Trustee Savings Bank deposits is to be exempted from assessment to income tax and certain tax reliefs in respect of premiums paid by self-employed persons for retirement annuities are to be introduced. A purchase tax "dodge" in respect of shooting brakes has been discovered and is to be brought to an end and certain kinds of British cider and perry hitherto exempt are to be dutiable. Because the prices of cigarettes and other tobacco had risen comparatively little since the duty was last raised in 1948, said Mr. Macmillan, the duty to-day is "a good deal less burdensome than it was eight or nine years ago . . . I am sure that part of the additional revenue I need at the present time can best be obtained from this source." The revenue from the tobacco duty last year amounted to £668 million; in future it is expected to provide an additional £28 million a year. What he would do if people were to stop smoking (perhaps because of the fear of lung cancer) the Chancellor did not say.

A most flimsy and cavalier reason was given to explain the increases in the profits tax (to 30 per cent on distributed profits and 3 per cent on undistributed profits). "After much consideration, I conclude that it would not be conducive either to increased incentives or to the successful operation of the savings campaign to place a further burden upon the Income Tax payer. I have therefore decided to secure my purpose in the field of Profits Tax." To the mere layman such taxation does not appear to be particularly conducive to new saving. The Chancellor said it would be deflationary. He was delightfully inconsequential when announcing the reduction in stamp duty: "Now I come to an old love of mine—the owner-occupier. There is no better stimulus to saving than house ownership, and I believe that many more people will commit themselves to it if the initial costs are reduced." But even so the new reduced tax rates on houses kept artificially dear by tariff taxes on building materials would be 10s. per £100 up to £3,500 with a sliding scale up to £5,000 and above that 2 per cent. The relief would cost £6¼ million in a full year "but it will help savings." In passing we may remark that Mr. Macmillan is a staunch upholder of the present rating system which places home ownership beyond the reach of many people.

Economy Promised

Announcing that a review of all Government expenditure, civil and military, would be undertaken immediately, the Chancellor said that an economy drive would yield not less than £100 million in the current year on services provided for in the published estimates. In addition the remaining bread subsidy (£23.5 million a year) would be withdrawn at the end of September. Right in principle, the subsidy withdrawal will bear heavily on those with low, fixed incomes and poor people with large families. Tariff taxes on other foods should have been ended at the same time. But despite parading his patriotism—he desires Britain to be free and great—the Chancellor has preserved intact the privileges which have brought the country to its present parlous state and which are sapping the very foundations of our society. He was, he said, " conscious of the burden which is borne in these expensive days by parents of the large family." But instead of reducing the indirect taxation which forms so large a part of that burden, he said that family allowances would be increased by 2s. a week for the third and each subsequent child in a family. A Bill making this and other changes (annual cost £10 million) would be laid before Parliament.

Weapons Trained on Next Generation

Nearly *five thousand million pounds* will be raised in taxation from all sources this year to pay for current Government expenditure. This is equivalent to approximately one-half of the total of wages and salaries paid last year (£10,040 million) but it is not enough to " stop inflation." Children unborn must be sold into bondage, as the present generation have been. And so, while expressing " awe " at the immensity of the present National Debt (£27,040 millions) which he described as a dull, dragging burden and a constant and acute anxiety, Mr. Macmillan unfolded his plans for plunging future generations even deeper into debt. " They may all be summarised by the word ' Savings '," he said. Deceptive euphemism. The national savings movement would be put in the front line. New " weapons " would be provided and a new cutting edge put on old tools. A new 15s. savings certificate maturing in seven years would be issued in August to yield £4 3s. 11d. per cent tax free. The limit on holdings on the present issue would be raised. The 4 per cent Defence Bond would be replaced by one bearing 4½ per cent. Interest (unaltered at 2½ per cent) on the first £600 held on deposit in the P.O. Savings Bank or Trustees Savings Bank would be exempt from income tax.

In a bid to persuade those who " respond to the incentive of fortune " to part voluntarily with their money to the insatiable state, £1 " Premium Bonds " repayable at par are to be issued. Each bond that has been held for a fixed period will qualify for inclusion in a draw which will be held every three months for tax-free " prizes " of various amounts equal in total to 4 per cent of the value of the bonds drawn. Casuistically the Chancellor maintained that his scheme was not a pool or a lottery because the pound paid for the bond could be claimed at any time. " This is not gambling, for the subscriber cannot lose." Very few people are deceived by that argument or by the assertion that the moral objections are invalid. Mr. Macmillan had to admit that a very big organisation would be needed to administer the scheme—but it was " well worth while." It will be extremely costly and completely unproductive.

Plugging the Tap with I.O.Us

Assuming that the public responds to this new " savings " campaign, what will happen to the money it lends, how will inflation be halted, where is the interest to come from that is to be paid on these various new savings, and how are the bonds, etc., to be redeemed?

The answers are very simple. The Government has been living beyond its income, paying its way in part by the issue of 3-month Treasury bills. When these have been presented for payment, recourse has been taken to the printing press, as may be seen from a glance at the steadily mounting total of the fiduciary issue.

Two revealing passages from Mr. Macmillan's speech endorse this contention: " We have learned only too readily how to turn the taps on. Even Lord Keynes never told us how to turn them off a bit." (These are the taps which have flooded the country with pound notes of ever-diminishing purchasing power). " As the National Savings rise the Treasury bills will fall. In this way, the National Savings movement will carry out a funding operation of the most effective and beneficial kind, and will prove itself a powerful ally in the battle against inflation. Therefore, I say, let its first slogan be, ' Save to Fund: Save for Solvency: Save for Security.' "

If people can be cajoled and bribed and bamboozled into lending enough ready-printed pound notes to close the gap between Government income and expenditure, the printing presses can be switched off and the machine minders sent home, and the Prime Minister or the Chancellor will be able to announce to the country that resolute Government action has defeated inflation. It is to be noted, however, that the whole purpose of this " savings " drive is to increase the ready cash available to the Government to meet current expenditure; each pound lent will be spent immediately and charged against the National Debt which last year cost £638 million to service. Interest on the loans and eventual redemption can come only out of future taxation, or future inflation. The whole thing is a vicious swindle, a conspiracy against the politically unrepresented citizens of the future.

Why has this desperate and utterly unprincipled course been adopted? Primarily the reason is to be found in the failure of successive administrations to collect the fund of economic rent for public purposes. Production, wages, consumption and savings have had to be taxed, and poverty caused by land monopoly in the first instance, and by consequent bad taxation has had to be heavily subsidised. Industrial depression and low wages resulting from surrender to the land monopolists paved the way for protection. This in its turn lowered living standards still further, fostered monopoly, contributed to international tension (and the heavy expenditure on armaments) and moulded public opinion in favour of the burden of nationalisation and the Welfare State, farm subsidies and even gifts to landowners. Soaring taxation and ever-deepening debt have not been able to keep pace with the annually climbing expenditure. Not daring to court political unpopularity, the Government has debased the currency, robbing the weakest in an attempt to buy off the strongest. The Budget proposals make it clear that that policy is to continue.

P. R. S.