



DAYLIGHT ROBBERY!

Governments have always found ways of taking the pound from your pocket – sometimes with disastrous consequences, as **MARK LITTLEWOOD** discovers

We usually think of taxation as a practical, if rather unwelcome, imposition by which the government raises revenue from the population in order to provide a range of services.

Debate rages amongst economists about the efficiency of various taxes, there is a wider debate about the fairness of who bears the burden and considerable disagreement too about the wisdom or otherwise of the range of services the government provides with the revenue taxes generates.

In Dominic Frisby's latest book, *Daylight Robbery*, we are invited to understand tax in a more fundamental and wide-reaching way. Frisby argues that we can understand many of the major events in world history through the prism of taxation. Wars, revolutions and even architectural design have typically, Frisby argues, been shaped – or even caused – by one form of tax or another.

He begins his tale with the tax associated with the title of his book. "Daylight robbery" may now be a widely used term to describe any unfair

and unreasonable financial imposition, but its probable origins can be traced back to a tax introduced in 1696.

A few years earlier, the new English monarchs, William and Mary, had sought to court popularity by abolishing a tax which had been around for centuries. Property owners had been taxed on the basis of the number of stoves, hearths or fireplaces. However, it wasn't long before the monarchs needed to raise revenues and they did so through introducing the Duty on Houses, Light and Windows – commonly

FRISBY DOCUMENTS THE DRAMATIC IMPACT OF TAXATION ON WORLD EVENTS

known as the window tax.

Like many taxes, the initial rate was set low and the expressed intention was for the tax to be temporary. However, it became permanent and rates increased. A tax on glass was added in 1746.

To avoid the tax, owners would brick up their windows. As well as leading to sickness (due to occupants having less fresh air and sunlight), the tax changed the nature of architecture for over a century in both Britain and France, which had a similar levy, as new buildings were constructed to work around the thresholds – or notches – of the window tax.

The taxes also had a major impact on the nature of British industry. Although the British population nearly doubled in the first fifty years of the nineteenth century – along with a predictable building boom – glass production remained broadly static.

Although the window tax never made it to the USA, mere suspicion that it might be introduced led to a violent uprising in Pennsylvania in 1798 which took federal troops nearly two years to quash.

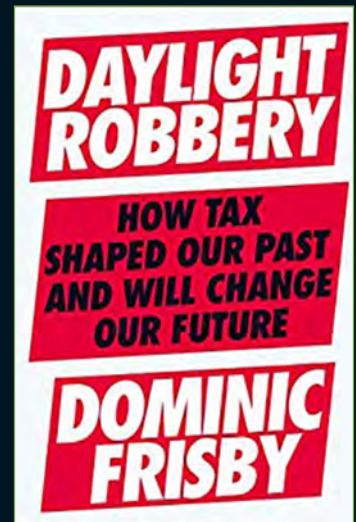
Just over 25 years earlier, of course, a dispute about tax triggered the war of independence that would lead to the creation of the United States of America.

Parliament sought to undercut Dutch tea, which was becoming increasingly popular in America, and give a boost to the ailing East India Company by giving it a monopoly over tea supply and ensuring no tax or duties

needed to be paid. Full scale war broke out and the British were evicted, accepting by 1778 that Britain should no longer impose any taxes or duties on any of its colonies.

Dominic Frisby's book documents countless other examples of the dramatic impact of taxation on world events from Ancient Greece to the spectacular emergence of modern corporate giants, such as Amazon, whose business model relies heavily on tax efficiency as compared to its competitors, who incur high "bricks and mortar" taxes such as business rates.

Although *Daylight Robbery* is often a tale of war, destruction and devastation wrought by unwise approaches to tax, the author does give other examples of how a sensible approach to



DAYLIGHT ROBBERY
How Tax shaped our past and will change our future
Portfolio Penguin, 2019

perhaps cutting taxation and government spending by more than half in Britain – would be the best means of generating enhanced freedom and prosperity. He posits that

DAYLIGHT ROBBERY IS OFTEN A TALE OF WAR, DESTRUCTION AND DEVASTATION WROUGHT BY UNWISE APPROACHES TO TAX

taxation can yield spectacular and welcome results.

He credits John Cowperthwaite, who became Hong Kong's financial secretary in 1961, with devising a strategy that led to very high economic growth in the colony. Total tax take was only ever as high as 14% of national income – with only the affluent paying any income tax at all and no taxes on sales, capital gains, interest or overseas earnings.

Dominic Frisby suggests this sort of approach –

taxes on land usage tend to be fairer and more efficient than many other taxes we impose.

Whether you agree with him or not, he shows not just that death and taxes are the only certainties in life, but that the latter have a much wider and deeper impact on the world we live in than we might initially realise •

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PUTTING THE CART BEFORE THE HORSE...

Can economies be planned in the same way as successful corporations? A new book suggests governments should follow the lead of companies like US giant Walmart. But, says **CHRISTOPHER SNOWDON**, there are crucial differences between supermarkets and economies...

It is now a century since Ludwig von Mises identified the fatal flaw in centrally planned economies.

His 1920 essay, 'Economic Calculation in the Socialist Commonwealth', argued that resources cannot be allocated efficiently unless you know what they are worth.

If price signals are abolished, as they were in the Soviet Union, it is impossible to know where labour and materials should be directed to best effect.

Mises' argument was logically robust and tragically borne out by history. Attempts by socialist governments to

find substitutes for the price mechanism failed, and so did their economies.

The authors of *People's Republic of Walmart*, Leigh Phillips and Michal Rozworski, accept that planned economies have never worked in the past, but believe they could in the future if the methods of modern global corporations were applied to Mises' socialist calculation problem.

Phillips and Rozworski find it ironic that capitalists scoff at central planning when they do so much planning themselves. They argue that 'great swaths of the global economy exist outside the market and

are planned'.

Large corporations use increasingly sophisticated computers to ensure regular replenishment of stock and rapid delivery to customers. By sharing information with warehouses, truckers and other parts of the supply chain, Walmart is able to meet consumer demand without carrying too many or too few products.

"Thus," they write, "planning, and above all trust, openness and cooperation along the supply chain – rather than competition – are fundamental to continuous replacement".

But Walmart is not an economy. It is an individual player in the economy, competing against like-minded rivals and responding to public demand. The 'trust, openness and cooperation' in the supply chain is driven by the pursuit of profit. If Walmart's plan fails, a company with a better plan will take its place. No one will starve.

As impressive as Facebook's algorithms and Walmart's stock-taking may be, they are wholly inadequate substitutes for the price mechanism. Even Phillips and Rozworski can do no more than cross their fingers and hope that such technology can somehow rescue central planning.

Strictly speaking, they are challenging Hayek's "knowledge problem", not Mises' calculation problem, and they treat it as a mathematical conundrum that can be solved with sufficient data and computer power.

But Mises started from the assumption that the planner has as much knowledge as he could possibly have and yet is still unable to plan efficiently.

ATTEMPTS BY SOCIALIST GOVERNMENTS TO FIND SUBSTITUTES FOR THE PRICE MECHANISM FAILED – AND SO DID THEIR ECONOMIES

Why? Because he cannot know what value millions of people place on labour, goods, raw materials and services.

No technology can measure the constantly changing subjective value of goods and services to individuals. The problem is intractable without price signals. And so, whilst the knowledge problem can be

solved, at least in theory, the calculation problem cannot.

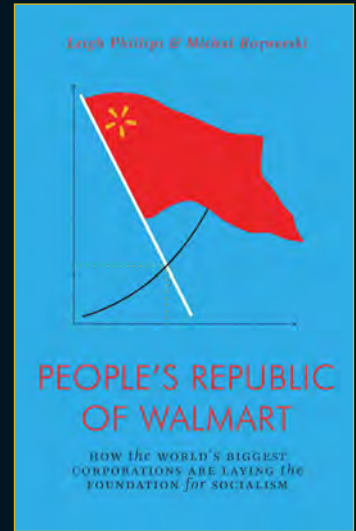
Phillips and Rozworski have a binary, all-or-nothing view of the market: either it allocates resources more efficiently, in which case every sector should be privatised, or it allocates resources less efficiently, in which case every sector should be nationalised.

Since almost nobody believes in full marketisation, they conclude that planning must be superior and that 'centrists' who believe in a mixed economy are hypocrites.

But one can support private enterprise when competition is possible while supporting nationalisation when there is a natural monopoly or a public service that cannot be profitable (such as the armed forces or judiciary).

There is plenty of debate about where the line should be drawn, but the division is not arbitrary, as Phillips and Rozworski imply. Competition prevents excess profit-making, incentivises productivity and stimulates innovation, but if competition is impossible or inappropriate, state intervention is the next best thing.

The tendency of monopolies to be inefficient and exploitative is the reason we want them broken up whenever possible. By contrast, Phillips and Rozworski want to create a vast, global monopoly and expect a new breed of human to emerge to administer it in a selfless, honest and competent



PEOPLE'S REPUBLIC OF WALMART
HOW THE WORLD'S BIGGEST CORPORATIONS ARE LAYING THE FOUNDATION FOR SOCIALISM

Jacobin Series, 2019

way. This is a naive and high-risk strategy.

The calculation problem is important, and nothing in this book persuades me that it can be overcome, but it is far from the only flaw in socialist planning.

Inadequate incentives to work and innovate, bloated state monopolies and chronic inefficiency caused by a lack of competition are just some of them.

These faults, which are either ignored by the authors or glibly dismissed with promises of "democratisation", have caused untold misery in every country that has attempted to create a workers' paradise. They are not going to be fixed by incorporating Amazon's shipping system*

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