Rates and Taxes*

IN his Presidential Address to the British Association for the Advancement of Science, Mr. H. O. Meredith severely criticised our system of rates and taxes and called for a drastic revision of its technique. He began by saying that the most striking feature of our social and economic evolution has been the alarming increase in our public expenditure, as a result of which greater resort would have to be had to private contributions, which though voluntary in the initial stages, will have to be made compulsory if any large-scale all-round development is sought.

Prior to such an increase in public expenditure a thorough investigation into the incidence of taxation is necessary. The end in view should be the avoidance of all random taxation and the minimising of inequality of incomes. All taxation is distasteful and there seems to be an apathy to the study of the burden of taxation. There is an air of glum frivolity about budget discussions. This is attributable to the feeling that State demands are predatory and that regression is the key-note of taxes on low incomes, of local taxes, and of compulsory health and unemployment insurance contributions. Secondly, there is not that clear relationship between the tax-payer and the government which is so very essential. Lastly, public expenditure being costly, the Gladstonian ideal of allowing money "to fructify in the pockets of the people" is upheld. Victorian finance followed the free and easy dictates of *laissez faire* and had the virtue of logical sequence. Presuming that government is necessary for the restraint of evil, internally and externally, it argued that State interference was unnecessary if men behaved rationally and that the real task of statesmanship was the inculcation of right ideas of citizenship into the body politic.

Modern finance differs from Victorian finance in that it is planless, lacking initiative and not spontaneous; our help is more "like a sop to Cerberus than an orderly rationing of food". This planlessness is nowhere more obvious than in the income-tax allowance in respect of children and the system of de-rating. Formerly the relief in respect of a child was 7*s.* 6*d.* per annum—the cost of a dog licence! To-day it is better and the relief is to the value of £16–10–0. Even now, in its actual working there are certain anomalies, in that for the vast majority of small families the relief is disproportionately large while for the really large ones it is surprisingly inadequate; moreover, the relief accorded to the first child was once less than that for succeeding ones and the rate of relief is still not in harmony with the scales of incomes. Turning to de-rating, a similar vagueness is observable. The central problem of local finance should be the choice of purely local sources of revenue; but here the practical difficulty is to differentiate between local and non-local sources and so long as the scheme aims at excluding non-local sources, the Central Government grants could justifiably be increased in accordance with the ever-increasing integration in local and national life. Mr. Meredith criticises the exemption of any part of concrete capital and land, as de-rating then encourages tranfer of investment from those that are rated and that such properties should pay a consolidated rate into a national pool.

Taking the financial system as a whole, he feels that the income, direct and sur-taxes, and death duties are the best. Income surely is the best index of capacity to pay and an inheritance tax has the virtue of reducing inequality. Applying the same tests to local and indirect taxes he concludes that they are highly regressive, have no relation to windfall incomes and tend to aggrevate inequality. Equally true is this of commodity taxes. Mr. Meredith says "as a method of limiting undesirable consumption, taxation is a 'wash-out'. Its effect is to penalise, not to restrain" and refers to the tobacco and liquor taxes as examples. The main force behind such taxation, he adds, is to be found in the desire of the will-to-do to de-tax wealth and to minimise taxation. Mr. Meredith feels that even income-tax needs tightening up since a number of incomes escape taxation. Local taxes have the pernicious effect of not falling on land-values but on retail goods and house-rentals. In fine, he views with scorn all indirect taxes and asserts that all taxes to be paid must be felt, else it would amount to the State picking the pockets of the people. Finally, he does not favour any system wherein a subsistence minimum is exempted. A sufficiently heavy contribution to be felt should be called for from the very bottom of the scale and in this connection the German example is noteworthy. It is a fallacy to base human association upon equity. All such attempts are doomed to failure. Honour, Mr. Meredith emphasises, must compel every citizen to contribute to the upkeep of the State and aptly concludes, "I am convinced that it is psychologically essential, if we desire to build up a democracy, to enshrine this principle in our financial institutions".

B. V. N.

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* Summary of the Presidential Address by Prof. H. O. Meredith, Economics Section—British Association for the Advancement of Science, Dundee, 1939.