PRACTICAL POLITICS

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TANGIERS

“When the American writer Robert Ruark visited Tangiers in the 1950s, he said it contained more ‘thieves, black marketeers, spies, thugs, phonies, beachcombers, expatriates, degenerates, characters, operators, bandits, tramps, politicians and charlatans’ than anywhere he’d ever visited” (Rupert Wright, “Financial Times”, 22nd. April). “There are still hustlers in Tangiers today. But instead of selling drugs or sex, they are now offering properties.”

The old harbour is to be a haven for leisure boats, as the freight port is moved to an adjacent bay which will have a new, purpose-built facility. The corniche is being relaid. “The housing market is booming, as Spanish, British and Moroccan companies struggle to get a chunk of the development.” The price of building land, we hear, “has doubled in six months. The land on the outskirts of town, both on the Atlantic and Mediterranean coasts, is staggeringly beautiful. And people are racing to invest.” Land bought last year for €135 per square metre “is now worth €300.”

Take a beautiful coast, stir in a mixture of human imagination and hard work, reconstruct the best and replace some of the worst of the old town, and attract people – of course people, particularly Europeans who have been living in Spain and now want to escape from what it has become. In all this, the landowners of Tangiers do nothing, except bank the baksheesh. We hope the new arrivals spot the hordes of Moroccans and sundry other transients who cross to Gibraltar to work, and those too who attempt to flee to EU destinations in the hope of improving their dire lot. There are riches in Morocco, but not, it seems, for them, for they are the landless masses.

POT AND KETTLE, EU STYLE

Olli Rehn is the EU’s enlargement commissioner. He has told Bulgaria that “not enough has been done to crack down on high level corruption there” (Kerin Hope and Daniel Dombey, “Financial Times”, 15th. April), and consequently the country “faces a last-minute scramble to avert a possible one-year delay” in joining the EU. Is this, we wonder, the same EU that has not been able to get its accounts approved by its auditors for years and years? Did Enlargement Commissioner Rehn enlarge on this when in Sofia?

THE PAYROLL TAX, and how it can damage your health

Search as you will, you will find no reference to the payroll tax in current manuals. Yet such an impost does indeed exist. Typically a payroll is constituted substantially of employees paying income tax at standard rate (22%) plus employees' National Insurance contributions (11%). In reality, these are a burden carried by the employer, to which must be added the employer's own slice of NI contributions (12.8%). Employees never see, let alone touch, all of their money. All they get in hand or in their bank accounts is the net sum, or take-home pay. Gross pay (before deductions) may be a mark of merit, but is an unreal figure in other respects. In fact, it is worse than that, because employees know about currency debasement (inflation) and taxes on the goods and services they buy (VAT and duties on automotive fuels being particular examples), and they relate their take-home pay to what it will procure to raise or maintain an expected standard of living.

PAYE (pay-as-you-earn) deductions are computed from gross pay (indeed with regard to income from all sources, via the tax coding system), but these then become the liability of the employer to hand over direct to the apparatus of the state. What appear to be personal taxes on wages and salaries are charges on the payroll which the employer is obliged to meet. They thus act as a powerful incentive to avoid taking on expensive workers if viable alternatives are available – out-sourcing abroad, perhaps, to an area where wages and taxes are lower, or investing in tax-deductible capital equipment to replace direct labour. Private sector businesses which contrive nevertheless to trade at a profit, are then faced with corporation tax.

The public sector, where, for example, the National Health Service lies, does not pay corporation tax. It generates little or no income from its activities and runs almost entirely on H.M. Treasury funding. This leads to a farcical state of affairs, dubbed “churning”, whereby public money going to the public sector is promptly clawed back without ever having found its way anywhere near the pockets of the workforce. Both the authorities and the public sector employers are maintaining a large and expensive battery of skilled but essentially useless staff, on keeping track of phantom, notional cash flows.

The payroll tax, with added fuel tax and VAT, also destroys jobs at the economic and geographical margins, where businesses must cope with inferior infrastructure, long lines of communication, and comparatively small and poor local markets. Contemporary taxes are shamefully destructive in their incidence. There is but one fair way to raise essential funding for public revenue, and that is from a national land-rent charge (or LVT, as it is widely known). That way, payment is made for benefits received in the form of the relative advantages, natural and social, of each site compared to all others.

INDIGNATION IS NOT ENOUGH

Inheritance tax (IHT) has come under sustained attack in recent months, much of it, no doubt, from those same "asset rich/cash poor" who complain they cannot afford council tax. It is not our purpose to defend any of to-day's taxes – far from it! We want them removed and replaced. Specifically seeking to lighten IHT, though, seems both illogical and unfair. The modest family home that is now worth £400,000 boasts that value largely because of its location: it is not a worry to denizens of the stricken industrial towns of the Industrial Revolution. The real problem is not that the state takes 40% of the value of an estate over the exempt figure, but that the state has been taking so much out of production and wages during the course of a working life! The correct response to the outrage that is IHT is, we suggest, far more penetratingly fundamental than a call for its abolition from a viewpoint of sectional self-interest.

IHT collects very little now, not only because of generous exemptions granted to agricultural and forestry landholdings, but also because the seriously rich can afford the specialist accountants and lawyers to plan their way out of trouble. In future, though, more and more patriarchs and matriarchs will pass away, bequeathing perfectly ordinary, valuably located, middle class properties. What we are hearing are the squeals of the next generation who will all too often be counting on inheritance to pay off their currently accumulating indebtedness.

The first question is simple enough: given that the yield from IHT is going to matter much more in the future, would you rather pay more tax while you are still alive, or would you prefer to defer it until you are gone and can no longer feel the pain? The second question is more difficult: if IHT is withdrawn, how would you replace the lost revenue? Perhaps you will agree to seeing capital gains tax applied to your home, or VAT on the materials for new homes, or higher council tax to replace some of the central government grant to local authorities? The options are many, but in our view squabbles over inherently bad taxes confer no dignity and, worse, make little sense.

There is a clear principle underpinning our policy. The Wages of Labour and the Interest on Capital (itself man-made Wealth) are private, not public. The Rent (annual rental value) of Land is public, not private. Collect the second and un-tax the first. Tax on accumulated man-made wealth at death has no part in our programme; but IHT is not so obviously the prime target. We repeat, removing IHT, without previously having brought in LVT, would treat the legatees of people living, working, and dying in favoured locations in favoured parts of the nation more recklessly generously than those doing likewise in economic black spots that have fallen on hard times.

STICKY FINGERS

Over the five years from 1999 to 2004, oil companies operating in Nigeria "paid $324m more in taxes, royalties, signature bonuses and environmental penalties than is acknowledged by the country's central bank" (Daniel Balint-Kurti, "Financial Times", 15th. April). "Auditors did not have the mandate to look into what happens to oil funds after they enter the central bank and the reports do not touch on controversial oil block licensing rounds. Graft, particularly around the oil sector, is blamed for keeping the most populous nation in Africa mired in poverty and for fuelling political violence."

The value of oil in a geological structure below ground, is public. It is a natural resource. Thereafter men and machinery bring it to the surface, stabilise it, send it to a refinery, process it, and distribute and market the products. At each stage, value is added, and those who perform the various tasks or provide the capital used in the business, receive a reward (rarely, in the case of labour, a just one). The value of the crude oil in the well together with the value of the land upon which all the subsequent activities are carried out, ought to provide the basis of government funding. Not only in Nigeria, and not only with oil revenue, graft and peculation turn a boon into a curse. Not only in Nigeria, nor only in Africa, are men forced to pay landlords for the right to occupy a little living and working space. Step forward any landowner who claims he made the Earth or acquired it from anyone who did!

PRODUCTIVITY COMPROMISED

"Rolls-Royce is the latest company to abandon a commitment to pay new employees a retirement income based on final salary. It will certainly not be the last" (Business Comment, "Daily Telegraph", 14th. April). The article highlights, and is critical of, the shift from an equity-based pension strategy to one that is bond-based; and it is severe on the *modus operandi* of the Government's Pensions Protection Fund. Interestingly, it closes by noting that, as a result, "the country loses out because business investment is lower than it would otherwise have been and productivity is compromised." Maybe one day the newspaper (and others) will notice how much productivity and business investment are lost by pouring financial resources into landholding!

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