

I, Job

(An essay inspired by
'I, Pencil' by Leonard Reed)

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Foreword

By John Blundell, IEA Director General

Why are European and British companies not enjoying the dynamism recently to emerge in China and India? Why are our products being beaten on price?

The core explanation advanced here is the burden of taxation carried by all firms and their employees. Many taxes are unseen but direct and indirect they double the costs of most transactions. Our excessive taxes blunt, if not quite suppress, the price signals that keep an economy alert and vital.

It is plain that low tax, low regulation jurisdictions succeed better than any countries in our hamstrung system. It is no surprise that many EU firms will now migrate to happier economic climates. It has been a greater surprise that Government agencies are considering doing so too. In this essay Julia Sotnikova goes to the heart of the British economy to synthesise exactly what taxes and regulations surround a typical job. In doing so she provides a road map for reform.

Introduction

I am a job, an ordinary job, the kind of job you come across every day. I am a real job in a real company – let me describe myself to you.

Along with all the other jobs in the economy, I give someone an opportunity to earn money and thus provide for themselves and their families.

When I am filled, the person holding me is paid by a company, and that company has to make a profit or I would be vacant or even non-existent.

Unfortunately many opinion leaders and politicians (and indeed many of the people who hold jobs) do not understand clearly:

- what it takes to create a job, and
- the costs of government taxes and regulations, and their tendency to destroy jobs.

Creation of the company

About 35 years ago, three friends with entrepreneurial spirit spotted an opportunity to start a new business. That is the role of entrepreneurs. They make things and provide services of value to customers, discovering new products and new ways of producing existing products.

Each of the three friends invested £400, making a total of £1,200; this all came from income which had already been taxed. With this small amount of capital they could not move very quickly or afford any big mistakes.

At the start the partners enjoyed themselves simply through running a good business. They concentrated on the fact that the job was enjoyable, without paying particularly close attention to profitability. They focused instead on doing things correctly, enjoying their work and producing exactly what the consumer demanded.

The business expanded, and within four years there were ten employees, a great atmosphere and a growing list of customers.

The company kept costs low and used its capital very efficiently. From time to time employees would leave (sometimes to start their own businesses), but replacing them was easier in the early years, because there were fewer regulations and less red tape than nowadays.

Because of the successes of the product, demand continued to escalate. The company now has 190 employees. Sales revenue is now around £18 million, and profit after tax is £525,000. VAT takes total turnover to £21,150,000.

Description of I, Job

I am a job with a company in the middle of England. To hold me you need to be a skilled metal worker. It is not necessary to have a good formal education to apply for me, but you must have the right attitude, be honest and tidy, get on with others, and be reliable and punctual.

The company where I am located is very good at training and encourages skill development both within the company and at a local college.

Training is paid for by the company. Much of the product training is carried out on the job by fellow employees and team leaders. Specific skills, such as fork-lift driving, crane operation and first aid, are taught by external trainers and invariably on site. Apprentices have a training programme on and off site and an extended programme to achieve specific qualifications. Team leader training is off site and in two one-day modules one month apart.

I was created when the company expanded production, and I am held by Derek, who is 38 and married with two children. Derek was academically below average at school, but a couple of years after leaving he pulled his socks up and started night classes. Derek never had any proper training before he came to the company. I am not a very difficult job to do, but to hold me someone has to reach particular standards every couple of years and pass special tests.

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After three years on the job, Derek was allowed to buy shares in the company. Being able to invest in the place where an employee works makes a very powerful change in his or her attitude, encouraging much more care and enthusiasm.

The company has treated Derek with respect, and while he is holding me as his job he has respect for the company.

Pay and taxes

When Derek took the job it was advertised at £17,000 a year and now, after seven good years and several promotions, he is paid £25,000 a year.

Until Derek worked here he did not understand tax and National Insurance contributions, but while he holds me as his job his employers make sure he gets the whole picture. His pay slips clearly show how much the government takes. On £25,000 a year; the government takes £2,229 in employee National Insurance and £4,214 in income tax, so Derek's take-home pay is £18,557.

Additionally the employer has to pay the government £2,594 in National Insurance. So the basic cost to the company is £27,594, with £9,037 going to the government and £18,557 to Derek.

Currently Derek works 8 hours a day for 5 days a week and enjoys a total of 25 days of holiday a year, plus 8 public holidays. This means he comes to work on 228 days a year unless he is sick. It also means he has 137 days a year to pursue his own interests, in addition to any spare time on working weekdays.

He also enjoys the following benefits, all paid for by the company:

1. Free medical insurance at £350 per person per year (this is a taxable fringe benefit).
2. Sick pay: 3 months at full pay, 3 months at 75% and 6 months at 50%. This on average costs the employer £800 per person a year.
3. A holiday bonus of £436 per year.
4. Because of his excellent attendance record, a bonus of £50 for the first year with no lost time, rising to £100 for the subsequent years with no lost time.
5. Profit related pay bonus of £782 a year for anyone with no lost time.
6. Membership of the company pension scheme after a qualifying period. Pension contribution of 4.5% of salary: cost per person £1125.
7. Four times annual salary life cover: cost on average £130 per person.
8. Opportunities to buy shares when available.
9. Free boots, protective clothing, and eye tests for those using VDU screens.
10. Company doctor.

This totals £3,648 (excluding points 8, 9 and 10 in this list), so Derek's cost to the company is now £31,242.

As noted, Derek takes home £18,557. But that is not the end of the



tax trail. As he and his family spend this money every month it is taxed again and again. For example, VAT applies to nearly all their purchases at 17.5%; petrol is taxed at about 70% of the production price; tobacco at 80%, spirits at 45–50%; wine at 60%, beer at 33–40%. He also has to purchase specific licences for his TV and car. It is estimated by the Office for National Statistics (ONS) that 15% of the average person's gross pay goes on all such taxes in total. In Derek's case that is £3,750. In addition, ONS data show he is probably paying £625 in council tax.

So his £18,557 now becomes £14,182. Even then many of the things he is spending his £14,182 on are more expensive than they would be without intervention by the British government and the EU. The Common Agriculture Policy, for example, more or less doubles the cost of the weekly food bill and, as explained below, the regulatory burden on business raises the costs of most products and services.

So while Derek's total package is worth over £31,000, he only sees just over £14,000, net of all taxes.

Burden of government

Actions by different levels of government have a significant impact on Derek and my company. These actions come in many guises, from taxes to fees to permits to regulations to acting as an agent for government. In my company of 190 people, the CEO believes that:

- computing, collecting and forwarding taxes to government,
- paying various user fees,
- applying for permissions,
- complying with regulations or red tape as demanded by government,
- and doing other tasks demanded by government takes up time equivalent to that of as many as 9 or 10 full time workers – about 5% of the workforce.

The costs of complying with regulations which fall on organisations and individuals can be estimated at 10% of UK GDP, but the 'invisible' costs (the dampening effect on entrepreneurship, innovation and technological and managerial development) and the anxiety they often engender are hard to calculate.

First of all, over the whole economy companies pay about half of gross profits in one form of tax or another, but that does not include the cost of coping with all the paperwork. Taxes need computing, collecting and organising – income tax on employees' earnings, corporation tax, National Insurance contributions, VAT on output and input, property tax, capital gains tax, dividend tax, fuel tax, tax on loans, insurance premium tax and vehicle tax.

Secondly, my company is paying various user fees: for example, landfill tax, hazardous waste (extra charges for waste disposal),

climate change levy, aggregates levy, hydrocarbon taxes (red diesel versus conventional, on-site use, etc.). These user fees are frequently taxes under another name.

Next, the company has to apply for permissions and licences, such as petroleum licences, fire licences and so on. The company has extensive buildings and grounds and every year needs to change their configuration as changing production needs dictate. Such alterations cannot be made without the costly and time-consuming process of planning permission and building control inspections.

Fourth, the British Parliament currently passes well over 5,000 sets of regulations every year – that is, one set every 90 minutes or so! These regulations, particularly in the employment and environmental areas, impose further costs on companies.

Fifth, in the course of achieving certain social goals, the government demands that employees have to perform certain tasks for them. At my company, for example, some jobs are held by men who have been negligent in providing for their children. Through the Child Support Agency, my company is forced to become involved in these problems, by deducting money from pay cheques and sending it to ex-wives. The government does not think twice about requiring companies to perform such tasks even though they impose extra costs on business.

Finally, because all companies have to bear burdens imposed by governments similar to those listed above, the various goods and services my company has to purchase are more expensive than they would otherwise be. Part of the cost is really attributable to government.

Conclusion

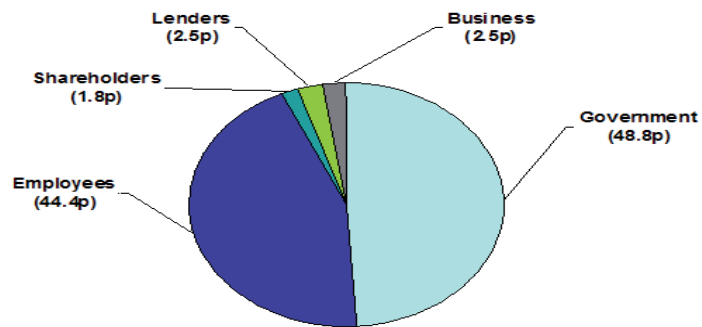
All in all, my company has £21,150,000 a year coming in. Probably the biggest beneficiary of the work the company does is the government, not the employees or the owners of the company. The risk involved in starting a new business is borne solely by the entrepreneur. If the business fails, the entrepreneur will lose all the capital invested in the business, whereas the government will lose nothing.

My company has a turnover of £21,150,000. Out of this turnover my company pays about 50% in tax. This includes all corporate and personal tax contributions and also the contributions my company pays to suppliers' taxes.

Theoretically, if my company did not exist, then the government would lose about £10,115,000 of income a year.

The following figures show what happens in this company to every pound received.

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	£000	or out of every £
Government TAKES	10,313	48.8 pence
Employees EARN	9,381	44.4 pence
Lenders EARN	554	2.5 pence
Shareholders EARN	371	1.8 pence
Business RETAINS	530	2.5 pence

So, as you can now see, this business that I, Job am in is really quite complicated. When people think of jobs they think of workplaces, buildings, machinery, land, offices and so on. But it is a lot more complex than that.

First of all, it is about entrepreneurs anticipating and satisfying consumer demand, using employees with the correct attributes and appropriate training.

Then there is the whole area of income tax, National Insurance, benefits and taxes on spending where we saw that the cost of Derek to the company is over £31,000, while he gets to spend just over £14,000. One effect of this is clear. Because the government is spending so much of his money for him, Derek does not have as much to spend as he would like on food, housing, clothing and education. But there is another effect that I often wonder about. How many Dereks are out there in the European Union, now unemployed because the jobs they had, given all the government-imposed costs the companies have to bear, could not pay them a wage that made it worth their while working? And this problem is getting worse.

Finally there is all the work that goes on around me in computing and forwarding taxes, in obtaining user fees and permits and in dealing with red tape, all of which takes up so much time and energy that my company is getting distracted from creating other new jobs and developing business for itself as a company.

I often wonder how I exist at all!



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