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TAXATION: PRACTICE - PRINCIPLES - PROSPECTS

A talk by John D. Allen, Head of the Economics Faculty of the School of Economic Science, London, to members of the Economic Research Council on Tuesday 25th October 1994

Throughout history, taxation has so often been associated with tyranny and oppression. The American lawyer Charles Adams tells us that the Rosetta Stone, which gave the key to unlocking the secrets of the hieroglyphic language of ancient Egypt, was in fact a document granting relief from the oppressive taxes that were ruining the economy in the Ptolemaic era[1] (c.200 BC).

One of the main beneficiaries of these measures were the temples and priestly orders whose ancient immunities from taxation on their crops and vineyards were thereby restored. This is why, Charles Adams thinks, the Rosetta document was engraved on stone and not left on papyrus. This immunity for holy orders has been a common feature of tax regimes, notably during the Ancien Regime in France. The Church has been more of a gatherer than payer of taxes, as the system of tithes demonstrated in England.

One is reminded of the eloquent plea made by Catherine of Aragon on behalf of the people, against the punitive measures imposed in the 16th century by Cardinal Wolsey as the Chancellor of Henry VIII. According to Shakespeare's text, she was supported in her appeal by the Duke of Norfolk: he alleged that the clothiers of the day had by these exactions been forced to lay off their skilled employees,

> "The spinsters, carders, fullers, weavers, who,
> Unfit for other life, compelled by hunger
> And lack of other means, in desperate manner
> Daring th'event even to th'teeth, are all in uproar,
> And danger serves among them."

Nothing to do with King Henry of course!

> "Taxation?
> Wherein, and what taxation? My lord Cardinal,
> You that are blamed for it alike with us,
> Know you of this taxation?"

The Queen told him:

> "The subjects' grief
> Comes through commissions which compel from each
> The sixth part of his substance to be levied
> Without delay."

1. Charles Adams, *For Good and Evil, the Impact of Taxes on the Course of Civilisation*

As many of you will realise, this is reminiscent of the oppressive taxation levied by another prince of the Church, Cardinal Morton in the reign of Henry the Seventh. I have heard VAT described as its modern equivalent – Morton's Fork. By this iniquitous system Cardinal Morton, Archbishop of Canterbury no less, and Chancellor to Henry VII, extorted payments to the Exchequer from men who lived ostentatiously on the grounds that they could well afford it, and from those who concealed their prosperity on the grounds that their frugal living made them well able to pay!

So successful were these methods that Henry VII was able to bequeath a hoard of £2 million to his successor, together with an administration expert in extracting contributions from recalcitrant taxpayers. This was accompanied by exaction of fines for breaches of the regulations, and a host of petty extortions. Not so different from what one hears about today's VAT regime!

Adam Smith set down four maxims, canons or principles against which the fairness and efficiency of taxation could be tested. I thought it would be useful to have a look at these again tonight. There is little guidance on this question to be found from any other source. The reason for that appears to be that most subsequent authors accepted them without question, as for example did David Ricardo and John Stuart Mill.

In his 'General Theory' John Maynard Keynes scarcely refers to taxation. What he does say however is worth repeating at this time when the Labour Party, advised by its Commission on Social Justice, is having to face up to the fiscal implications of the welfare state.

Keynes said: "The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes." That is as true today as when it was written.

Keynes apparently believed in the power of direct taxation such as income tax, surtax and death duties to redress the great disparities in wealth and income evident in his day. Then of course, in the 1930s, income tax hardly touched the vast majority of working people. What did touch them was the spectre of unemployment.

Having reviewed the situation at the behest of the late John Smith, the Labour Party's Commission on Social Justice said that the basic principle of the financial relationship between citizen and state is that it should be fair, comprehensible and efficient.

> "The present tax and benefit system in the UK meets none of these criteria; it badly needs an overhaul. For instance, it is plagued by benefit 'traps' that keep people in poverty, and despite the abolition of the most regressive tax of all, the poll tax, it remains the case that the richest 10 per cent of households pay 32 per cent of their income in tax, while the bottom 10 per cent pay 43 per cent of their income in tax."

Having looked at their proposals as published today, I cannot see how the Commission's recommendations will remedy this situation. Indeed, they may make matters worse.

So what did Adam Smith say that might guide us out of this morass? His first maxim was this, and it sounds very reasonable:

> "The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."

John Stuart Mill, Alfred Marshall and John Maynard Keynes apparently believed that income tax, surtax and death duties were all conformable to this principle. But if we look again at what Adam Smith said about taxation, he held that taxing people's earnings was a self-defeating operation.

Translated into a contemporary context, this means that PAYE and national insurance are responsible in part for the malaise discovered by the Commission for Social Justice. Yet the belief persists that redistribution of wealth by differential rates of taxation on earnings is a route to social justice.

For example, the Commission is saying that those earning over £100,000 a year should pay 50 per cent of their earnings above this level in taxation. But Adam Smith's rule about taxation on employment applies just as much at this level as at the level of the humble workman. The outcome is that the burden is passed on to the employer who is thus faced with an inflated salary bill. He might be able to cut down on the numbers of people employed at this level, but that only leads to redundancies which are expensive in themselves, and further demands for support from the welfare state.

Multiplying the rates of taxation on earnings as the Commission propose is no answer. It only creates further complications in a tax regime which is complex enough already. The best answer is to free as many people as possible from the PAYE system by raising the income tax allowances. But this runs clean contrary to the trend of current tax practice which is restricting allowances and drawing the net even tighter.

If you are not familiar with Adam Smith's exposition of taxation, let me remind you. He points out that the great majority of the working people are being paid subsistence wages, incomes which today are regulated by the cost of living. When the cost of living goes up, wages, pensions and allowances rise with it.

According to Adam Smith, "While the demand for labour and the price of provisions, therefore, remain the same, a direct tax upon the wages of labour can have no other effect than to raise them somewhat higher than the tax." (Wealth of Nations, Book V, Ch. II.)

In modern-day parlance, this would mean that taxation on wages and salaries is inflationary; it pushes up the labour cost to the employer. Using Adam Smith's argument, if you levy a 20 per cent tax on wages, the labourer will need just as much money as before to maintain his customary standard of living. The outcome is that wages have to rise not by 20 per cent but by 25 per cent, because if before he was earning £100 free of tax, he will now need £125 to realise £100 take-home pay.

Of course, the alternative is that wages are reduced if employers refuse to compensate people for the loss. But as Charles Adams put it in his historical review of taxation:

> "Angry taxpayers can be a lethal threat to a government that institutes oppressive taxation. Taxpayers instinctively rebel: the first warning phase of rebellion is rampant tax evasion and the flight to avoid tax; the second phase produces riots; and the third phase is violence. Life ultimately can be catastrophic for any government that pushes its taxpayers too far."

Tax avoidance for the employee amounts to passing on the tax to his employer, who passes it on to the consumer, who complains about rising prices. The politicians blame wage demands and call for moderation, moderation, that is, in everything except demands for tax.

Adam Smith thought that the rise in wages occasioned by the tax would be advanced by the employer and charged by him, with a profit, upon the price of his goods. "The final payment of this rise in wages," he said, "therefore ... would fall upon the consumer."

This is one way in which inflationary pressures build up in the economy. Another, incidentally, is through the raising of interest rates. Income taxes and national insurance contributions are not so much taxes on the employer or the employee as upon employment. They inflate the labour cost, in many cases making the employment of people uneconomic. This has major consequences for the European economy where unemployment is running at around 10 per cent of the working population.

High labour costs are undoubtedly a causal factor in the worsening unemployment situation in the industrialised nations, which is becoming a question of the utmost gravity for the future. The jobs study recently completed by the Organisation for Economic Cooperation and Development found that even the official number of 35 million unemployed in the OECD countries did not reflect the full extent of joblessness.

> "Many job-seekers have given up looking for work. There is considerable involuntary part-time work. In some European countries, short-time working, or 'partial unemployment', financed by unemployment benefit systems, has become common ... These elements of under-employment could add 40 to 50 per cent to the OECD unemployment total."

What Adam Smith demonstrated so clearly was that the bulk of the population whose incomes are regulated by the cost of living have no capacity to pay taxation. Lay taxes upon them, result, inflation. Put taxes on commodities through sales taxes, result, inflation. Impose VAT on supplies and services, result, inflation. This brings us to the inevitable conclusion that taxation levied upon wages, prices and costs is the principal generator of inflationary forces.

What then is the remedy? Where should we look for some corrective to this

damaging effect of taxation which is driving industries into extinction, creating unemployment and at the same time failing to meet the revenue needs of the State. A government which is forced to borrow up to £40 billion a year to make ends meet is not paying its way. More than that, it is building up a heavy debt charge which can only be met by raising taxation.

But there is little scope for raising taxation. Already we see in Britain that the combined effects of steep increases in taxation and the rise in interest rates are slowing down the rate of economic recovery. There is no prospect of full employment if interest rates as well as taxes are being raised as a moderator of economic expansion and the accompanying growth of the money supply.

What was it that Adam Smith said about taxation? That everyone should contribute towards the support of the government in proportion to their respective abilities; they should, he said, be obliged to contribute in proportion to their respective interests in the national estate. In those days this would have meant according to people's interests in landed property; the labouring poor as they were known were not called upon to pay taxes except perhaps through duties on beer and tobacco. Indeed, it is only since the introduction of PAYE in 1944 that the earnings of the great majority of working people have been drawn into the taxation net.

Moreover, taxing everybody means creating a huge administrative machine. This, however efficient it may be, is enormously expensive. As Adam Smith said, the levying of a tax may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax.

> "By the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals." (Wealth of Nations, Book V, Ch. II.)

This resistance to onerous taxation is a familiar pattern throughout history. When Jesus' disciples were approached for a contribution to the Jewish temple taxes, they asked the master for his opinion. From the text of the Gospel according to St. Matthew, it is plain that he didn't approve of this in principle, but knowing the ways of the world his advice was to pay all the same, "lest we should offend them".

The story also reveals that Jesus had access to a source of funds that no other taxpayer could rely upon:

When Simon Peter asked the obvious question, where is the money coming from, Jesus said: "Go thou to the sea and cast an hook, and take up the fish that first cometh up; and when thou hast opened his mouth, thou shalt find a piece of money; that take, and give unto them for me and thee." (Gospel according to St. Matthew, Ch. XVI.)

Now the question must arise, on what principles could we devise an equitable and non-inflationary system of taxation? Your secretary invited me to comment on the practicability of Henry George's proposals for a single tax, the tax on land values.

Taxation of land values, or a tax on rent as the classical economists called it, is perfectly practicable in principle. But in practice it has not proved acceptable. The tax on rent is not a practical proposition in today's climate of opinion. It is in that sense that I speak of the impracticability of the tax on land values. History demonstrates a rooted objection to any scheme of taxation which depends on making a national register of land values.

When the Liberal Government attempted to introduce it in the early years of this century, the land valuation clauses in the 1909 Finance Bill aroused the implacable resistance of the landed aristocracy.

Robert K. Massie describes the situation thus in his masterly account published recently under the title "Dreadnought":

> "For the first time, all private land in England was to be appraised. This was perceived – as was intended – as an attack on the great landowners. The image of strangers tramping over ancient lands to assess their value in order to levy taxes threw noble Englishmen into a frenzy; if the Bill could not be defeated in the House of Commons, then it must and would be vetoed in the House of Lords."

The resistance to any form of taxation levied in proportion to the rent of land is demonstrated by the refusal of government in the 1960s to assist with financing the modest piece of research carried out by the then Rating and Valuation Association into site value rating.

The opposition to any tax that falls upon rent is so strong that no political party could hope to introduce it. The Conservatives certainly wouldn't and there is no hint in recent Labour Party policy statements that anyone is considering so radical a measure, even though it might be highly popular among those who want to soak the rich. The Liberal Democrats, modern successors to Winston Churchill and Lloyd George, may retain the policy in principle, but as far as I know they have not done any serious work on it.

Yet the evidence of the classical economists such as Adam Smith and David Ricardo is on record.

At the time that Adam Smith wrote *The Wealth of Nations*, Britain had a land-tax first instituted in the reign of William and Mary. But that legislation contained no provisions for revaluations. Indeed, if we follow Charles Adams on this point, it was a matter of deliberate policy to prevent any realistic basis being established for the land tax.

"The appraisals," he said, "had little to do with reality. In the civil war the subsidy [based on local assessments] was replaced by a monthly assessment adopted from the subsidy rolls, but payable every month, not every two years. Cromwell wanted to make this monthly assessment realistic, with current and accurate appraisals. Parliament was not enthused or optimistic. Said one Member of Parliament, 'As to this plan of surveying and searching into men's estates, it is that which your ancestors would never endure. That the chief magistrates should know men's estates was always avoided.'"

This has always been the attitude of the English not merely to taxation based on

land values, but even to the measurements that would be needful to set it up. The same attitude in Parliament confronted those who sought to enact what Adam Smith calls "the fourth of William and Mary" [1692,] in other words the Bill to bring in a tax on the rent of land.

Lord Macaulay tells the story in his *History of England*:

> "The Commons resolved that a new and more accurate valuation of estates should be made over the whole realm, and that on the rental thus ascertained a pound rate should be paid to the government
>
> "Such was the origin of the existing land tax. The valuation made in 1692 has remained unaltered down to our own time [1855]. According to that valuation, one shilling in the pound on the rental of the kingdom amounted, in round numbers, to half a million.
>
> "During 106 years, a land tax bill was annually presented to Parliament, and was annually passed, though not always without murmurs from the country gentlemen...
>
> "At length, in the year 1798, the Parliament relieved itself from the trouble of passing a new Act every Spring. The land tax, at 4s. in the £, was made permanent; and those who were subject to it were permitted to redeem it. A great part has been redeemed; and at present little more than a fiftieth of the ordinary revenue required in time of peace is raised by that impost which was once regarded as the most productive of all the resources of the State." (History of England from the accession of James II, Vol. 3).

As Adam Smith puts it, without periodic revaluations, the tax necessarily becomes unequal in process of time, according to the unequal degrees of improvement or neglect in the cultivation of different parts of the country.

This inequality of incidence meant that such a tax manifestly offended against Adam Smith's first rule, that people should pay in proportion to the revenue which they respectively enjoy.

The great appeal of the tax on rent or the net product of landed property is that, properly organised, it would fall lightly on land of low value, and more heavily on better land, by way of amount but not by way of proportion.

If this were the case, said Adam Smith, the tax on rent was perfectly agreeable to all his maxims of taxation:

> "The time of payment for the tax, being the same as that for the rent, is as convenient as it can be to the contributor. Though the landlord is in all cases the real contributor, the tax is commonly advanced by the tenant, to whom the landlord is obliged to allow it in the payment of the rent."

Another valuable property of the tax on rent is, as Adam Smith observed, that since it has no tendency to diminish the quantity of the produce of the land, it can have none to raise the price of the produce. "It does not obstruct the industry of the people. It subjects the landlord to no other inconveniency besides the unavoidable one of paying the tax."

Certainly one can say that the rating of site values would transform the economics of running local government. The local authorities ought to be able to raise sufficient revenue from local taxation to finance all their activities and become free from undue dependence upon the Exchequer. This would bring in substantial relief to the Exchequer which is currently paying out enormous sums to support local government.

But as that wily politician Otto von Bismarck said: "Politics is the art of the possible". It might be possible to restore the tax on rent if someone could work out a practical and acceptable way of doing it without raising all the fears and prejudice that accompanies any notion of a landbased tax.

In my opinion, David Ricardo had the right idea when he said that taxes should be raised on the net and not the gross product.

The general belief today is that the economic strength of the country depends upon the size of its gross domestic product. Not so, says Ricardo. From the standpoint of supporting fleets and armies, and meeting all the expenses of government, what counts is the net product, that which remains after the wages of labour and costs of supply have been met.

"It must be obvious" he said, "that the power of paying taxes is in proportion to the net, and not in proportion to the gross, revenue."

This is sound thinking, but I must leave that with you as a question. If Ricardo's view is accepted as basically sound, that what matters is the net product, that opens the way to a shift in taxation policy by which the vast mass of the people whose incomes are regulated by the cost of living would be exempted from direct taxation. The reduction in cost and complexity would be enormous. The tax inspectors could then turn their attention to the valuations and assessments required to build a new tax base.

There is a well-known precedent in English history for a national survey of landed property. That was the famous Domesday Book ordered by William the Conqueror.

But as the chronicles of the times report, there was great resistance among the English: "the land was vexed with much violence arising from the collection of royal taxes".

The question I would like to leave with you is this, how could tax reform based on classical principles become practical politics? Could it be translated into the realm of the art of the possible?

WILL SHAKESPEARE'S ECONOMICS - WITH A LESSON FOR TODAY

*by Peter Davison**

Traditional wisdom asserts that asking the right questions is more important than finding the correct answers. For example, we can be told that the UK's contribution to the EU budget should be so much (or, indeed, so much more) for that is a straightforward question with, one would imagine, a straightforward answer. That that has not proved to be the case says much for our Treasury experts and our Government's cavalier attitude to the expenditure of our money. We can ask if there is fraud in the EU and be told there is but the amounts differ wildly. It is, after all, only 'our' money that is going astray. However, more significant questions never seem to be asked (except by ordinary folk, like you and me): 'What does a balance sheet of membership of the EU look like?'; 'What would be the true financial cost of not being a member of the EU?' 'What are the political costs of membership and opting-out?' Are the questions too difficult? Or are the answers politically embarrassing? Is not a Green Paper on these matters desirable? Indeed, why has there not been one? Even partial (in all its meanings) answers might puncture the gross balloons of political rhetoric that so distract our thinking on this and other matters over which they take precedence. Or is it that, as Kipling put it in his appropriately-named 'A Smuggler's Song', 'Them that asks no questions isn't told a lie'?

An incapacity or reluctance to ask the right questions is a characteristic human fault. Even those who, professionally, spend time asking questions often seem to overlook the obvious ones that need to be asked. This is not, I believe, necessarily out of wickedness: it is simply that we have a great capacity for deceiving ourselves that we know what we do not know. As I am as guilty as the next man or woman in this sin of omission, I thought it might be illuminating to put down, in brief summary, a recent experience arising from research I have done over this summer on something that happened almost four hundred years ago. The events then do not affect our present economy, of course, but a lesson in asking the right questions might still be instructive. This is not the place for a detailed account, so I shall adopt the guise of a common ranker of the 11th Hussars and cherry-pick. Footnotes are brief but will suffice, I trust, to direct anyone interested to the evidence.

On 28 July 1597 there was a production of a play at the Rose Theatre in London that caused an almighty row. The play was called *The Isle of Dogs*. It is lost and so we do not know details of what offended authority but the city fathers decided not merely to close the Rose but all theatres, to ban future public drama, and to raze every theatre to the ground. In the event, they relented and theatres were reopened on 11 October. Closure of theatres in Shakespeare's day was not uncommon. When plague deaths rose above a certain level, theatres would be closed and could remain shut for many months. In order to live, actors might sell their playbooks to printers, tour the

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provinces, or, as a last resort, sell their props and costumes. In 1597 we *know* that the company to which Shakespeare belonged, sold the manuscript of *Richard II* shortly after the theatres were closed and, soon after they reopened, they sold the manuscript of *Richard III.* We also know the company toured. We know that they visited Faversham, Rye, Dover, Marlborough, Bath, and Bristol. We know this because the chamberlain's records of these towns – that is, the town accounts – survive and they record payments to the players. No company could act without local permission and often a payment would be made by the town for a special performance before the mayor or bailiff. These payments varied from 6s 4d (at Marlborough) to 30s 0d at Bristol. If you multiply those sums by, say, 500, you might get a very rough idea of their value in contemporary terms. We know, therefore, that the company received a total of £5 3s from these six places and that they had to sustain themselves for about eleven weeks. It is usually said that they performed in other towns and a suggested touring circuit has been proposed by a distinguished scholar for tours of this kind: Gravesend, Rochester, Faversham, Canterbury, Sandwich, Dover (perhaps via Whitstable, Margate, Ramsgate, and Deal), New Romney, Lydd, and then 'the players may usually have continued along the coast through Rye and Hastings toward Southampton and the West'. Reputable scholars have recently argued that these companies numbered sixteen adult males with several boys (to play female roles) and there would also be backstage staff, musicians, and, especially, a bookkeeper, who acted as a sort of stage manager, prompter, and keeper of the playbooks and actors' parts.[1]

This sounds fine. We can picture Shakespeare and his colleagues performing away in the south-east and west of England in that eternal sunshine that blessed Merrie England. Or can we? Are there not questions to be asked? How many performances were necessary to sustain this band of, say, thirty men and boys? How many performances could they fit in (with none allowed on Sundays)? How did they get from A to B to C and back to London? How far was it, indeed? That last question is reasonably easy to answer – if they travelled south-east (and we know they were there before Bristol, though dates in the accounts are few and imprecise), then along the south coast to Southampton, west to Bristol and back to London, they would have done some 450-475 miles with not a motorway in sight. Indeed, although Shakespeare and the company's leading actor, Richard Burbage, might have been able to afford horses, it cost at least as much to hire a horse as employ an actor, possibly more.[2] We

1. Giles E. Dawson, Malone Society, *Collections VII* (Oxford, 1965), pp. xxvii–xxviii. Much of my information comes from personal examination of town accounts for the west country and microfilms of others. Checking these records was a salutary experience. Every single twentieth-century reproduction and quotation from them was found to be incorrect. Evidence for theatre receipts and players' earnings come from the accounts of the great theatrical entrepreneur (and coal and timber merchant), Phillip Henslow, whose son-in-law, the leading actor, Edward Alleyn, founded Dulwich College: *Henslowe's Diary*, ed. R.A. Foakes and R.T. Rickert (CUP 1961). David Bradley, *From Text to Performance in the Elizabethan Theatre* (CUP 1992), is among those who have argued for larger companies than that I have proposed for the 1597 tour. My edition for *The First Quarto of 'Richard III'*, to be published by Cambridge University Press, gives a fuller account and detailed references to the evidence.

know that actors had a cart or wagon to take their costumes and props and that needed a horse; possibly they hired another cart to take people, but, apart from cost, given the state of the roads in the sixteenth century, their speed would have been no more than a couple of miles an hour. Even by the nineteenth century, stage coaches ran at only 6 to 8 mph.[3] It is no coincidence that the word to describe an actor who walked from place to place – 'stroller' – enters the written language in 1608. So they walked, or went by cart, over very rough roads. The problem now becomes obvious. How far can you walk in a day? How many days would you need to travel 450 miles? How many performances would that allow?

Now, the sad, rather discreditable part of all this is that I never asked myself these questions. (Nor, so far as I know, has anyone else.) It so happened that, for reasons too tedious to retail and of no economic interest, I became convinced that Shakespeare's *Richard III*, which has fifty speaking parts and a number of mutes, was acted on tour by ten men and two boys – what would be called a ten-cast company. However, current wisdom is that at least a sixteen-cast company was the minimum. One way of trying to put over my argument was to look at the practicalities – the economic practicalities – of touring. Only then did I start asking myself questions. I worked out possible tours; considered travelling by boat from Dover to Southampton to save time and energy (and found a record of an actor sailing from Southampton to London); even learned from the distinguished meteorologist, Professor Hubert Lamb, that, unusually, the prevailing winds in the Channel that year were easterly not westerly; and came up with a variety of possible scenarios. For example, as there were some eleven weeks, 77 days, for the tour, if the company walked on average about twenty miles a day, they would have 54 days for performances (none of which could be on Sundays). But towns were not spaced evenly, and so one might suggest perhaps forty performances. There are many other possibilities but this will indicate the nature of the problem, or rather, one of them. It takes no account of how the company made arrangements ahead, got permission to perform, advertised their presence etc. All that would cut into performance time.

How many performances did a company give when settled in London? Looking at the period 24 January to 14 March 1597 (for which we have records), we can work out that Alleyn's players, a 16-cast company, acted 25 plays in these seven weeks and earned on average £22 3s per week. We also know that hireling actors earned from 5s 0d to 10s 0d a week but that that might be cut to half on tour (when they may have been fed). (According to the Statute of Westminster of 23 July 1589, a master carpenter earned 7s 0d a week without food but 4s 6d a week with food.) The company played to an average audience of 870. More questions spring up. If you could attract 870 on average in London, with a population of 200,000, how many would you attract in Bristol, population 12,000? And what about places like Rye and Marlborough? I have tried to estimate populations, or wealth, of Bristol, Bath and

2. Records I have examined show that in the West Country charges of 1s 0d a day were made to hire a horse. A charge of 1s 6d was made for two horses to go from Marlborough to Littlecote, ten miles away.

3. Alan Bates, *Directory of Stage Coach Services*, 1836 (Newton Abbot, 1969).

Marlborough by totting up their expenditures for 1597: Bristol made 1,145 payments totalling £514 0s 7d; Bath 250 payment of £153 12s; and Marlborough, 37 payments amounting to £59 3s 11, of which the largest were the annual salary of the grammar-school teacher, £13 6s 8d, and £6 11s 1d entertaining Lord Chief Justice Popham, who presided over the Michaelmas Sessions (and who lived at Littlecote ten miles from Marlborough, and who later presided over the Gunpowder Plot trial). Marlborough *might* have had a population of 750 to 1,000, many of whom would be very, very poor, though the visit of a Big London Company might induce the expenditure of a few extra pennies. But if they all came, it would only be about the size of an average London audience – and to get an average, as every reader knows, means larger as well as smaller numbers. (London theatres could accommodate upwards of 3,000 people.) I shall not weary you with sums here, but suffice to say that a 16-cast company would require to raise £193 for an eleven-week tour and that would mean 39 performances at the London average of 870; 59 performances at 75% the London average (652); and 78 performances – more than one a day with no time for travelling at all – if performances attracted only 50% of the London average. Of course, that suited my argument that a smaller company toured. A 10-cast company would need less money but even then, if it attracted 50% average attendances, would have to give 49 performances, allowing 28 days for travel – 17 miles walking a day on average.

It might be argued – it has been – that small places such as Marlborough would be simply visited en route. We don't have records for all those towns for 1597, but we do for many: Maidstone, Canterbury, Folkestone (a very popular venue), Lydd, and New Romney. Not one mentions a visit by the Shakespeare and his colleagues. Then, concentrating on Marlborough, Bath, and Bristol, I discovered a curious fact. More companies visited Marlborough (37) than either Bristol (31) or Bath (29) in a period of fifty years up to the closure of the theatres in 1642. Even more curious, even though Marlborough could afford to give so much less to visiting companies than Bath or Bristol, only two companies in fifty years visited all three towns, one being Shakespeare's company in 1597, and only seven companies visited both Bath and Bristol, although they are only thirteen miles apart and the journey could be made by river. There clearly had to be a special reason for so many companies visiting such a small town as Marlborough. So, another question – why? It is impossible to be sure, but the answer may be hinted at from the year companies stopped coming to Marlborough: 1622. The Earl of Hertford then had a castle at Marlborough, its site now occupied by Marlborough College. Hertford had his own company of players and thirty miles away lived that great patroness of the arts in Elizabethan times, the Countess of Pembroke; the Pembrokes also had an acting company. Both Hertford and the Countess died in 1621, and Marlborough town fought for the Commonwealth in the Civil War and so, temperamentally, may have been opposed to drama. That combination could have been enough to ensure a chilly reception for travelling players after 1621.

But was the Earl in Hertford in 1597? Yes he was, though I cannot be sure that Hertford and Shakespeare were in Marlborough at precisely the same time. Certainly their visits were close together. The 19th entry in the town accounts show 6s 4d given to Shakespeare's company; the 20th is money for entertaining Lord Chief Justice

Popham; the 22nd entry is 10s 7d for erecting a gibbet – some poor soul was hanged on the Green following the Sessions; and the 27th and 28th entries total £2 12s 5d for sugar loaves 'for my lord of Hertford' and others, sugar being a very acceptable, and expensive, gift: eight times more on sugar for my lord than for a company of actors.

Thus, in all probability, we search in vain for additional towns to be visited on a Grand Tour. Records show that Shakespeare's company only once again visited as many as six places outside London in a year and that was during the terrible plague of 1603 which claimed 30,000 victims in London (15% of the population) and the theatres were closed for nearly the whole year. In 1605 and 1610 they visited five places but otherwise never more than three, and often none; 1597 was exceptional. Also, we may not have to calculate whether they performed many times in many places. What could have happened – I guess – is that they spent several days at Wilton and Hertford's Castle (and possibly another private house or two) where they could, if desired, play twice a day, something never done in London but which records show was commonplace in the private houses of the Earl of Cumberland and Lord Clifford in the north of England. They would there be paid for performing and would be housed and entertained.[4] There may not have been a round tour at all but two separate expeditions, one to Dover and one to Bristol. It would still mean a great deal of walking, or cart-pulling, but there would not be the intense pressure of the kind of tour formerly envisaged.

Of course, my answer may not be correct, but I hope I have demonstrated that what is important is asking the right questions, and how easy it is to overlook them. I do not have the deep suspicions of the motives of Europhile, Eurorealist, or Eurosceptic politicians; I simply wish that their rhetoric was based on answers to questions that seem never to be posed. I do not expect, nor think justified, that union must bring financial profit, and, regretfully, I now realise that my initial vision of a Common Market which would ensure three taps in every kitchen – one red, one white, one rosé – has faded for ever. Despite all that is said, I have a lingering belief that the way we are going may be better rather than worse. But on what can such a belief be founded? It is folly to demand a referendum on the basis of prejudice rather than information. The English penchant for 'trench humour' produces delightful stories (to the English if not the Bruxelloise) about bent bananas, carrot-fruit, snails as fish, and the iniquities of the new Belgian Empire, such as its intention to sweep our fishermen from the seas to benefit a new Spanish Armada, but as a basis for intelligent decision-making that is inadequate. It is maladroit to expect support for political union if even the economic basis for union is shrouded in mystery and fostered by legend, especially if, secreted within the Treasury, there are annual balance sheets of our account with Europe, determinedly kept from the prying eyes of public and Parliament. The answers may be difficult, but the questions are rather simple. What are the costs and benefits of economic union? What are the advantages and disadvantages of political union? What price withdrawal?

4. Details are given by Lawrence Stone, who examined their household accounts; see his 'Companies of Players Entertained by the Earl of Cumberland and Lord Clifford, 1607-39', Malone Society, *Collections V*, 1959 (Oxford 1960), pp. 17–28.

COPING WITH DEBT

by Rev. Dr Francis P McHugh. Published by the Catholic Truth Society 1994. 46 pages. Price £2.00

Many – perhaps most of us – have debts in the form of mortgages and credit cards, and maybe rent arrears and unpaid bills. Some of us have bank overdrafts, personal loans, hire purchase arrangements or student loans. Debt, or credit as it is often advertised, has become a way of life and, in macro-economic terms, an essential ingredient in overall demand if the nation's savings are to be fully returned into circulation.

Textbooks on economics, however, inevitably ignore or skip over important social, personal and moral aspects of debt. But it is as useless to imagine that the economy consists solely of people with a sense of responsibility, good judgement, strength in resisting temptation, and good financial fortune, as it is to postulate "the rational man", "perfect competition" or "supply creates its own demand" in economic theory.

In the real world, as this unusual and entirely sensible short booklet demonstrates, the weaker members of society in particular are prey to credit advertising and are most frequently in trouble over debt and mounting interest claims that they can now barely hope to ever repay. The author has done a most useful service in collecting together the various pieces of research and reportage that give clear figures and factual information for this development.

For a development – a relatively recent development, at least in terms of scale, it surely is. That vast swaths of the population should be trapped in debt, seems to be a phenomenon particularly of the years since the mid-70s – since "monetarism" became fashionable and since "responsibility" became the buzz-word of political policy.

Reverend McHugh balances his findings with pastoral advice – of a kind worthy indeed of respect. The cautions of the ages, the responsibilities of the lender, the historical and biblical roots of debt-forgiveness, the possible changes in the law which might encourage greater responsibility on the part of both lenders and borrowers. All these points, and more, are made, explored, are well meant and should be well taken. All those of us who worried a little over Mr Lawson's mid-1980s credit based mini-boom or who just know a Mum down the road who can no longer cope, should take a serious quotation or two from this booklet to incorporate in our thoughts and comments. The author fully acknowledges the benefits of credit and debt in most cases but draws our attention to the darker side – a side we can no longer ignore.

But such a publication becomes a background for further thoughts. For this reviewer this meant thoughts about public attitudes and popular wisdom. The fact is that for those brought up before World War II a strong element in parental advice was always that one should avoid debt, should only spend what was already earned, should save rather than spend, and should do without and keep one's pride rather than "have now and pay later". This was the entirely appropriate lesson of life during depression and monetary stability.

But during the 1950s, the 1960s and the 1970s life taught a very different lesson. To borrow and watch inflation erode the debt was the smart guy's way forward. Anyone who didn't get involved was little short of a mug.

I remember – it must have been around 1960 or 1965 – attending the Earl's Court Boat Show. Wonderful vessels were on display at enormous prices. It dawned in me, with a sense of awe, that the smart set could take out a loan, buy such a vessel, and laugh at the outstanding debt ten years later. Inflation was about to give them a free ride. And it did. And it made the south of England one the greatest places on earth for small boat building. Credit, subsidized by inflation, kept the wheels turning, provided full employment, and life seemed a great deal less grim than it does today.

But the objection will be raised that savers were thereby cheated of their money, that for every housebuyer who profited there was a building society depositor who lost. To which one might respond with "The parable of the squirrel". In the autumn the squirrel lays down (saves), if it can find them, many more nuts than it will need in the springtime. It knows that some will be stolen and some will rot. To the squirrel, nuts in the future are actually worth *more* than nuts today. He doesn't need "rewards for abstinence" or "extra for deferred use" or any such economists' rationale for positive net real interest rates. The parable of the squirrel teaches us that there is no particular moral case for any given level of real interest rates and they can as reasonably be negative as positive.

The last two decades have "caught out" those who learned the lessons of the 1950s and 1960s just as those years "caught out" cautious borrowers who remembered the 1930s. Sometime fairly soon, the wheel will turn. Again the poor, the gullible and the ignorant, will fear to borrow, and the smart money will buy their yachts.

J.B.

VAT – The Unacceptable Face of Taxation

The Economic Research Council's *Research Study* "VAT – The Unacceptable Face of Taxation" will be available from January 9th 1995. Subtitled "A review of Customs and Excise and VAT with recommendations for Change", the author, John Davison draws on his considerable experience within the service to analyse, expose and attempt to correct failings of this unhappy and still to many, foreign, tax imposition.

LETTERS

A response to the Autumn issue review of 'The Cracked Cornucopia' from the author, Robert H. S. Robertson

Sir,

Congratulations on your review of *The Cracked Cornucopia*, you certainly entered into the spirit of the thing. Academic *specialists* seem to react unfavourably; some historians of the Iron Age allow themselves to be called 'Celticists' when the culture they know so much about was almost wholly pre-celtic.

When I came to define civilisation I decided to call the whole of the matter shown in the conical diagram *one* civilisation. The time lines joining one Dark Age with the next I call *periods* of civilisation. The older and more stable set of periods belongs to the indigenous people of Europe (which spills out into the Near East) and the younger set of periods is that of the Indo-Europeans.

The two time-phases are, as you noticed, about 600 years apart. I was very careful to avoid the subjective element in 'choosing' the *peaks* of individual arts and events, and I rigorously put myself to the test. It is not difficult because a peak is judged as the time when archaïsm gives way to freedom to express a theme in any medium with the least elaboration. Most of the glorious paintings, buildings, music of western civilisation naturally occur *after* the technical peak. The symptoms of archaïsm can be so rigidly defined that it is usually quite easy to find the peak within a very few years. The peak in Shakespeare's plays is particularly easy to date plus or minus one year. Men arrived on the moon when mechanics had been greatly elaborated. One can also see branches of science and technology as having a sequence of peaks and developments.

Some readers have responded generously, one lent me *The Medieval Machine* by Jean Gimpel, V. Gollanez 1977. This is a clear description of the Industrial Revolution of the Middle Ages, 12th and 13th centuries. He describes the astonishing inventions in energy production, agriculture, mining, architecture, the mechanical clock, mills, maths and so on, all about 600 years before what we recognise as the Industrial Revolution of 1750–1830. What *The Cracked Cornucopia* shows is that the earlier phenomena belong to the indigenous people and the later ones are essentially 'European', Gimpel's data strongly reinforce my thesis.

Another reader introduced me to Professor Edgar V. Saks' very scholarly works *Aestii* and *Estoeuropa* (1960 and 1966). I have not located any other copies in Scottish university libraries. I had already 'guessed' that in the mesolithic period those who had survived the Ice Age were in the south of France and Spain and the south of Italy. When the climate had improved the tribes who had gone to live in south western France to live on the reindeer which made an annual trek from Spain into the steppes of Central Europe became one people, speaking one language, Urestonian. As the climate improved they spread north, north east, or East; colonising the British Isles etc; Estonia and Hungary and Scythia; and Tuscany, Lombardy, Piedmont and Ticino. I used to think of the Fenno-Ugrian languages coming in from the *East*. Thus Saks confirms my geological reasoning that the main movement was towards the East. That's why the Aestii were so called.

The *Crack* is real and unmendable. I hope some members of ERC will join the think tank.

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A response to, "Do dividends hinder new investment and job creation?" by Alan B Parker from David Fifield

Sir,

I would like to support the view expressed in the concluding paragraph of Alan Parker's article that Good Government should provide a framework in which enterprises can prosper for the benefit of owners/shareholders, employees and customers. This accords with what I was writing and saying through the 80s.* Adrian Furnham and David Pendleton in June 1993 emphasized the same view in an FT article by suggesting "if there is a God of business, he or she has three manifestations, the shareholders, the customers and the staff". A business trinity!

Accepting the existence of an interdependence between the three interests allows a number of proposals to be made. With ownership holding a central position, a comparison between the approaches taken by Germany and the UK provides a useful lead. In Germany, with more private ownership and long-term lending, manufacturing supported by retained earnings holds a key position compared with the UK with its traded ownership and distributed profits. The influence of manufacturing on German education and the need for evolutionary product design then manifests itself through a greater emphasis on engineering and technology. By comparison, UK investment seeks out profitable opportunities based more on the short term as represented by businesses concentrating on stock turn and financial innovation. The UK education system reflects this bias by preferring flexibly minded commercially orientated graduates. Another point that emerges from this picture is the need for a policing system capable of keeping mobile ownership informed. In the UK this responsibility rests with a well represented accountancy profession.

Drawing on the above thoughts it would appear the UK has some important situations and questions to consider. For example, should Universities be required to limit their output of science and engineering graduates to the level of our modest indigenous needs plus inward manufacturing? More broadly, the EU cultural differences emanating from the business trinity need to be recognized. This would provide an appreciation of the consequences of change. Areas of immediate interest include, the social chapter, the potential for enlarging the role of the City in Europe as well as the UK's wish to be at the centre of the EU.

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* "Structuring Business Organizations – according to expectations" published 1990, includes a sample.

Contributions towards a "New Ideology" from Mr Eric de Maré

Sir,

Like God, Marx seems to have died. The deities of finance-capitalism, however, are alive and burping in their lethal machinations and their hideous environment. No new ideology appears in sight to save the sickening situation, while the pundits continue to eject their ink-fish obfuscations to confuse the obvious issues. For these a word is needed. May I propose Ecobabble? May I also propose an ideology for the future that can be expressed without ecobabble. It is not new for its ideas were born back in December 1918 in an article in the *English Review*. So far it has found little support but circumstances are forcing its reappraisal. It can be summarised thus:

1. As technology advances, ever less human labour is needed to produce wealth. Full Employment is therefore a foolish, indeed an impossible, aim.
2. As a result of the obsolescent work ethic of the puritans on which the money power relies for its retention of authority, a growing Gap occurs between the public's buying power and the prices of goods and services for sale. Hence poverty amidst plenty and most of our other discontents as well, including wars. The existence of the Gap can be readily established and its precise extent discovered with the help of modern computers.
3. A triple means of filling the Gap can then be applied: (i) The supreme power of creating, issuing and controlling the type of money called credits (debts to us), now monopolised by the private banks, must revert to the democratic State. (ii) Scientific price adjustments must be applied by the issue of new state credits to retailers – debt-free, interest-free and tax-free – to enable them to sell their goods below cost, so filling the Gap while eliminating inflation for good – a kind of VAT in reverse. (iii) The issue of National Dividends (Basic Incomes if you like) to every citizen as soon as possible over and above any earnings as birthrights representing fair shares of the fruits of that cultural inheritance belonging to us all, to which the micro-chip and automation are the latest and most remarkable additions. Money, after all, isn't wealth; it's not a commodity but should serve merely as a convenient fiction, a token or ticket system to reflect the realities of production and consumption.
4. So far as we know, the purpose of life lies in self-development, and that can now be achieved only through the monetary emancipation of the individual human being. As Oscar Wilde wrote wisely, "Work is the refuge of people who have nothing better to do". The proper aim of applied science is surely to enrich and liberate everyone. So, without ecobabble, on to Full Enjoyment in a new age of machine-granted leisure. Let Clifford Hugh Douglas (1879 to 1952) have the last word:

> "The only possible method by which the highest civilization can be reached is to make it impossible for either the State or *any other body* to apply economic pressure to any individual. If we hypocritically claim that the employment system is a moral system and that man must be kept at work rather than choose work, we are sealing the doom of this civilization."

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A well researched enquiry on money and markets from Frank Selby

Sir,

Who is responsible and who profits from our vastly overbloated money and financial markets? Here are some figures from impeccable, non-political sources, which seem to me to lead inescapably to frightening conclusions that deserve publicity and thereby bring about a change. Let me deal with the two subjects separately.

How much money is there in Britain? Source: Br. Bankers Association

Some 140 years ago, after long debate, it was agreed that Money was Notes & Coins and Call Deposits at Banks since when it has been argued whether Time Deposits should be added. That has led to what we call here "M4". (M5 which includes a few National Savings appears to have been abandoned.)

End of year:	*1979*	*1983*	*1989*	*1993*
Mo (Notes & Coins etc.) £ Billion	11.6	13.8	19.0	21.7
M4 (Mo + deposits etc. etc.) £ Billion	98.5	175.6	423.0	549.2
Mo part of M4 (%)	11.8%	7.9%	4.5%	4.0%

The "etc." after "Notes and Coins" are "Bank Operational Deposits at the BoE" which make up a fraction of 1% in recent years. I cannot refrain from a word about the introduction of Mo by the last-but-one Government. It is of course permissible to use a part of a large sum to indicate statistical changes if that makes the work easier, but of course only if its proportion to the whole is stable. It seems a rather crude PR move to trumpet about how low the Mo "inflation" is that has been achieved when its part of the whole has shrunk by two-thirds. The Inflation of the whole Money supply of 560% in those 14 years is shocking. How can anyone declare being "anti-inflationary" in the light of those figures if the meaning of "inflation", used in its literal sense as it was a few decades ago, is understood as well as its effects?

What are markets?

They are the places where supply meets demand for goods or services. That is a clean and fair way of determining the price. A farmer brings a dozen cows hoping to find a butcher who wants them and so do lots of other farmers. 500 years ago a 'market' was a place. That is now extended: the meeting can be via telephones, faxes, computers etc., often by intermediaries who handle such contacts often at places such as a stock exchange. Let us now look a bit closer at what means "demand" and "supply". If I "demand" an egg, I want it. Maybe if I am a retailer or wholesaler I want it not for myself but to sell in due course to a consumer. The 'meeting' described may also serve to arrange a transaction in the future. The field is very wide; very necessary in a "free" society and deserving everyone's respect. However, there is a different kind of "demand" and "supply". I must ask readers to give thought to that; it is not easy. I suggest, humbly and without much chance of success, that that kind be given a different name. Diffidently I will describe as "not-really-real" the "demand/supply" which does not want to exchange the goods or services, now or in future, but for the one and only purpose to reverse the mode when that earns a profit. Do you agree that here we have something basically different from the real thing? The 3 examples that follow show the vastness, very sharply greater at the end of the 14 years we are looking at, of the "not-really-real" ones.

Example 1: Gilts turnover at the London Stock Exch.
Source: London S.E. Quarterly Oct/Dec 93

	1979	1983	1989	1993
Year's Turnover £ Billion	129	211	988	1,598

The total value of Gilts at the end of 1993 is said to be £235Bn. So, every £'s worth of Gilts changed hands seven times in that year! Is that vast excess over the 'real' thing desirable for the latter? Does it determine the true value of the article? Is it not alone responsible for the helter-skelter moves that bring in profits? Who has caused, and gains by, the *twelve-fold* increase in turnover across those 14 years?

Example 2: Equities Turnover at the London Stock Exch.
Source: As Example 1

	1979	1983	1989	1993
Bargains per day (1000s)	16.7	18.8	32.8	40.9
Turnover per day (£ Million)	95	222	1,569	2,229
Turnover per year (£ Billion)	24	56	395	564
Value of above equities (£ Billion)	n/a	157	515	810

I add to the comment about "Gilts turnover" which applies here also, just one: The FT 100 ("Footsie") index was introduced in 1984 with the figure "1,000" as the basis. It is 3,000 today! Has Britain's trade and industry risen three-fold in value in those 10 years? Who benefits by that "inflation"? Are there not also losers?

Example 3: Foreign Exchange Turnover in London.
Source: Bank of International Settlements via B.o.E.

The average turnover per Trading Day in April 1992 was $300.2 Billion. (I did enquire whether that was a printing error. It was not!) That was up 333% on 1986; 61% up on 1989. (Figures are published only every 3 years.) There were 254 Trading Days in 1992 and I was told that the year's trading day average is not likely to be very different from the April one. That means that very roughly the year's turnover in £s, allowing for the sharp drop in its value in September was something like £45 Trillion (£45 Million Million!). Our Foreign Trade in 1992 was £227 Bn (£120 Bn imports; £107 Bn exports). Making due allowances for invisibles, for inward/outward investment; guessing that the "real" – not the other kind – foreign demand/supply coming to London is somewhere near equal to our "real" one going abroad – all that seems to make it not unreasonable to guess that the total "real" part of the turnover is double our visible trade. Please do not forget that these are not proper calculations but a reasonable estimate of the 'order of magnitude' of those immense numbers. They indicate that the turnover is about a *hundred times* the "real" demand. Whether 1% or 2% or even 3% of the total are genuine "market" operations, to let "real" demand meet "real" supply, an overwhelming part has one purpose only: make profits for the players! Whose wallets do they come from? Did the helter-skelter movements and the absence of rationality thereof have their roots in the "real" market? Was that what managed *to treble the turnover* in 6 years?

Finally, can we correct those excesses?

We shall hear in their defence that without complete freedom to play the game in the way the players want, there would not be any market. Is that true? If you are not personally dependent on the profits gained, do think back to the days when we had far greater stability, greater confidence, clearer judgments of current and future values and look with an open mind at my "*Financial-Health-Prescription*" which now follows. Free of charge! Impose a turnover tax! In the case of equities that would mean re-impose one where the casino managers got it stopped or sharply reduced after it had existed for decades. The suggested dosage is one-tenth of one percent! Would that affect "real" demand noticeably? If the turnover would remain unchanged – and most economically healthy activities would not be deterred by £1 in every £1,000 – the income would replace our present PSBR, the nation's need to borrow, by some £10 Bn surplus income! What a nice effect that would have on our tax bill! Do not listen to the argument that such a tax would move much business to foreign 'markets': who, worldwide, would not like to pay 0.1% in return for stability, rationality, efficiency?

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