

Three Urgent Reforms

Local Taxation—Stable Money—Free Trade

Speech by Lord Douglas of Barloch in the House of Lords' Debate on the Economic Situation, May 15

THERE seems to me at the present time to be three essentials for the economic progress and well-being of this country. The first is a reduction and a redistribution of the burden of taxation; the second is stabilisation of the purchasing power of currency, and the third is the removal of obstacles to international trade. All those are important and vital to our economy. The Budget, which has just been introduced, goes some little way in affording relief from the extraordinarily heavy taxation with which we have been burdened for so many years. The adjustments for the most part are in direct taxation. I hope that the time is coming when further relief will be given to indirect taxation, whether of purchase tax or of custom duties, because there is quite a large section of our population who cannot obtain relief from taxation in any other form than that.

It is very important to reduce taxation which is reflected in the price of commodities, because that, at any rate, does something towards stabilising the cost of living, and a steady rise of prices is undoubtedly a cause of extreme discontent to the working population. And, of course, it is one of the strongest reasons for ever-increasing demands for higher wages. I am not objecting to higher wages; I am all in favour of them. Those who contribute by the work of their hand and brains towards creating the wealth of this country deserve to be paid for it. There is need, therefore, for a readjustment of the burden of taxation so as to relieve the price of commodities.

And there is a need for readjustment in other ways than that. One of the most conspicuous examples, to my mind, is in the rates which are levied for raising revenue for local authorities. They constitute to a large extent a tax upon housing accommodation, and as rents become de-controlled and the level of rent rises, it is inevitable that when a fresh revaluation is made for the purposes of local taxation the rateable value of houses will rise very much indeed, if it is to be brought into accord with the true economic facts. It seems to me impossible to continue for ever to rate other properties upon their present-day values, and to try to rate dwelling-houses upon the values which they would have had in the year 1939. This, again, is a tax upon a commodity of general consumption—the accommodation which everybody must have for himself and his family. I think the time is now long overdue when we should do what has been done in many other countries, and make a distinction between the value of the building and the value of the site upon which it is placed, and diminish the taxation upon dwellings and other improvements, and impose a rate upon site values in place of it. I do not wish to pursue that point any further.

I want to turn now to the question of inflation, and I am glad that in every quarter of the House to-day there has been a plea that this problem should be dealt with. There was a time, until comparatively recently, when debasing the currency was regarded as entirely immoral, as a species of theft upon a gigantic scale. It was left to this age to pretend that there was something virtuous in this process, and that out of it advantages could come to some or other class of the community. I do not believe that. I think it has been upon every occasion an unmitigated evil. I know that it has been defended by ingenious arguments.

Our late colleague Lord Keynes certainly expounded a thesis which was intended to prove that inflation was beneficial. Among other virtues of it, in his view, was that it would produce the euthanasia of the rentier. Indeed that has been taking place in recent years. But who are the rentiers who have gradually been squeezed out of existence? They are the old age pensioners, the people who have saved a small amount of money intended to sustain them in their old age, the people who have invested in savings certificates and other government securities, and who have been advised to do so by successive Chancellors of the Exchequer. Those are the people who have been gradually squeezed and, indeed, rapidly squeezed, by the process of inflation. Others, who possess greater resources and more knowledge and experience, have been able to evade the consequences; and so, at the same time as we have had the euthanasia of the rentier we have also had the paradise of the speculator, because a period of inflation affords far more opportunities for his enterprise than does a period of stable money and steady prices.

This process of inflation has not only produced those results but has interfered with rational economic calculation and the proper conduct of business. In order that the economy shall expand, it is necessary that there should be not merely the maintenance of its existing capital equipment but a progressive increase in the amount of capital invested per worker. It is only upon that basis that the economy can continue to expand and that production per head of population can increase. The result of inflation is that, in order to replace its capital, a business has to calculate depreciation not in relation to the original cost of its equipment, but in relation to the ultimate cost of replacement when that is necessary. In the arrangements between the taxpayer and the Inland Revenue, no account whatsoever is paid to that factor. Therefore, the whole cost of replacement cannot be charged as an expense of running and maintaining the business but has to be met out of accumulated profits, and the

accumulation of profits during a period of extremely high taxation is, of course, very difficult to achieve. Thus the high rate of taxation, combined with the steady inflation and increase of prices, has made the conduct of business and the expansion of our economy extremely difficult.

Now it is said—and I think I even detected an echo of it to-day—that inflation arises because people are so naughty as to wish to spend the money which they earn. I disagree with that view entirely. The whole object of economic life is to obtain goods for consumption, and to imagine that it has any other purpose is to turn the whole process upside down. The noble Lord, Lord Brand, quoted a very interesting article which appeared in *Lloyds Bank Review* by Mr. Roberts, and I think one of the most remarkable things in it is that he pointed out that, in general, wages were below, rather than above, the value of labour, therefore it paid employers to pay some, at least, of their workpeople more than the rates of wages which had been negotiated for the trade.

If that is true—and I believe it is—it is a conclusive answer to the argument that inflation has been caused by the pressure of the trade unions to increase wages. That argument is simply not true. Inflation is caused by Government policy and by nothing else. It is caused by the increase in the circulation of money. It is caused by the expansion of the issue of Treasury Bills and short-term securities by the Government which can be readily turned into money if the holder so wishes. So long as the Government continue to pursue a policy of that kind, so long will inflation continue, no matter what happens to rates of wages and to other circumstances in the economy.

Lastly, I want to say a word about the third topic which I mentioned—the need for the removal of barriers to international trade. It would, I think, be a very considerable step forward if a free trade area was created in Europe, so long, of course, as it was upon the basis that it was not a Customs Union and that the participants in it were not debarred from lowering their tariffs to other countries if they wished to do so. That condition is absolutely essential, because, although it is desirable that we should expand our trade with European countries, it is also essential that we should expand our trade with other countries, notably with North America, both Canada and the United States; and as those countries are pursuing on the whole a liberal policy with regard to trade, the opportunity possibly exists for extending that process further and reducing the barriers to trade between us and them. I sincerely hope that something of that kind will be possible, because international trade, while valuable to most countries, is of paramount importance to us, and has been for many generations.

We are dependent upon other countries for the procurement of both food and raw materials, and will continue to be so. After all, trade is an integral part of production. Goods are not of value until they have been brought to the consumer, and the process of bringing them there is as much productive as the fabrication of them. I hope, therefore, that further progress will be made in

reducing and readjusting the burden of taxation, in stabilising the currency and in opening the channels for trade between this country and other countries.

Telling his Townsmen

Following are extracts from a lengthy letter by "Freeman" in the *Wallington & Carshalton (Surrey) Advertiser*, recently. The writer first learned of the reforms we advocate when he was handed a copy of *Can Taxation Be Constructive?* last October by a member of the L.V.T. League picketing a political meeting in London.

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"Equality is not simply adjusting salaries and wages, bolstering prices or subsidising foodstuffs and clothing, taxing one man and letting another get away with it, nor is the Welfare State, with its health service, a healthy and moral system for the nation. The more that a man receives free and for no effort on his part, the more he will demand.

"For every device thought out by Governments for raising money for the Exchequer, the greater the Government expenditure must be in order to collect these ill-gotten receipts.

"Every direct tax imposed by the Government is a virtual temptation to sin and breeds sin in every form of evasion, secretiveness, falsifying, etc., and the more these evils are apparent the greater the number employed to try to overcome them, and so up goes Government expenditure.

"Any amount of saving in Government expenditure without a radical revision of taxation methods will never secure the required reduction in taxation. . . . It seems anomalous that the Government should collect money from the public in order to dole it out again in a different proportion to each, when by changing their methods and systems there would be no need for the collection or the doling out.

"No one who has studied carefully and impartially the case for the taxation of land values has anything but praise for it . . .

"Of course, most landowners are against it, but they are biased and cannot see much further than their own noses because their land gets in the way. Some landowners are in complete agreement with it. . . .

"Enterprise and initiative would be free to work without having the fruits of their labours taxed beyond economic endurance. There would be no idle land or drones who hold up the use of land for their own gain.

"Land values would come to an equitable and economic level. Wages and salaries would come automatically to an economic level and would not tend to drop to the bottom because rents absorb the rightful share of the worker. There need be no income tax and everyone would have the full use of their incomes. . . . It would be interesting to see the reaction of the public to this idea."

Land & Liberty