

mobilised for policies which, while involving a comprehensive political approach, could also be symbolised by the prospect of tax cuts. The welfare state was successfully identified with high taxation and with a reduction, not an improvement, in living standards. The price, to many working people, seemed too high.

Unequal burden

To some extent, of course, the rise in the general tax burden *was* the result of the increase in state expenditure which characterised most of the postwar period up until the mid-70s. But again we have to look not only at the overall level of taxation but also at the way it was distributed. For the increase in wage taxation over the past three decades has been accompanied by a significant reduction in taxes on capital. Consider what has happened to corporate taxation. Company tax liabilities have fallen steadily since the mid-50s offsetting to some extent the long run decline in profitability. Tax relief on the value of goods and raw materials stocks introduced by the last Labour government, combined with generous investment allowances, allowed companies to cut their tax payments to a negligible level.

Even by 1978/79 an American tax specialist was able to report that 'In contrast to the

UK individual income tax, the UK corporate income tax is modest by international standards. . . write-offs and stock-relief provisions have virtually eliminated the corporate tax for industrial and commercial companies.' In that year half the top twenty industrial and commercial companies were found to have paid no mainstream corporation tax at all and between them these top twenty firms paid only £388 millions in mainstream corporation tax, representing only a tiny fraction of their gross profits, which exceeded £5000 millions.

Personal wealth

A similar pattern emerges when we examine what has happened to taxes on personal wealth. Death duty, intended as a kind of inheritance tax, has for many years been Britain's most important form of wealth taxation. Private property is still heavily concentrated in the hands of a wealthy few: the richest 1% of the population still own a quarter of Britain's total personal wealth, including threequarters of the privately owned land, company shares and government securities. Death duties were perhaps the most important mechanism for attempting to achieve a fairer distribution of this wealth, but their importance has declined sharply over the years. Three decades ago, death

duties were a major revenue raiser, contributing almost 10% of all Inland Revenue receipts. Ten years ago, they contributed less than 4.5% of the total. Capital Transfer Tax (CTT) introduced to replace them in 1974, now represent little more than 1.5% of the taxes collected by the Inland Revenue.

The disappearance of such inheritance taxes was largely the result of widespread avoidance and evasion. Death duties (properly described as Estate Duty) came to be known as a form of 'voluntary taxation'. Since the tax was payable only on the death of the owner, it was avoided by the simple expedient of 'passing on one's wealth before passing-on oneself. In 1975 the Labour government, committed to 'a fundamental shift in the balance of wealth and power in favour of working people and their families', sought to close this loophole by introducing the Capital Transfer Tax, payable on all gifts and inheritances, whether passed on at death or during the donor's lifetime. But the new tax, once introduced, contained so many generous exemptions that CTT now raises *less* revenue than the old Estate Duty that it replaced.

The present Chancellor's dislike of capital taxes is well-known, and he has done his best to reduce the effect of CTT still further. After the last Budget the *Financial Times*

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reported that 'all but the very wealthiest can almost escape tax entirely. For 1982/83 even the absolute amount of tax is expected to fall' (10 March 1982). CTT is expected to raise only £465 millions this year, virtually the same amount *in cash terms* as the old Estate Duty raised almost ten years ago. The same may be said of the other two main forms of wealth taxation, the Capital Gains Tax (CGT), which is theoretically payable on the increasing value of stocks, shares and other assets, and the investment income tax. CGT, like Capital Transfer Tax, now raises, proportionately much less revenue than when it was introduced by the Wilson government in 1965 and, as the Government readily admits, the changes announced in the last Budget will have the effect of 'drastically reducing' the revenue yield further still. Investment income tax has also been cut by Sir Geoffrey which means that, given the increase in wage taxation imposed at the same time, investment incomes (such as rents, dividends and interest receipts) are now generally taxed less heavily than earned incomes. So too are capital gains.

Struggles over taxation

Thatcher has done much to shift the burden of taxation towards working people and the poor, using the tax system as one, very effective, means of increasing inequalities. But in this respect her policies represent little more than an acceleration of a trend stretching back three decades and more. However, there is more to it than this.

In this context, it is important to note that the formal incidence of taxation and its final burden rarely coincide. Governments may arrange formal tax liabilities in a way that is intended to increase the relative tax burden either of wage-earners, the company sector or the owners of personal wealth. But their ability to make these intentions effective is determined by the relative strength of each of these groups. Companies which have some degree of monopoly power, for instance, may be able to pass any increase in corporate taxation on to their customers (in the form of higher prices) or their workers (in the form of lower wages). So the increasing concentration of industry and the institutionalisation of personal wealth helps the corporate sector to resist attempts by Labour governments to increase their share of taxation.

Similarly, during the periods of relatively full employment in the 1960s and 1970s, a strong and militant trade union movement was able to resist attempts to increase the effective burden of taxation by winning wage claims sufficient to compensate for the increased tax liability. In the 1970s this process reached its height, developing into a

Tax Threshold and Marginal Tax Rates 1955-78, Two Child Family (3)

	Tax threshold as % of average earnings (1)	First rate payable (2)	Basic rate threshold as % average earnings	Basic rate
1955	99.5	9	179.3	33
1956	93.4	9	168.2	33
1957	88.4	9	159.2	33
1958	86.8	9	156.2	33
1959	82.2	7	148.0	30
1960	76.0	7	137.8	30
1961	73.8	7	131.8	30
1962	71.4	7	127.5	30
1963	34.5	15	128.7	30
1964	78.1	15	119.0	30
1965	71.9	15	109.8	32
1966	69.4	15	106.0	32
1967	66.0	15	100.7	32
1968	57.4	15	89.6	32
1969	56.1	23	82.0	32
1970	57.6	32	57.6	32
1971	58.6	30	58.6	30
1972	59.9	30	59.9	30
1973	52.4	30	52.4	30
1974	57.1	33	57.1	33
1975	44.5	35	44.5	35
1976	46.3	35	46.3	35
1977	51.0	34	51.0	34
1978	45.4	25	62.4	33
1979	44.7	25	58.3	30
1980	41.5	30	41.5	30
1981	41.9	30	41.9	30
1982	42.5	30	42.5	30

Notes

- (1) Average earnings are the annual equivalent of the earnings of manual workers in manufacturing in October each year.
- (2) In the case of the marginal rates of tax shown it is the effective rate payable after the calculation of earned income relief.
- (3) In later years the tax threshold is represented as 'tax free income' to allow for the transition from child tax allowances to child benefit.

fierce 'wage-tax spiral'. Governments appeared to be using taxation as an alternative form of wage restraint: in years when pay policies failed or were inoperative, taxation was allowed to rise. This policy was only made explicit when Healey attempted to break into the wage tax spiral by offering a reduction in income tax as a direct trade-off for voluntary wage-restraint. Although a generally strong trade union movement was able, for much of this time, to neutralise attempts to hold down living standards through taxation, the weaker and more vulnerable sections of the workforce were unable to do so. The share of wage taxation carried by the lowest paid increased as a result.

Thatcher's period of office in this context is distinctive in one important respect. She

has managed to use unemployment and attacks on the power of trade unions successfully to weaken working class resistance to the increased tax burden. Wage-earners are no longer in a position to offset the increase in taxation by demanding compensatory wage increases. The shift in taxation, this time, has been decisive and effective.

Taxation and the AES

The lesson must be that taxation cannot be viewed in isolation from a wider political and economic strategy. Thatcher has learned this lesson well, and so too must the Left. The alternative economic strategy (AES) represents the basis for a credible challenge to the present Government's right wing populism. But it also requires increased revenue to

Comparison for EEC countries of tax thresholds and rates of income tax and social security contributions (1981)

Married couple with two children	Threshold in £ sterling	Rate of income tax	Rate of income tax and social security contributions
Belgium	3,300	21.7	29.4
Denmark	2,445	14.6	18.8
France	5,400	7.2	16.8
West Germany	3,010	18	34.45
Ireland	2,680	25	29.5
Italy	2,070	18.4	24.5
Luxembourg	5,635	12.3	22.8
Netherland	3,040	16.3	32.3
UK	2,146	30	37.75

Source: *Hansard*, 1 February 1982, Col 19—22.

finance increases in the social wage, better public services, fair pay and conditions for public sector workers and an adequate level of benefits. Some of this revenue will generate itself as people get back to work and the economy revives, but some will also have to come through increased taxation. The support of working people, without which the AES is no more than a technical construct, will be all the harder to win if their tax burden is increased still further as a result. Such fears will quickly be manipulated by the Right in an attempt to mobilise

working class opposition to the strategy. So a clearly defined and radical policy on taxation, designed to achieve a *redistribution* of the tax burden, is essential.¹ Such a policy is necessary not only to finance the AES itself, but also to achieve many of the other objectives which are central to the strategy, including reductions in sexual and economic inequality.

¹ This question, and some of the other issues raised in this article, are discussed more fully in L Day and C Pond 'The Political Economy of Taxation', *Socialist Economic Review* 1982.

This is not the place for a detailed discussion of tax reform, but we can identify some of the essential elements of a radical tax policy. The first is the development of a truly progressive income tax system. Within the overall increase in wage taxation, there has been a marked shift in the burden towards those on the lowest incomes: in the past fifteen years alone, the contribution of the richest 1% of income taxpayers to total revenue has almost halved. Contrary to popular belief, Britain's income tax structure is no longer 'progressive' in the traditional sense that the rich face higher rates of tax than the poor. Less than 5% of taxpayers are subject to the higher rates of tax; the remaining 95% pay at the same standard rate of 30p in the £. This includes many families whose income is well below the official (supplementary benefit) poverty line. And taking account of national insurance contributions (which are paid as a proportion of earnings only up to £220 a week), the marginal rate of tax is in fact *higher* for a married couple on £50 a week than for a couple earning almost six times as much.

Poverty trap

Once again, Thatcher's policies have made the situation worse, increasing tax rates on

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the poor and imposing them at still lower levels of income, while cutting tax rates for the rich. One of the results is that increasing numbers of poor families are caught in the 'poverty trap': because they have incomes below officially defined levels of subsistence,

the average wage earner now pays 28% of his/her income in direct tax deductions

they are entitled to benefits such as Family Income Supplement and housing rebates; but many are also liable to income tax. So an increase in their gross pay will mean that their benefits — being subject to a means test — will fall, while their tax liability will rise. They may find themselves worse off than if they had never received a pay rise in the first place. The number of families with children caught in this poverty trap have almost doubled since Thatcher came to power.

Tinkering with the level of tax thresholds and rates will no longer be sufficient to disentangle this web of inequality created by the tax system. A radical tax policy must try to achieve a shift in the income tax burden towards the rich at least as dramatic as that engineered by the present Government in the opposite direction. The present basically flat rate income tax structure needs to be replaced by one which is much more progressive, and the poor must be taken out of tax altogether. National insurance contributions should be abolished with the revenue for social security being raised through general taxation, rather than through a separate and regressive wage tax. The structure of income tax rates, however, accounts for only part of the present lack of progressiveness in the system. Even if an incoming Labour government were to restore the highest rates of tax on the rich, few

would pay them. An elaborate system of tax reliefs, allowances and exemptions has developed, allowing an escape route from taxation for the highest income groups. Less than half of all incomes received are subject to tax at all. Socialists and tax specialists alike agree that the expensive anomalies of the married man's allowance and mortgage interest relief should be withdrawn, but these are only the visible tip of a much larger iceberg of tax exemptions. Change must come through a comprehensive widening of the tax base to ensure that all incomes (including fringe benefits and capital gains) are taxed under the same progressive schedule of rates. At present many such forms of income escape tax altogether.

Changes in the system of company and wealth taxes are also necessary. At present the taxable incomes of companies bear little relation to their true profits. Depreciation of capital equipment should of course, be allowed against taxable profits, as with other costs of production, but the 100% capital allowances now granted are unjustified. Investment incentives should be awarded under a system of investment grants (of the type operated between 1966 and 1970)

all but the very wealthiest can almost escape tax entirely

rather than tax allowances. The provision of such subsidies should be conditional on fulfillment by the recipient company of agreements on planning, internal democracy and employment conditions. Undistributed profits should be allocated to shareholders and included in their income tax liability (as if they were partners in the business) along with their dividend receipts. There would still be a case for a separate form of corporate taxation (in addition to that paid by shareholders and creditors of the company on their income receipts) to reflect the

benefits of incorporation, including economies of scale and the advantage of limited liability. This should be levied progressively with higher rates of tax applied to larger profits.

The last Labour Government tried to introduce an annual wealth tax of the type already operating in a dozen other non-socialist OECD countries, but the attempt was frustrated by Parliamentary ineptitude and civil service obstruction. Such a tax would apply an annual levy, at progressive rates, on the total value of each individual's personal wealth. To have a significant impact in reducing inequalities, the rates of tax would have to be sufficiently high to ensure that, combined with taxes on the income generated by the wealth, the largest estates could not be maintained intact. Valuation might be difficult but would be made easier by a system of self-assessment backed by the option for the state to buy any asset at the price at which it was valued by the owner. Even a wealth tax intended to prevent the accumulation of personal wealth would take several years to have a noticeable impact on the largest wealth holdings. Most of the very rich acquire their wealth through inheritance. An inheritance tax, combined with an annual wealth tax and applied at steeply progressive rates (rising to perhaps 100%) would have more effect. The tax should be payable by the recipient (instead of the donor as is now the case) and should, of course, apply to all life-time gifts. Current exemptions for trusts, agricultural land and national heritage should probably be withdrawn if the tax is to be workable.

Without a consistent and carefully worked out tax policy, the alternative economic strategy is incomplete and perhaps unworkable. But technical rearrangements of formal tax liabilities will not themselves be sufficient to ensure that the final tax burden is more fairly distributed. Previous Labour governments have introduced tax changes intended to increase the share contributed by property incomes (Corporation Tax, CTT and CGT are all examples) without a significant and lasting effect on the distribution of the final tax burden. The need is for such technical changes to be implemented against a background an economic and political strategy which really does aim to shift the balance of power towards working people. The Left must be aware of the political significance of taxation and of the need to prepare a credible alternative tax policy to counter Tory jibes that socialism equals heavy tax burdens even for the poor. Otherwise crude promises of tax cuts could yet again help to win the election for Thatcher.

Thatcherism—who pays?

Proportion of income (1) taken in tax and national insurance contributions: married couple with two children.

	^{3/4} x average earnings	1 x average earnings	2 x average earnings	5 x average earnings
1978/79	20.8	25.2	29.9	49.8
1979/80	21.0	24.7	27.9	41.2
1980/81	22.5	25.8	29.0	42.7
1981/82	24.5	27.6	31.3	44.9
1982/83	24.9	28.1	31.5	44.4
1983/84 ²	25.1	28.4	31.7	44.5

Notes (1) Income equals earnings plus child benefit.
(2) Estimated

Source: House of Commons, *Hansard*, 23 November 1982, 13 December 1982.