

A report of the meeting of the Gladstone Club

Monday 4th October 2004

The club met with an open agenda to consider the political issues of the day.

UK manufacturing flight

Early contributions quickly led the meeting to consideration of the UK's dwindling manufacturing sector. It was remarked that we are haemorrhaging manufacturing jobs to the Far East and we should be concerned about it; that perhaps Government should *do something about it*. and that when manufacturing goes engineering and science would follow.

Apart from a call for the compulsory imposition of qualified engineers onto the governing boards of engineering firms, we never got to hear what action might have been called urged. For having caught what seemed a whiff of Protectionism, a vigorous Free Trade faction arose to deliver the orthodox economic rebuff – the Law of Comparative Advantage; if something can be done cheaper (and perhaps better) elsewhere then let it be so. If all our cars were made in China would that be a bad thing? At present we have near full employment but look at our economy and manufacturing is of dwindling importance while it is financial services in The City that are the mainstay. We should concentrate on what we are good at (these days, insurance and the like) and let the UK consumer benefit from quality at lower prices. Hard to gainsay given the popularity of Asda's 'George' clothing brand, the retail success story of the hour. Look too, it was said, where the added value is; Dyson and Raleigh may have moved their manufacturing to Malaysia, but design, marketing, retail, the Brand itself and other services take place here. In value terms the manufacturing is a relatively small component and we retain the profitable parts in the UK.

Extractive economics

An alternative interpretation of this phenomenon was offered; that the wealthy western economies are simply engaged in profiteering, outsourcing the more onerous tasks, taking advantage of wage competition between emerging economies and, by implication, living comfortably off the interest. It was time we took a view of economic interests beyond national boundaries. This is perhaps the argument that what we have become good at is services in the sense that a leach services

its host - that a brand is a legally enforceable system for extracting property incomes at the expense of the earned income due to labour.

The textbooks say that the English were good at wool and the French at wine and free trade was the natural corollary. Can it really be said in the same vein that the Chinese are 'good at cheap labour'? Is that something that can be in the nature of a people or a climate? Are there not identifiable economic conditions in the UK and China which determine the relative levels of wages?

Incidence of taxation

Whether by this or some other linking idea, the conversation moved to the consideration of fiscal measures and in particular the popular policy of the LibDems to switch local taxation from a property tax to a local income tax. If the prevailing view was that it would be a retrograde step it was nevertheless gamely advocated on the grounds that income tax is more progressive. You would have needed some formal Economics to construe this word in the technical *economic* sense – that tax due could grow higher not just as the same percentage of a higher income but by progressively higher percentages for higher income bands. **At present we pay nothing on £6000 income, 20% from there to £20,000, 25% thereafter** and so on. It was claimed that current Council tax, assessed in only six housing bands, was less progressive in this sense. In fact, since Mrs. Thatcher, there have been no more than five income tax bands – mainly to streamline the bureaucratic overhead – so the word 'progressive' must have been intended in a yet more special sense. The question of bands and thresholds moved on. Gordon Brown was commended for raising thresholds (ie. letting the poorest earn a little more before any tax is due) but it was fairly remarked as a shame and a nonsense for a man to be thrown into dependence on state handouts by extraction of the state levy intended to fund those handouts. And this must be the case as long as the bottom threshold of taxation remains below the poverty line.

The case for property taxes

In any case the argument was joined by a strong contingent in favour of a Land Value basis to taxation and while this is



The Gladstone Club
1 Whitehall London SW1A 2HD

considered a trail run cold in some circles it was so ably pleaded that some of the argument bears rehearsal. An extension of income tax would only fall where it already does, upon the middle classes. The rich and the poor do not pay it. The poorest because they have no income and the rich because it is easily avoided. The wealthy foreign owners of a Mayfair apartment were perplexed, it was said, when the poll tax was invented and would replace the £30,000 they paid in Rates with a £1500 levy on the family of their janitor. Property based taxation has this great virtue that land can neither be accounted away nor moved offshore nor lost in cash transactions. In the 50's most people could be assumed to be employed by big companies who might be relied upon to calculate and pass on PAYE, but the business landscape is changing. Meanwhile the outlook for businesses calculating Rates, PAYE, VAT and Corporation Tax is progressively more formidable respectively. For small firms the task of assessment itself represents a significant overhead. The last remaining property tax has the second advantage to business that it is the simplest to calculate. Someone wondered how many members of the House of Commons would be able to complete their own tax return – perhaps a test might be conducted?

Who knows, perhaps Conservative and Labour, in their efforts to outdo each other in how deeply they will take the knife to government departments, might do well to turn their attention away from Health and the DTI and onto the Inland Revenue? The radical but logical policy might be to switch all taxation toward the simplest to administer. (They might solve the housing crisis in the same stroke). Some felt that a moderate move in this direction might already be in the pipeline. The irony is that the LibDems who until recently listed such radical thinking in their manifesto now look furthest from it.