

# INCOME TAX IN RELATION TO SOCIAL SECURITY

By A. T. HAYNES, F.I.A., F.F.A.

*Actuary and Secretary of the Equity and Law Life Assurance Society*

AND

R. J. KIRTON, M.A., F.I.A.

*General Manager of the Equity and Law Life Assurance Society*

[Submitted to the Institute, 14 May 1943]

## INTRODUCTION

### 1. Purpose of paper

THIS paper falls into three parts which form a progressive study involving

- I. proposals for the reform of the Income Tax system as related to personal assessments,
- II. consideration of the interrelation of Income Tax and Social Security,
- III. proposals for the co-ordination of the Income Tax and Social Security systems.

Part I of this progressive study is a plea for a business-like administration of the Income Tax system. Part II examines the combined effect upon the individual of the Income Tax system and the Social Security plan proposed by Sir William Beveridge. Part III sets out to co-ordinate Income Tax and Social Security and to simplify the financial relationship between the individual and the community.

### I. REFORM OF PERSONAL INCOME TAX SYSTEM

#### 2. Present defects

It is generally agreed that the present Income Tax system as related to personal assessments is cumbersome and unsatisfactory. The system was invented for application to a relatively small number of salaried and professional men and has proved quite unsuitable when applied to large bodies of wage earners. In order to attempt any measure of reform it is necessary to have a clear view of the present defects. Before proceeding, however, to an examination of these defects, it may be well to emphasize that we do not here challenge the principle of taxation of income, nor do we express any views as to the level of Income Tax; neither topic is within the scope of this paper. The operation and administration of the tax are alone under review.

A tax on income properly operated and administered should

- (1) be capable of prompt collection, the tax being set against current earnings,
- (2) be simple in conception and readily understood by all to whom it is applied,
- (3) be easily operated so as to involve the minimum of administrative machinery,
- (4) have no deterrent effect on incentive to effort.

The Income Tax system has serious defects as at present applied.\* These defects are as follows:

- (a) *Time lag.* Income Tax on earned income is collected at a considerable

\* The generally accepted defects were summarized in an article on 'The Income Tax' in *The Economist* of 7 February 1942. Further attention was drawn to the matter in a subsequent article in the same journal on 13 March 1943.

interval of time after the receipt of the income on which the tax is assessed. This time lag has led to much of the hardship and dissatisfaction connected with the taxation of weekly wage earners. The White Paper (Cmd. 6348) issued in April 1942 did not provide any satisfactory solution of this problem. In a period of falling wages a very serious position might arise.

(b) *The complicated nature of the tax.* The average taxpayer does not understand the basis of assessment and is unable either to check or to dispute the demands made upon him by the Inland Revenue.

(c) *The weight of administration.* This must have been greatly increased by the extension of Income Tax to a much larger proportion of the community. The extension involves considerable expense, often out of proportion to the small amounts of tax involved in individual cases.

(d) *The deterrent effect on incentive to effort.* This is a result of the varying incidence of tax on successive layers of income. The fact that the lower ranges of income are not subject to tax, or are taxed at the reduced rate, makes any income subject to the full rate of tax appear to be relatively less valuable in relation to the effort necessary to secure the increased income. (See Appendix B.)

The first three defects are all directly attributable to the process of individual assessment based on individual returns of income (which can only relate to a past period), and to the two features of the Income Tax system—the allowances and the reduced rate—which necessitate this process of individual assessment. Only by eliminating both the allowances and the reduced rate from the process of assessment and collection of Income Tax can these three defects be remedied. The allowances and the reduced rate also operate to vary the incidence of tax on successive layers of income and are thus the entire cause of the fourth defect.

With these considerations in view the next section of the paper proceeds to an analysis of the present method of assessment and computation of Income Tax.

### 3. Basis of assessment

Under the present Income Tax system, and on the 1942-43 scale of taxation, the normal procedure for computing Income Tax on personal incomes is\*

(1) to arrive at the net amount of income on which tax is chargeable by deducting from the total income

- (a) such expenses and charges as may be allowed,
- (b) the 'Earned Income Allowance' of 1/6th of earned income, with a maximum allowance £250 (a similar 'Age Allowance' applies to investment income if the age is over 65 and total income does not exceed £500 per annum—with marginal adjustment),
- (c) the 'Personal Allowance' (£100 if single, £170 if married) and any of the following allowances to which the taxpayer may be entitled:

Each child	...	...	£50
Housekeeper	...	...	50
Dependent relative	...	...	25

An increased personal allowance is granted to a married couple if the wife is earning.

\* The basis defined above relates solely to Income Tax in its strictest sense and not to amounts contributed towards post-war credits. At present each taxpayer has to contribute to a post-war credit a further sum, including a portion of his family allowances, but this affects only the date of receipt, and not the amount, of these allowances. Post-war credits are considered in Appendix A.

(2) to charge

- (a) the reduced rate of tax (6s. 6d. in £1) on the first £165 of net income,
- (b) the standard rate of tax (10s. in £1) on the balance of the net income.

(3) to deduct any relief of tax in respect of life assurance premiums.

Any person whose total income does not exceed £120 per annum is exempt from tax; a marginal adjustment applies to incomes less than £140 per annum. In practice these concessions only benefit single persons who have investment income.

By setting the allowances against the tax instead of against the income, the amount of Income Tax payable on personal incomes can be expressed in an alternative form which is more suitable for purposes of analysis. It is assumed for convenience that there are no expenses or charges and no life assurance relief; the allowances for 'housekeeper' and 'dependent relative' are also ignored.

The alternative method of computation is

(i) to assess

- (a) tax at 8s. 4d. in £1 (10s. less 1/6th) on all earned income,
- (b) tax at 1s. 8d. in £1 (1/6th of 10s.) on the excess of earned income over £1500 per annum,
- (c) tax at 10s. in £1 on all investment income but reduced by 1/6th if age is over 65 and total income does not exceed £500 per annum—with marginal adjustment;

(ii) to grant the following *cash* allowances as a set-off, so far as they do not exceed the full tax assessed under (i):

Single man or woman	...	£50 per annum (subject to increase if income is less than £140 per annum and is partly or wholly derived from investments);
Married couple	...	£85 per annum (subject to increase if wife is earning);
Each child	...	£25 per annum;

(iii) to grant a further cash allowance, subject to a maximum of £28. 17s. 6d., consisting of 7/20ths of the excess (if any) of the full tax over the allowances detailed in (ii); this is the effect of the reduced rate concession.

The basis of computation expressed in this alternative form shows clearly that the general principle of the present Income Tax system is to apply a level rate of tax to all income (the rate differing as between earned income and investment income) and to grant as a set-off against this tax certain personal and family allowances, in which category is included the effect of the reduced rate concession.

#### 4. Proposals for reform

The alternative method of computation set out in section 3 points to a measure of reform by which the allowances and the reduced rate could be eliminated from the process of assessment and collection of Income Tax, without infringing the basic principles underlying the present Income Tax system.

Thus

(1) Income Tax assessed on current earnings would be deducted at source from salaries and wages in the same manner as from investment income, but at a flat rate equal to the standard rate less the earned income allowance. Deduction of tax from either earned income or investment income would discharge all Income Tax liability in respect of that income.

(2) Cash allowances of the same annual amount as those granted under the present Income Tax system (adjusted to allow for the reduced rate concession—see below) would be paid weekly, monthly or at other suitable intervals, provided that in no case would these cash allowances exceed in any fiscal year the total amount of tax deducted from the taxpayer's income.

The present practice whereby the earned income allowance does not apply to any excess of earned income over £1500 per annum could be continued by levying surtax, at a rate equal in effect to the earned income allowance (i.e. at present 1s. 8d. in £1), upon earned income in excess of £1500 per annum. This surtax would be additional to that already imposed on all income in excess of £2000 per annum.

The reduced rate concession, as shown in section 3, is equivalent to an additional personal allowance increasing with income, but limited to a maximum of £28. 17s. 6d. per annum; this would be abolished and the personal allowance would be increased by, say, £15. This increase in the personal allowance could be fixed at a figure such that its total cost would equal that of the reduced rate concession. The Income Tax system would thus remain virtually unchanged in its financial effect on the individual except that the substitution of an additional personal allowance for the reduced rate concession would slightly favour those whose incomes fall in the lower ranges of the reduced rate area, and would be slightly detrimental to those with larger incomes. The effect would never be substantial.

The machinery for the payment of the cash allowances would involve the issue of coupons to each taxpayer according to his family status, but independently of his income. These coupons would only be valid against certificates of Income Tax deduction of equal amount and applicable to the current fiscal year. The coupons supported by a certificate of Income Tax deduction could be cashed at either a Post Office or a local office of, say, the Ministry of Social Security, or possibly by the employer (subject to adequate safeguards). Alternatively, they could be passed through the taxpayer's bank account. The coupons would not expire until the end of the fiscal year.

The procedure outlined above would render unnecessary any individual assessment of the earned income of employees (Schedule E) or of investment income taxed at source (Schedule D), unless the taxpayer's income enters the surtax area. Those who are in business on their own account, including professional men in receipt of fees, would still require to be assessed as at present under Schedule D. Assessments under Schedules A, B, and C would also be unaffected. For most taxpayers, however, so far as they are in receipt of earned income as employees, or of investment income taxed at source, the only individual assessment would be of family status for the issue of appropriate coupons. Persons in receipt of investment income and aged over 65 would require to claim a repayment in respect of the 'Age Allowance' if the total income is less than, or does not greatly exceed, £500 per annum. Expenses allowances and life assurance relief could be claimed against certificates of Income Tax deduction.

## 5. Results of reform

The measure of reform discussed in this part of the paper would succeed in freeing the Income Tax machinery from the encumbrance of allowances and from the complications of the reduced rate. Time lag would be abolished for the vast majority of taxpayers by relating tax to current income, and the system would be so simplified as to be readily understood. Finally, the weight of administration would be reduced to much smaller dimensions. Thus three of the defects set out in section 2 would be remedied.

The deterrent effect on the incentive to effort would remain (see Appendix B). Income up to a certain level would, in effect, suffer no reduction since the cash allowances would offset the relative Income Tax: beyond this level, which would depend upon family status, income would be taxed at the full rate. It would appear that this defect cannot be remedied completely under any simple and equitable Income Tax system which includes allowances limited to the amount of tax suffered. In Part III of this paper, when outlining a scheme for co-ordinating the Income Tax and Social Security systems, we suggest that this limitation should be abolished, a step which would remove completely the deterrent effect on incentive to effort.

## II. INTERRELATION OF INCOME TAX AND SOCIAL SECURITY

### 6. The two systems

Income Tax and Social Security are closely allied systems, and in this part of the paper we examine their interrelation. This interrelation extends only to Income Tax so far as it relates to personal assessments and to Social Security so far as it concerns the provision of subsistence benefits, including children's allowances. Other portions of Sir William Beveridge's plan (funeral grants, health services, etc.) fall outside the scope of this paper.

The Income Tax and Social Security systems control the financial relationship between the individual and the community by the creation, increase, or reduction of the income of the individual. Social Security benefits represent transfers from the community to the individual; Income Tax payments represent transfers from the individual to the community. The two systems are, however, not merely complementary; they tend to overlap. Social Security contributions are similar in effect to Income Tax payments, although different in form; the Income Tax system involves personal and family allowances (akin to Social Security benefits) granted by way of relief against taxation.

Thus the Income Tax and Social Security systems taken together effect a readjustment of the income of the individual; they operate to determine the purchasing power to be granted to the individual by virtue of

- (1) his nominal income—earned income or investment income,
- (2) his responsibilities—wife, children and other dependants,
- (3) his infirmities—sickness, unemployment or old age.

Purchasing power may be further taxed in the process of being used, but this depends on whether the individual chooses to apply his purchasing power so as to attract or to avoid such further taxation. Purchasing power may be supplemented by State provision of many kinds without specific payment, or below cost. The important point is, however, that the Income Tax and Social

Security systems together translate nominal income into personal purchasing power at 'price to consumer'.\*

This interrelationship of Income Tax and Social Security demands that the possibilities of close co-ordination be examined. If Income Tax were reformed in the manner suggested in Part I of this paper, and if the Plan for Social Security proposed by Sir William Beveridge were adopted, two quite separate systems, each reformed within its own boundaries, would control the financial relationship between the individual and the community. Before considering in Part III of this paper the lines upon which these two systems might be co-ordinated, we analyse the position which would result from their simultaneous but independent operation.

### **7. The two forms of taxation**

It follows from the general considerations outlined in section 6 that the income of the individual is reduced by Income Tax payments and by Social Security contributions in the process of its translation into personal purchasing power. It is necessary at this stage to define the nature of these two forms of compulsory levy upon income.

Under the reformed Income Tax system tax would be assessed at a level rate, differing for earned income and investment income; this tax would be deducted at source from salaries and wages and, as at present, from investment income. The relative allowances (including that substituted for the reduced rate concession) would be paid through a separate channel, and would thus be dissociated from the process of assessment and collection of tax: the effect of these allowances will be examined, together with the effect of Social Security benefits, in section 8. For present purposes, therefore, we propose to regard the effect of the reformed Income Tax system upon the individual as being a charge on all income at the appropriate level rate of tax—either that applicable to earned income or that applicable to investment income.

Social Security contributions represent a poll tax levied on all insured persons and varying according to the category of the contributor. This poll tax purports to give insured persons the right to future benefits in certain contingencies. For this reason it has been suggested that the contribution is not a tax but an insurance premium representing a present payment for a future benefit. In fact, however, the personal purchasing power of the individual is reduced by payment of a compulsory contribution which is immediately applied to benefit other members of the community by increasing their personal purchasing power. The right to a future benefit must be contingent upon other members of the community at that time suffering reduction of their personal purchasing power by way of contributions. This process of redistribution of income transforms A's present contributions into B's present benefits—not into A's future benefits. We prefer, therefore, to regard the insured persons' contributions (and similarly the employers' contributions) as a form of taxation—and the Social Security benefits as provided wholly out of the proceeds of taxation (including a poll tax and an employment tax). This statement is subject only to the qualification that the sacrifice of personal purchasing power by the contributor to-day for the provision of subsistence to other members of

\* The translation of nominal income into immediate personal purchasing power also involves the question of post-war credits (or, in a broader sense, compulsory saving) and surtax. Post-war credits are studied in Appendix A.

the community entitles him to a similar provision in future at the cost of the community if the contingency arises, and if circumstances then permit.

It follows that the combined effect of the two systems in so far as they operate to reduce the income of the individual would be

(i) an Income Tax charged on all income at a level rate, differing for earned income and investment income, and

(ii) a poll tax dependent upon the category of the individual, i.e. employed person, housewife, etc.

### 8. The two sets of allowances

We now investigate the extent to which the income of the individual, reduced by the two forms of taxation examined in section 7, would be increased by the Income Tax allowances and by the proposed Social Security benefits together with children's allowances. The point of view expressed in this part of the paper involves the assumption that these two sets of allowances should be regarded as essentially similar in character. So far as the Income Tax allowances are concerned, this conflicts with the attitude expressed in the White Paper on Family Allowances (Cmd. 6354) issued in May 1942; in this White Paper children's allowances, granted under the Income Tax system, are regarded as reliefs of tax representing recognition of the fact that the possession of children reduces the capacity to pay, while family allowances are viewed as payments designed to reduce financial hardship arising from the maintenance of children—a distinction which we cannot accept. So far as Social Security benefits are concerned, our view would not be accepted by those who regard these benefits as being sums payable under an insurance; for the reasons stated in section 7, however, we prefer to regard the Social Security benefits as provided wholly out of the proceeds of taxation.

It follows that the combined effect of the two systems, in so far as they operate to increase the income of the individual, would be

(i) Social Security benefits payable to the unemployed, to the sick, and (subject to reduction in the earlier years) to the retired—and also children's allowances,

(ii) Income Tax allowances payable to all persons in receipt of either earned income or investment income, subject to the limitation that the allowances shall not exceed the full amount of tax deducted at source from the income of the person concerned.

In the following table the cash allowances at present granted under the Income Tax system are compared with the subsistence benefits tentatively proposed in the Social Security plan. In this comparison the additional £15 personal allowance has been substituted for the reduced rate concession in the Income Tax system—as suggested in section 4.

	Income Tax allowance per annum	Proposed subsistence benefit per annum
	£ s. d.	£ s. d.
Single man or woman	65 0 0	62 8 0
Married couple	*100 0 0	104 0 0
First child	25 0 0	†20 16 0
Each subsequent child	25 0 0	20 16 0

\* Subject to increase if wife is earning. † Only when parent is also in receipt of benefit.

From the table it is evident that the allowances granted under the reformed Income Tax system would be very similar in amount to the proposed subsistence benefits. It must be noticed, however, that the cash allowances granted under the Income Tax system at present vary with the standard rate of tax and, in any case, are subject to alteration from year to year in accordance with fiscal policy. On the other hand, the Social Security benefits represent the monetary equivalent of subsistence and may, therefore, vary according to the cost and standard of living. It follows that, in spite of the close similarity at present existing between the two sets of allowances, a considerable divergence might arise in future if Income Tax and Social Security were to continue as two separate and distinct systems.

### **9. The two classes of beneficiaries**

We conclude this survey of the interrelation between the reformed Income Tax system and the Social Security proposals by considering the two classes who would receive the allowances set out in section 8. Payment of the Social Security benefits is conditional upon valid cessation of work and ceases on resumption of work; the benefits are not directly conditional upon loss of income. The Income Tax allowances are granted only to those in receipt of income, and they vary with that income until the maximum allowance is reached; they thus apply to all who receive either earned income or investment income—whether employed, unemployed, sick, retired or of independent means. In short—Social Security benefits depend on lack of work, not income; Income Tax allowances depend on extent of income, not work.

The above two classes of beneficiaries together comprise a very large section of the community—partly with income and partly without income, partly at work and partly not at work. When combined into one class the position seems illogical by reason of two features which emerge.

1. *The Gap.* There is a gap created by the anomaly that allowances are granted to those whose incomes have failed owing to unemployment, disability or retirement, and also to those in receipt of moderate incomes, but are granted only to a reduced extent to those whose incomes are small. For example, a married couple without children and with no investment income (wife not earning) must earn £240 per annum to qualify for the maximum allowances due to them under the reformed Income Tax system. The relatively unfavourable position in which the low wage earner is thus placed seems inequitable and is likely to deter him, when unemployed, from seeking work. The deterrent effect on incentive to effort has already been recognized as a defect in the present Income Tax system; the seriousness of the problem is, however, greatly emphasized when the Income Tax allowances and Social Security benefits are studied in conjunction with one another. (See Appendix B.)

2. *The Overlap.* There is an overlap in so far as the unemployed, the sick, and especially the retired, may also be taxpayers and may therefore receive allowances under both the Income Tax system and the Social Security proposals. Thus an old age pensioner may have a private income—possibly a pension from a Superannuation Fund—which would entitle him to Income Tax allowances. It is also conceivable that some persons might draw a considerable amount of sick benefit or unemployment benefit in a year during which their earnings also entitled them to allowances under the Income Tax



system. If universal children's allowances are granted under the Social Security proposals, we assume that the overlap with the similar allowances granted under the Income Tax system would be eliminated.

### 10. Summary of interrelation

This consideration of Income Tax and Social Security has indicated that the primary basis of the financial relationship between the individual and the community may be regarded as

(i) the obligation of the individual to contribute to the community a tax on income at a level rate (differing only for earned income and investment income) and possibly a poll tax,

(ii) the right of the individual to allowances and benefits granted under the Income Tax and Social Security systems.

Examination of the classes receiving the benefits and allowances has drawn attention to the gap and overlap in which individuals might receive either only part of the allowances or such a combination of the allowances and benefits as would be equivalent to considerably more than the individual amount of either. The existence of this gap and overlap is regarded as an anomaly arising in the joint operation of the Income Tax system and the Social Security proposals—an anomaly which is removed by the simplified and co-ordinated scheme proposed in Part III of this paper.

## III. CO-ORDINATION OF INCOME TAX AND SOCIAL SECURITY

### 11. The co-ordinated scheme

A primary basis of the financial relationship between the individual and the community, suggested by consideration of the interrelation of Income Tax and Social Security, has been indicated in section 10. We now set out to simplify the financial relationship by adopting this primary basis as a starting point for a co-ordinated scheme of Income Tax and Social Security.\*

This co-ordinated scheme ignores all distinctions between taxation and Social Security contributions and also between Income Tax allowances and Social Security benefits. It therefore provides for

(1) taxation of the individual by means of

(a) an Income Tax charged on all income at a level rate, possibly differing for earned income and investment income,

(b) a poll tax dependent upon the category of the individual, i.e. employed person, housewife, etc., if such a tax is deemed desirable;

(2) a cash allowance for every member of the community—whether employed, unemployed, sick, retired or of independent means—subject only to such safeguards as are necessary to prevent abuse.

These very simple operations—together with surtax and post-war credits—would complete the readjustment of the income of the individual, translating nominal income into personal purchasing power at 'price to consumer'.

\* Since drafting this paper our attention has been drawn to *Some Suggestions for a New Social Contract* by Lady Juliet Rhys Williams, in which an idea similar to that proposed in Part III of the paper is put forward.

The co-ordinated scheme would have the following advantages over the simultaneous but independent operation of the present Income Tax system and the Social Security proposals:

(1) The Income Tax would be capable of prompt collection by deduction from current earnings.

(2) The scheme would be simple in conception and readily understood.

(3) The scheme would be easily operated and its administrative machinery would be reduced to very small dimensions.

(4) The gap and the overlap—the two anomalies arising in the joint operation of the Income Tax system and the Social Security proposals—would no longer exist, as the co-ordinated scheme would extend the full allowances to those earning small incomes and would in no circumstances confer duplicate allowances on any person.

(5) The bridging of the gap would completely eliminate the deterrent effect on incentive to effort. (See Appendix B.)

It will be observed from this summary of the advantages of the co-ordinated scheme that, as regards Income Tax, it fulfils all the tests set out in section 2.

In the following sections we consider the detailed application of the co-ordinated scheme. For convenience we shall assume that all allowances payable under the scheme would be on subsistence level. If it were deemed desirable to allow certain increased benefits, such as the Industrial Disability benefit, the Maternity benefit and the Widow's benefit in the Social Security proposals, special arrangements would require to be made outside the main framework of the co-ordinated scheme in so far as the benefits exceed subsistence level; similarly Maternity, Marriage and Funeral grants are outside the scope of the co-ordinated scheme.

## **12. Taxation of the individual**

In so far as the co-ordinated scheme provided for taxation of the individual by means of a poll tax, it would be necessary to employ machinery similar to that now used for the collection of insured persons' contributions. Difficulties would arise in obtaining payment of the poll tax from those members of the community who had no income. There is, however, a widespread feeling, with which we are in agreement, that a poll tax offends against the principles of wise taxation and for this reason we shall not pursue further the practical details connected with this form of taxation.

Under the co-ordinated scheme the Income Tax would be charged on all income at a level rate—possibly differing for earned income and investment income—and would be deducted at source from salaries and wages and, of course, from investment income; deduction of tax from either earned income or investment income would discharge all Income Tax liability in respect of that income. Individual assessments would still require to be made under Schedules A, B, and C, and also under Schedule D so far as this Schedule concerns those who are in business on their own account. Expenses allowances and life assurance relief could be claimed against certificates of Income Tax deduction.

The provision under the present Income Tax system that different rates of tax are levied on earned income and investment income involves a major principle of taxation, and, while it would clearly be in the interests of simplicity if the one level rate of tax were applied to both, we feel that any expres-

sion of opinion on this point would be outside the scope of this paper. No practical difficulty would arise under the co-ordinated scheme if this provision were continued, except that, if earned income in excess of £1500 per annum were to be taxed at the higher rate applicable to investment income, the additional tax on excess earned income would require to be assessed in each individual case in the form of surtax.

The 'Age Relief' at present granted under the Income Tax system is presumably intended to be a concession to elderly people with small incomes, who are thus taxed on the interest derived from their life savings at the rate of tax normally applicable to earned income. If under the co-ordinated scheme earned income and investment income were taxed at the same level rate, the problem of 'Age Relief' would, of course, disappear. If different rates of tax are to be applied to earned income and to investment income, and if pensions derived from a Superannuation Fund are to be regarded as earned income, there is a strong argument for continuing some concession such as the present 'Age Relief'. The concession would have to be granted on individual application for a repayment of tax at the difference between the two rates.

Two points remain for brief consideration—post-war credits and surtax. We feel strongly that post-war credits or any similar form of compulsory saving should not be confused with taxation. If necessary, however, a system of compulsory saving, related directly to income by means of a level percentage, could be operated in conjunction with the co-ordinated scheme. This subject is examined in greater detail in Appendix A.

As regards surtax, attention is drawn in Appendix B to the fact that this tax offends against the principle that taxation should not have a deterrent effect on incentive to effort; from this point of view, the elimination of surtax from the fiscal system would be wise. This view is supported by consideration of the extremely small yield of surtax in relation to the yield from Income Tax. Other considerations, however, are involved and we therefore pursue this question no further—except to remark that adoption of the co-ordinated scheme would not affect the present method of assessment and collection of surtax. Returns of income would require to be made by all whose incomes enter the surtax area.

### 13. The allowances

The most careful consideration would require to be given to the proper level at which the allowances should be fixed under the co-ordinated scheme; in view of the fact that they should represent a cash interpretation of subsistence, they might well be reviewed from year to year. The principle of subsistence benefits would probably require to be promised for the future but no guarantee should attach to the future monetary equivalent of subsistence. For the sake of illustration, however, we propose to accept, in general, Sir William Beveridge's cash interpretation of subsistence as a convenient set of figures, which have the further advantage of being similar in amount to the cash allowances at present granted under the Income Tax system.

With regard to the scale of allowances, certain points arise which require individual consideration. These points are:

(1) *Single man or woman.* A feature of the scale of benefits proposed by Sir William Beveridge is that a single man or woman is granted an allowance

greater than one-half of that applicable to a married couple. The same feature is present in the scale of allowances incorporated in the present Income Tax system—modified by the additional allowance granted if the wife is earning. While it will readily be admitted that a person living alone requires a higher monetary equivalent of subsistence than each of two persons living together, the distinction between single persons and a married couple appears to be arbitrary. Few single persons in fact live alone, and there can be little difference between the monetary equivalent of subsistence for, say, two sisters living together and for a married couple. For this reason we propose to adopt a uniform allowance of 20s. per week in respect of each individual aged 18 and over—whether single or married.

(2) *Married couple with wife earning.* Under the present Income Tax system the allowance to a married couple is increased if the wife is earning. This increase is evidently intended to restore the financial incentive to effort on the part of the wife where otherwise the joint assessment of husband and wife would impair this incentive. The additional allowance thus appears to be a patchwork attempt to remedy one phase of the deterrent effect on incentive to effort under the present Income Tax system. No such point arises in the co-ordinated scheme.

(3) *The first child.* Under the Social Security proposals an allowance would only be payable in respect of the first child when the parent is in receipt of benefit due to sickness, unemployment or retirement. Under the Income Tax system, however, the allowance is granted in respect of every child, subject to the income being sufficient for the allowance to be claimed. The co-ordinated scheme could provide for the exclusion of the first child from benefit, but if the principle of subsistence for all is adopted, it seems proper that every child should qualify for an allowance.

(4) *Retirement benefit on a graded scale.* Under the Social Security proposals, retirement benefit would be reduced in the early years. This recommendation seems to be based partly on expediency, in order that the cost of the Social Security plan should not be excessive at the outset, and partly on the conception of insurance introduced into the Social Security proposals; this conception leads to the argument that those who retire in the early years will have paid for a smaller pension than those who retire after contributing for many years. We have already stated that we cannot accept the view that the Social Security proposals represent a scheme of insurance, and the argument of expediency is unsatisfactory. For these reasons we propose to develop the co-ordinated scheme on the basis that from the outset the retired are entitled to the same subsistence allowance as all other members of the community.

(5) *Differential subsistence allowances.* In Sir William Beveridge's Report, it is suggested that the monetary equivalent of subsistence may vary in different parts of the country and among different classes of individuals—e.g. agricultural workers—on account of variations in rent, etc. Effect could, and probably should, be given to such variations under the co-ordinated scheme by applying different scales of allowances according to locality and occupation. This variation would require great care and considerable research. It can only be assumed for present purposes that the scale of allowances adopted in this paper for purposes of illustration represents the average allowances applicable to the community as a whole.

For the purposes of illustrating the effect of the co-ordinated scheme, we have therefore adopted the following scale of allowances:

Class	Age	Allowance per week			Allowance per annum		
		£	s.	d.	£	s.	d.
Man or woman	18 or over	1	0	0	52	0	0
Young person	16-18		15	0	39	0	0
*Each child	Under 16		8	0	20	16	0

\* The child's allowance would vary according to age; 8s. per week is the average allowance.

The machinery for the payment of the cash allowances would be similar to that proposed in Part I of this paper for the payment of Income Tax allowances. Coupons would be issued in respect of every member of the community, the benefits being graduated according to age. The issue of these books would be a relatively simple matter—not dissimilar from the method by which ration books have been issued during the war. Each person aged over 16 would presumably receive his or her own coupon book and be entitled to claim the relative allowances, unless a written authority were given for payment to the husband, parent, etc. For children aged under 16 the book would be issued to the parent who would thus be entitled to claim the allowance. The coupons could be cashed either at a Post Office or at a local office established to deal with Social Security—or possibly by the employer. Alternatively, the coupons could be passed through the individual's bank account.

It was stated in section 11 that the cash allowances provided under the co-ordinated scheme would require to be subject to such safeguards as are necessary to prevent abuse. One element of danger is that the payment of subsistence allowances, without persuasion being exercised upon the individual to seek work, would lead to some individuals being content to live on a subsistence level and to contribute no work to the community. It would be a necessary condition of the co-ordinated scheme in practice that persuasion should be applied in such cases by withholding payment of allowances from the small minority who are able, but unwilling, to undertake work of an approved character. This is a most difficult problem—common to all schemes which provide subsistence benefits—and is studied in relation to the co-ordinated scheme in Appendix C.

#### 14. Method of finance

The simplicity of the co-ordinated scheme enables a much clearer view to be taken of the relevant questions of finance than is possible when the present Income Tax system and the Social Security proposals are considered independently.

The method of finance would be, quite simply, that the total cost of the co-ordinated allowances would fall on the Exchequer and that the total yield of the simplified level Income Tax would be paid into the Exchequer. Thus the cost of subsistence allowances, together with all other items of expenditure in the national budget, would be met by general taxation, including Income Tax. This general taxation might include a poll tax and an employment tax which, if they were regarded as specific taxes for the purpose of Social Security, would be, in effect, contributions by insured persons and by employers. Both

taxes are, however, open to considerable objection and offend against the principles of wise taxation.

There is, of course, no intention that the total cost of the co-ordinated allowances should be equated to the total yield of Income Tax—either with or without a poll tax and an employment tax. It so happens that Income Tax at its present high rate would roughly meet the total cost of the co-ordinated allowances. If, however, Income Tax were to be regarded as the sole means of paying for subsistence allowances, it would require to be maintained indefinitely at or around its war-time level, unless the total of personal incomes were to expand considerably in relation to the total subsistence allowances. This degree of rigidity in the financial structure would clearly be most undesirable.

The method by which the co-ordinated scheme would be financed is essentially the same method as that envisaged under the Social Security proposals. Social Security benefits differ from the co-ordinated allowances in that they are granted only in respect of part of the community—the unemployed, the sick and the retired. The total cost, however, of Social Security benefits (together with children's allowances)—like that of the co-ordinated allowances—falls, in effect, on the Exchequer year by year; the cost is met in part by a poll tax, in part by an employment tax, and in part by general taxation. This general taxation includes the yield from Income Tax in its present form, i.e. after giving effect to the allowances.

The only distinction between the methods of finance of the co-ordinated scheme and of the Social Security proposals (combined with the present Income Tax system) lies in their manner of presentation. Thus

(1) under the present Income Tax system, the receipts appearing each year in the Exchequer Return are shown after effect has been given to Income Tax allowances: under the co-ordinated scheme, both sides of the Return would be increased to this extent;

(2) under the Social Security proposals, the cost appearing each year in the Exchequer Return would be shown after deduction of the insured persons' contributions and of the employers' contributions: under the co-ordinated scheme the full cost of the allowances would be shown as a charge and the poll tax and employment tax, if any, would appear as a product of taxation.

It appears, therefore, that the presentation of the figures relating to the cost of the Social Security proposals (as shown in Sir William Beveridge's Report) and the yield of Income Tax (as shown in present-day Exchequer Returns) should be revised in order to compare their financial effect upon the community with that of the co-ordinated scheme. The Exchequer Returns would show

(a) as a charge on the Exchequer

- (i) Social Security benefits and children's allowances,
- (ii) allowances granted under the Income Tax system;

(b) as the product of taxation

- (i) the full amount of Income Tax before allowances are deducted,
- (ii) the yield both of insured persons' contributions and employers' contributions.

Item (a) would be in a form suitable for comparison with the cost of the

under the Social Security proposals and the Income Tax system. These factors are:

(1) *The Gap and the Overlap*

- (a) By the bridging of the gap, the co-ordinated scheme would benefit those earning small incomes who would receive allowances in excess of the full tax assessed on their incomes.
- (b) By the elimination of the overlap, the co-ordinated scheme would abolish the duplicate allowances which can be claimed under the Income Tax system and the Social Security proposals.

Available statistics permit no satisfactory estimate to be made of the cost under (a) and the saving under (b), but it appears that the latter would not fully offset the former.

(2) *Children's Allowances*

- (a) By paying universal children's allowances under the co-ordinated scheme in respect of every child, including the first in each family, the cost of the Social Security proposals would be increased by £98 millions; this estimate is given in paragraph 66 of the Government Actuary's memorandum appended to Sir William Beveridge's Report.
- (b) By abolishing the Income Tax allowances for all children, there would be a considerable saving. It appears from the figures quoted in the White Paper on Family Allowances (Cmd. 6354) that this saving would practically offset the excess cost under (a).

(3) *Retirement Benefit*

By abolishing the graded scale of retirement benefit and by extending the full subsistence allowance to the retired from the outset, the cost of the Social Security proposals would be increased by approximately £150 millions, subject to partial offset by savings in assistance pensions, and by the effect of 4 (b) below so far as it applies to retired persons.

(4) *Modifications of Benefits and Allowances*

- (a) By standardizing all allowances on the level suggested in the Social Security proposals, a certain adjustment is made in the cost of allowances at present granted to taxpayers (see table in section 8). It seems most probable that these adjustments, combined with the abolition of the additional allowance granted under the Income Tax system to wives who are earning, would lead to a certain saving in cost—which again cannot be determined from published statistics.
- (b) By reducing the allowance for single men and women from 24s. per week to 20s. per week, a saving in cost results—possibly of the order of £100 millions.

Before leaving the subject of cost, some reference should be made to the future position. Under the co-ordinated scheme, the future cost would remain fairly stable unless considerable changes take place in the monetary equivalent of subsistence. Under the Social Security proposals, the cost would increase, largely on account of the graded scale of retirement benefit and the ageing population; according to the Government Actuary's estimates, the initial cost of £465 millions for subsistence benefits (including children's allowances) would increase to £625 millions by 1965—as shown in Appendix D. The

future cost of the allowances under the Income Tax system is, however, entirely dependent upon future incomes and future fiscal policy, and therefore no estimate can be made; it is clear, however, that, if the rate of tax falls and if all the other factors remain unchanged, the cost of Income Tax allowances will decrease. Hence, it is impossible to indicate the future trend of the combined cost, under the Social Security proposals and the Income Tax system, of the allowances and benefits comparable with those granted under the co-ordinated scheme.

As against the cost of the co-ordinated scheme, there would be a certain set-off in respect of saving in administrative machinery in the Inland Revenue and in the ministry or ministries concerned with Social Security. The true cost to the community would also be reduced by enormous saving of the skilled labour of accountants, solicitors, business men and private individuals in so far as their time is at present devoted to problems connected with personal Income Tax. It may be remarked in this connexion that the fact that all Income Tax problems would be greatly simplified and intelligible to every member of the community would itself be of considerable value—a very real point in relation to the cost of the co-ordinated scheme.

#### **16. Points arising from co-ordination**

In this Part of the paper we have considered the lines along which co-ordination of Income Tax and Social Security might proceed. The co-ordinated scheme has been designed to simplify the financial relationship between the individual and the community, to provide a proper financial incentive to effort, and to remove anomalies which would exist under the simultaneous but independent operation of the Income Tax system and the Social Security proposals. We have not set out to consider the economic results of such a scheme, many of which are similar to those which would arise from the adoption of Sir William Beveridge's proposals. We think, however, that some of the economic aspects require very full consideration before the co-ordinated scheme could be adopted.

In the first place, it is clear that, if the National Income falls below a certain level and if the monetary equivalent of subsistence remains unchanged, any scheme of Social Security based on a right to subsistence will break down. In his Report Sir William Beveridge emphasizes that his proposals depend on the assumption that a certain level of employment will be maintained; we would add that the practicability of granting the right to subsistence is conditional upon the maintenance of the economic prosperity of the country above a certain level.

We are very conscious that any scheme which aims—rightly we think—at granting subsistence to the poorer sections of the population must give a twist of substantial degree to the economic structure of the country, away from saving and towards spending. One consequence will be a considerable drain upon the supply of consumer goods; it is essential, therefore, that this supply should be such that, after providing subsistence, there remains a sufficient margin to maintain the necessary incentive to effort. We do not feel ourselves competent to do more than draw attention to these economic aspects of Social Security, but they raise vital questions requiring the fullest consideration.

A further point deserving mention is the future effect of the co-ordinated scheme upon the individual in the event of Income Tax being reduced below its present level. A feature of the co-ordinated scheme is that it makes no



provision for allowances to be varied from year to year on any grounds other than a change in the monetary equivalent of subsistence. The allowances would not be affected by fiscal policy nor would they vary with the rate of tax as under the present Income Tax system. As a result of breaking this link between cash allowances and the rate of tax, a variation of one shilling in the level rate would lead to a much greater alteration in the yield of Income Tax than hitherto. Thus, when the present level of Income Tax is allowed to fall, the reduction in the rate corresponding to a specified diminution of yield would be very much less than under the present system. Hence—other things being equal—the co-ordinated scheme, by stabilizing the cash allowances, would severely brake a fall in the rate of Income Tax. Those with obligations and within the lower income ranges would therefore be favoured at the expense of those with higher incomes, and at the expense of non-personal incomes such as sums allocated by companies to reserves. This favourable treatment of those earning small incomes is one of the main characteristics of the co-ordinated scheme, being the means by which a proper financial incentive to effort is given to the unemployed and to the disabled.

#### CONCLUSION

##### **17. Summary of paper**

This progressive study of Income Tax and Social Security leads to two sets of proposals; the first is contained in Part I of the paper which, after stressing the urgent need for reform of the Income Tax system, indicates a measure of reform which would remove most of the present defects. We believe that reform on these lines is both desirable and practicable and that it should be instituted without delay.

From Part II it appears that the interrelation of Income Tax and Social Security is such that the reform of each within its own boundaries should be accompanied by the co-ordination of the two systems. With this in view, Part III presents the second set of proposals in the form of the co-ordinated scheme. We accept the principle that subsistence is the right of the citizen who is willing to work, but we regard it as essential that, before it is decided to implement this principle either partially, progressively or fully, the economic aspects should be fully examined. Subject to this qualification we believe that the co-ordinated scheme represents the best method of regulating the financial relationship between the individual and the community.

We appreciate that, for the co-ordinated scheme to be adopted in its entirety, a period of some years would be required—both from the point of view of the social consequences and from the point of view of practical administration—but we plead most earnestly for a bold and imaginative approach, unhampered by preconceived ideas based on existing practice and administration.

## APPENDIX A

*Post-War Credits*

The inclusion of post-war credits in the Income Tax system is liable to lead to confusion between taxation and saving. Although post-war credits are a temporary expedient for war-time purposes, they may be continued after the war in the form of compulsory savings designed to control the restriction and release of purchasing power. For this reason, a study of the present Income Tax system would not be complete without consideration being given to the principle of incorporating a system of compulsory savings in the machinery of Income Tax.

In cases where the income extends sufficiently beyond the reduced rate area, the amount contributed to post-war credit for each of the years 1941-42 and 1942-43 has been

- (1) 8d. in £1 on all earned income up to £1500,
- (2) 8d. in £1 on investment income—only if the age is over 65 and total income does not exceed £500 per annum—with marginal adjustment,
- (3) £10 per annum in the case of a single man or woman,  
£15 per annum in the case of a married couple.

For smaller incomes the amount of the post-war credit cannot be stated in any simple and general form.

This expression of the basis of computation of post-war credits for the cases to which it applies shows the degree of confusion which has resulted from the manner of the incorporation of post-war credits in the Income Tax system. In general, compulsory savings should not be charged upon personal and family allowances. It is the excess of income which is the legitimate field for the application of compulsory saving.

A system of compulsory saving related directly to income by means of a level percentage (so as not to deter the incentive to effort) could be operated in conjunction with the reformed Income Tax system outlined in Part I of this paper, or in conjunction with the co-ordinated scheme outlined in Part III of this paper. If, for example, Income Tax were at a level rate of 8s. 4d. in £1 on all income, and compulsory savings were 1s. 8d. in £1 on all income, the total deduction at source would amount to 10s. in £1; the relative certificate of deduction of tax (including compulsory saving) would then entitle the holder to a compulsory saving certificate equal in value to 1/6th of the total deduction.

## APPENDIX B

*Financial Incentive to Effort*

The effort that the individual expends on the production of goods and services depends largely on financial incentive, represented by the purchasing power which he receives by way of reward. The degree of effort is, of course, affected by many other considerations such as the individual's need, his will to work, the available supply of consumer goods, and the persuasion which may be brought to bear upon him (see Appendix C); the present Appendix, however, is concerned only with the effect of financial incentive upon effort.

We shall consider the problem first from the point of view of Income Tax, as discussed in Part I of the paper, and take the net income left to the individual after the operation of Income Tax as the measure of his purchasing power at 'price to consumer'. The graph on page 99 shows the relationship between incentive as measured by purchasing power and effort as measured by earnings, in the case of a married couple without children. In this graph the line ACFG shows the purchasing power remaining after earnings have been reduced by Income Tax on the present basis (1942-43), excluding contributions to post-war credit. This line shows breaks at two points between A and G; the first is the point C, where income becomes taxable at the reduced rate, and the second is the point F, where the full rate of tax begins to apply. It is at these points that the deterrent effect on the incentive to effort takes place. As is stated in section 2, the fact that the lower ranges of income are not subject to tax, or are taxed at the reduced rate, makes any income subject to the full rate of tax appear to be relatively less valuable in relation to the effort necessary to secure the increased income.

If all income were taxed at a level rate, there would at no point be a deterrent effect on incentive as income increases, and the graph would represent a straight line. From the point of view of incentive alone, a level rate of tax is probably ideal. If, however, the principle of capacity to pay makes it necessary to vary the incidence of tax on successive layers of income, a carefully graded scale will lessen the deterrent effect and a smooth curve might be the best alternative, if it were practicable, to a straight line. Sudden and severe breaks in the graphical representation of incentive in relation to effort should certainly be avoided if effort is not to be deterred.

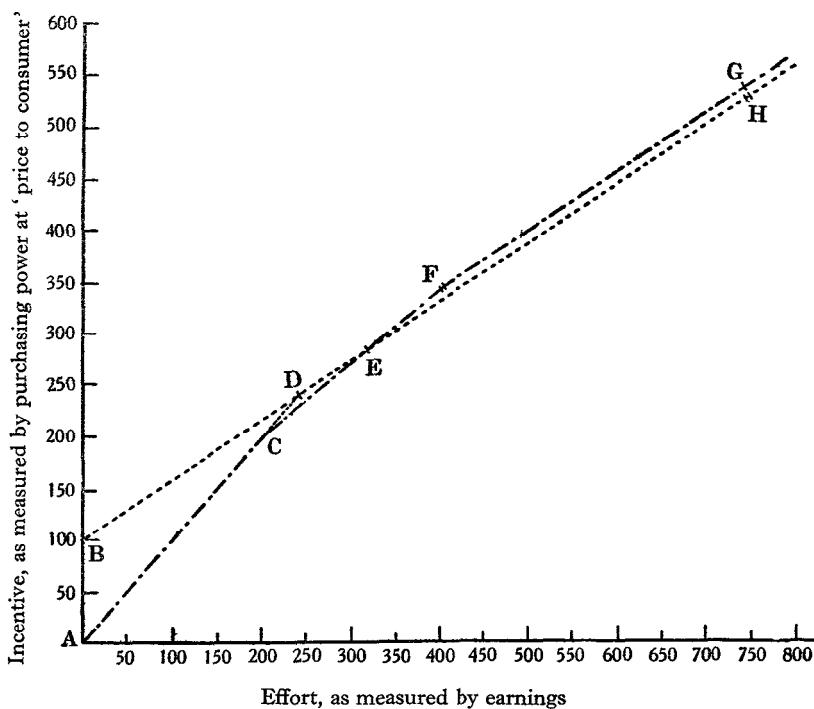
The abolition of the reduced rate and the substitution of a further personal allowance of £15 (suggested in section 4 to remedy the defects of the administration and operation of the Income Tax system) would lead to the graph being amended to follow the line ACDH. This step has, therefore, substituted one bad break (D) in the graph for two less severe ones (C and F), and this is scarcely an improvement in so far as we are concerned with the deterrent effect of the Income Tax system upon incentive to effort.

If we now consider the position that would arise from the simultaneous but independent operation of the reformed Income Tax system and the Social Security proposals, it appears that, for those whose incomes have failed owing to sickness or unemployment and who receive a subsistence benefit, there is a greater financial incentive to idleness than to any effort which would result in earnings below the level of the subsistence benefit.

When we come to the co-ordinated scheme—set out in Part III of the paper—the financial incentive to effort as measured by purchasing power is the subsistence allowance increased by earnings taxed at a level rate (ignoring any poll tax). A proper financial incentive to effort is given to the unemployed and disabled and there is no deterrent effect on incentive at any state below surtax level. The graphical representation of incentive in relation to effort becomes a straight line and thus takes the ideal form. The straight line would be BDH if the allowance were £100 per annum; the suggested allowance of £104 per annum would slightly raise this straight line, which would, however, be lowered by a constant adjustment for any poll tax that might be levied.

It may be mentioned, in passing, that surtax is another factor having a deterrent effect upon incentive to effort—and enterprise—but in this case other considerations are involved. In the field of surtax it is possible that the

financial incentive does not operate to the same extent as in the lower income ranges: even to the extent that it does operate, it may be held that in certain circumstances the reward for extra effort should be lessened after a certain point. If it is, in fact, advisable that effort and enterprise should be curbed at some stage—which is very doubtful—it should be done with the utmost discretion and realization of what is involved. The Income Tax and surtax systems should on no account be allowed to have an accidental and unpremeditated effect on incentive.



Married couple without children (wife not earning and no investment income).  
1942-43 basis excluding contributions to post-war credit.

## APPENDIX C

### *Persuasion to Work*

The necessity for persuasion to work arises in any society where the citizens are given benefits when not working; the problem becomes progressively acute as the benefits approach subsistence level. The scheme for co-ordinating the Income Tax and Social Security systems, set out in Part III of the paper, brings a powerful aid to persuasion to work by providing a proper financial incentive to effort for those whose potential earnings are small; this particular aspect has been studied in Appendix B. There will be cases, however, where the financial incentive does not overcome unwillingness to effort and where

the individual is content to live on a subsistence level. In any such case, where the individual can contribute work to the community and the community requires his work, persuasion must be applied.

This persuasion should take the form of withholding allowances from those who are able, but unwilling, to undertake 'approved work'. Thus payment of allowances would be made without question against

- (i) evidence, such as a certificate of employment, that the individual is engaged in 'approved work',
- (ii) evidence that the individual is above or below working age,
- (iii) a medical certificate of disability.

In other cases, where the individual is unemployed, payment of the allowances would be subject to willingness to work as indicated by acceptance of suitable employment when available.

An implication of making the payment of allowances conditional upon willingness to work would be that no allowance would be paid to those individuals of working age who, although capable of work, chose to live on independent means. This would be a departure from the principles of the present Income Tax system and would introduce a revolutionary conception into the social responsibilities of the individual citizen. If this principle were adopted, it would probably be essential that it should be introduced only for a new generation of working age and that it should not be applied to those who are already well past the age at which they would normally enter into 'approved work'.

The interpretation of 'approved work' and the power to grant or withhold approval raise a vast subject of social importance. It is not possible to pursue the subject in any detail within the limits of this Appendix, and we can only attempt to indicate the nature of the problem. It would probably be advisable, as a starting point, to extend approval to most gainful occupations; in addition, many persons who are not gainfully occupied would nevertheless be regarded as in 'approved work'—e.g. housewives, voluntary workers, etc. There would be a number of difficult cases, such as that of any small isolated group of individuals who are entirely self-supporting—perhaps farming a small piece of land for their own benefit only—and who contribute nothing to the community. In general, however, we feel that, with the standard of political and social development ruling in this country, the difficulties involved in deciding what constitutes 'approved work' would not be insurmountable.

#### APPENDIX D

##### *Cost of Allowances*

##### **Co-ordinated Scheme**

The initial annual cost of the allowances under the co-ordinated scheme has been estimated by assuming the population in 1945 to be 47,000,000, distributed as to age in the manner shown in Table 1, which also shows the calculations leading to the estimate of cost. We have made the arbitrary assumption that 700,000 persons would be deprived of their allowances by reason of not engaging in 'approved work'.

*Table 1.* Estimated initial annual cost of co-ordinated allowances

Class	Age group	Allowance per annum	Estimated number of persons (millions)	Estimated initial annual cost
		£ s. d.		£M
Adults	18 and over	52 0 0	35·1	1825·2
Young persons	16-18	39 0 0	1·2	46·8
Children	Under 16	20 16 0	10·0	208·0
Not in 'approved work'		—	·7	—
			47·0	2080·0

### Social Security Proposals

The annual cost of those parts of the Social Security proposals which would be superseded by the co-ordinated scheme has been estimated by referring to the relative figures in the estimate of expenditure in paragraph 58 of the Government Actuary's Memorandum appended to Sir William Beveridge's Report. Table 2 summarizes the individual items.

*Table 2.* Estimated annual cost of subsistence benefits under Social Security proposals

	1945 £M	1965 £M
Retirement Pensions	126	300
*Widow's and Guardian Benefits	20	15
Unemployment Benefit	110	107
Disability Benefit	57	71
*Industrial Disability Benefits	10	10
*Maternity Benefit	3	3
†Assistance Pensions	29	19
Children's Allowances	110	100
	465	625

\* Under these headings the Social Security proposals would confer benefits in excess of the normal subsistence level. In this table the estimated cost relates only to the subsistence portion of such benefits.

† The co-ordinated scheme would supersede most Assistance Pensions; the estimated cost shown in the table allows for approximately three-quarters of the Assistance Pensions in the Social Security Budget being no longer required under the co-ordinated scheme.

Thus it is estimated that the co-ordinated scheme would supersede payments under the Social Security proposals amounting to £465 millions in 1945 and £625 millions in 1965. The additional cost of the full Social Security proposals, as estimated by the Government Actuary, represents the cost of benefits in excess of the monetary equivalent of subsistence (e.g. Industrial Disability Benefits in so far as they represent compensation for loss of earnings in excess of subsistence level) and the cost of grants (Maternity, Marriage and Funeral) and of health services, all of which are outside the scope of the co-ordinated scheme.

**Income Tax System**

The cost of the Income Tax allowances, which would be superseded by the co-ordinated scheme, is most difficult to estimate. This cost represents the difference between

(a) the yield of the full Income Tax levied on all personal incomes under the co-ordinated scheme, and

(b) the yield of Income Tax on personal incomes under the present system, i.e. after giving effect to the allowances.

A table presented to Parliament in July 1942, and reproduced in *The Economist* of 1 August 1942, estimated the amount of personal incomes assessed to tax in 1941-42 at £4250 millions. This figure does not include incomes below the exemption limit, which would suffer tax under the co-ordinated scheme.

In 'An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940 and 1941' (Cmd. 6347), Table F shows the distribution of personal incomes in 1940-41 by ranges of gross income. The total Gross Income in this table is £5722 millions, but this figure includes certain items of income (such as interest on National Savings Certificates and Social Security benefits) which would not be taxable. By comparison of the two tables, it appears that the total amount of incomes below the exemption limit and of other incomes which would be brought into taxation for the first time under the co-ordinated scheme may be estimated at £750 millions; we are very conscious, however, that this figure is little more than a guess.

We propose, therefore, to base our estimate of the cost of Income Tax allowances on the broad assumption that the total amount of all personal incomes, which under the co-ordinated scheme would have been subject to tax in 1941-42, was £5000 millions, of which we assume that £3600 millions was earned income and £1400 millions was investment income.

The amount of tax on this income would be:

Gross income £M	Rate of tax	Yield of tax £M
3600	8s. 4d. in £	1500
1400	10s. in £	700
5000		2200

The estimated yield of £2200 millions would be reduced by 'Age Relief', life assurance relief, etc., and would be increased by the additional tax levied on earned income in excess of £1500 per annum, but the effect would be relatively small.

The table presented to Parliament estimated that the total tax (including surtax and post-war credit), corresponding to the total personal incomes of £4250 millions assessed to tax for 1941-42, would be £835 millions under the present Income Tax system. Surtax included in this figure may be assumed to have been £75 millions and the total of post-war credits has been stated in Parliament as £125 millions for 1941-42. We thus assume that for 1941-42 the yield of income tax on personal incomes was £635 millions. The difference between the estimated full tax of £2200 millions and the net yield of £635

millions may be taken to represent Income Tax allowances of £1565 millions. We propose, therefore, to assume that the cost of Income Tax allowances against all personal incomes in 1941-42 was £1500 millions and that the same figure may be taken as an indication of the cost in 1945.

We may mention that the 'Eighty-Second Report of the Commissioners of His Majesty's Inland Revenue' for the year ended 31 March 1939 (Cmd. 6099) gave details in Table 40 of the assessments made in 1937-38, including figures for the various personal and family allowances set off against assessable income and for the amount of income taxed at the reduced rate. These figures are now so out-of-date as to be of little assistance in measuring the present cost of Income Tax allowances, but similar up-to-date figures, which are presumably in the possession of the Inland Revenue although not published, would greatly facilitate the estimates attempted in this part of the Appendix.

#### REFERENCES

In writing this paper we have referred to the White Papers and copies of *The Economist* mentioned below—except those marked with an asterisk, which were published after the paper had been prepared.

##### *White Papers:*

'Eighty-Second Report of the Commissioners of H.M. Inland Revenue.' Feb. 1940, Cmd. 6099.

'An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940 and 1941.' April 1942, Cmd. 6347.

'The Taxation of Weekly Wage Earners.' April 1942, Cmd. 6348.

'Family Allowances. Memorandum by the Chancellor of the Exchequer.' May 1942, Cmd. 6354.

'Social Insurance and Allied Services. Report by Sir William Beveridge.' Nov. 1942, Cmd. 6404.

\*'An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940, 1941 and 1942.' April 1943, Cmd. 6438.

##### *The Economist:*

'The Income Tax', 7 Feb. 1942; 'Budget Figures', 11 April 1942; 'War Finance', 18 April 1942; 'War-time Incomes', 1 Aug. 1942; 'The Burden of Taxation', 24 Oct. 1942; 'The National Budget', 9 Jan. 1943; 'Collection of Income Tax', 13 Mar. 1943; \*'The Chancellor's Problems', 10 April 1943; \*'Budget Figures', 10 April 1943; \*'The Budget', 17 April 1943; \*'The National Finances', 17 April 1943.



## ABSTRACT OF THE DISCUSSION

Mr R. J. Kirton, in introducing the paper, said the authors thought it would be best to call to mind first the background against which it had been written. When the background of the paper was examined, it was clear that Income Tax and Social Security, as they were understood to-day, were in their infancy.

Income Tax was introduced over a century ago, but it was not until the last war that it rose to a level which had since been experienced, and it was not until the present war that the scope of the tax, so far as the number of people affected was concerned, extended beyond a relatively limited and comparatively wealthy class. At present, however, as the Chancellor said in his recent Budget speech, nearly every family in the country contained at least one Income-Tax payer. During the period in which the paper had been written, the subject of the reform of Income Tax had been a burning topic on the other side of the Atlantic under the title of 'Pay as You Go', and recently it had aroused increasing interest in this country in the form of 'Pay as You Earn'.

With regard to Social Security, the principle that paupers should be looked after by the parish dated back to Elizabethan times, but Social Security in the sense in which it was known to-day might be said to have begun in the years prior to the war of 1914-18, when the Old Age Pension Act and National Insurance Act were passed. The proposals put forward by Sir William Beveridge would carry the evolution of Social Security a step further by introducing the principle that subsistence was the right of the citizen who was willing to work.

It was interesting to note that recently, in many directions, the question of the relationship between the individual and the community, including the financial relationship, had been causing increasing thought and discussion. It was against that background that the paper had been written.

It would be observed that the structure of the paper fell into three parts, and that in addition there were appendices on various subjects. He wished to emphasize the fact that two of the subjects dealt with in the appendices—'Financial Incentive to Effort' and 'Persuasion to Work'—were of great importance, and had been dealt with in that manner only because their introduction into the paper would have broken the thread of the argument. That was particularly true of 'Financial Incentive to Effort', which impinged on their progressive study at so many points.

In Part I of the paper they had confined themselves to Income Tax in its strictest sense; they had not concerned themselves with amounts contributed towards post-war credits. They had done that because that part of the paper served mainly as a prelude to the consideration of the interrelation of Income Tax and Social Security. If it were desired to reform the present Income-Tax system, including contributions to post-war credits, the same principles would apply, with amended figures. The post-war credits could very suitably take such a form as would help to offset the accentuation of the deterrent effect on incentive caused by the substitution of increases in the personal allowances for the reduced rate concession.

The measure of reform which the paper suggested would result in simplicity, and in tax being deducted from current earnings in discharge of all liability in respect of those earnings.

One of the arguments which had been put forward against the 'Pay as You Earn' basis had been that it involved the 'forgiving' of, say, ten months' taxation (or seven months' in the case of non-manual workers), but there did not appear to be much weight in that argument so far as the Treasury were concerned, and he could not do better than quote from a recent leading article in *The Times*:

'The objection that the National Exchequer would lose revenue, since in the case of manual workers ten months' tax liability would have to be written off, is—it need hardly be said—no objection at all. People would not stop paying tax for a single day, nor would the Exchequer stop receiving it. All that would be changed would be the basis on which the payments into the Exchequer were calculated.'

It was, however, obvious that 'forgiveness', combined with assessment on a current year basis, would involve changes in the contributions of individuals to the total tax.

The authors regarded the reform of the Income-Tax system as both important and urgent. Anyone who tried to visualize what would happen under the present system in a period of falling wages would be left in no doubt as to the urgency of the problem. They suggested that the proposals put forward in Part I of the paper pointed to a line of action which could and should be taken without delay.

Part II of the paper was devoted to a consideration of the interrelation between Income Tax and Social Security, a subject which was interesting in itself and which served in the paper mainly to introduce the third part of the paper, dealing with what they had called the co-ordinated scheme. They felt, on reflexion, that their use of the word 'co-ordination' required a comment. It was the allowances under the reformed Income-Tax system and the Social Security proposals which were co-ordinated. Those allowances were a direct charge on the Exchequer, and Income Tax was merely one means by which the Exchequer obtained revenue.

The co-ordinated scheme was simplicity itself: an allowance to everybody who was working or willing to work, and from everybody a level Income Tax on his whole income. Its merits were simplicity, leading to easy administration and an easy understanding of the scheme by every citizen, a proper financial incentive to effort, and, in the views of the authors, a correct relationship between the individual and the community.

The authors attached great importance to a proper financial incentive to effort. At the present stage of development of mankind, a proper financial incentive to effort was essential, and it should render 'persuasion to work' much less necessary. One of the grave dangers which they saw in the Social Security proposals of Sir William Beveridge was that in a large number of cases those proposals would destroy the financial incentive to effort. The co-ordinated scheme would both implement the principle that subsistence was the right of the citizen who was willing to work and provide the individual at all stages with a proper financial incentive to effort; that incentive to effort should tend to promote prosperity. While the authors thought it desirable that the principle should be implemented, they regarded it as essential that, before any attempt was made to bring it into force, the economic position of the country should warrant such action.

The co-ordinated scheme was on a 'year to year' basis. From one point of view, it merely reapportioned the rights of individuals to the available volume of consumer goods in each year. It did not depend on the position which money occupied in the social order, and it did not depend on compound interest.

The paper had been written as a practical endeavour to solve the increasingly urgent problems raised by the defects of the Income-Tax system. Measured against the background which he had outlined in opening his remarks, both the sets of proposals made in the paper would be seen in their true perspective; the authors regarded each as a step in the evolution of the social order.

**Mr G. H. R. Goobey**, who opened the discussion, said the authors must be very gratified that one of the chief suggestions contained in Part I of their paper had just received support by the acceptance of the 'Pay as You Go' wage-tax plan by the American House of Representatives; as Mr Kirton had pointed out, groups of Members of Parliament had passed resolutions supporting in principle the 'Pay as You Earn' scheme. He thought there would be general agreement with that suggestion.

The methods advocated in the first part of the paper would be useful in running a co-ordinated scheme, some form of which would be advisable when the Beveridge plan was introduced, but it did not follow that the authors' methods were superior to those now in use in connexion with the existing Income Tax. The authors made a plea for the businesslike administration of the Income-Tax system, but it was worth remembering that the British Income-Tax system was in use in many parts of the world. An Inspector of Taxes who went to Ceylon to advise the authorities there on the Income-Tax position had now attained the rank of Finance Minister in the Cabinet; and in India, Iraq and Kenya the British system was followed absolutely. Foreign Governments, moreover, had sent representatives to study our methods. Although he agreed that the authors' suggestions would be very useful when the co-ordinated scheme was introduced, he wished to deal with some criticisms of the suggested methods as applied to the present Income-Tax system.

With regard to the time lag, he agreed with the principle of relating Income Tax to present income. He had seen comments, such as that in *The Economist*, to the effect that the wholesale default in the payment of Income Tax, which was visualized if the present system were continued until wages decreased after the war, would bring Income Tax, 'the best and fairest instrument of taxation', into disrepute. It must be remembered, however, that there was the cushion of 'post-war credits' to bring into account before Income Tax was discredited in the way that the writer in *The Economist* suggested, and there was also in existence legislation providing for reduction of tax when income was substantially reduced.

With regard to the complicated nature of the present tax, it would be noted that the authors dealt with Schedule E only, and ignored Schedules A, B, C and D. He thought that Schedule E was the easiest to understand, and that, if Schedules A, B, C and D were ignored, they would not approach the root of the difficulty of understanding Income Tax.

Contrary to what was suggested in the paper, there were channels through which the taxpayer could discuss or dispute the demands made upon him. Many factories and workshops were visited by officials from the local branch of the Inspector of Taxes who gave assistance to employees and explained the method of assessment and helped them to fill in their forms. It might be argued that that merely emphasized the difficult nature of the tax, but he thought that the chief difficulty came from people who would not try to understand; that difficulty would remain even if a more simple form of Income Tax were introduced.

With regard to the weight of administration, the new proposals were likely to increase it considerably. At present the employer made a return of income, and those below certain prescribed limits were ignored completely, while some above those limits, depending on their family status, were temporarily ignored. The Inland Revenue had a system by which taxpayers were divided into different categories and that resulted in a considerable saving in administration. Under the new system, even domestic servants and casual workers would be brought in, and the latter class would present a very difficult problem.

There was also the question of expense allowance, which had been dismissed very abruptly by the authors. He had been told by an Inspector of Taxes that that item occupied a considerable portion of their time in the assessment of Schedule E tax and required individual treatment. Moreover, the authors' claim that individual assessment would cease lost its point further when Schedules A, B, C and D were considered. The allowances for housekeeper and dependent relatives played a very important part in the assessment of wage-earners, with which the paper was particularly concerned, but that question had been conveniently shelved. Under the authors' proposals, the family status of all possible taxpayers would require to be assessed, and if that were not done by the Income-Tax authorities it would be passed on to some other Government department. He strongly deprecated any suggestion that the employer should be asked to pay family allowances. There was quite an outcry when the employer was requested to make deductions of tax from salaries. Under the new system, employers would have to make deductions for all employees, instead of only for a certain number as at present. He had often heard the argument put forward by life offices selling pension schemes that the business of the employer was to deliver the goods and not to concern himself about the administration of a pension fund, but now it was suggested that further administrative duties should be put upon him.

It was surprising that, with so much emphasis on deduction at source, the authors had not taken the opportunity of suggesting that the life assurance rebate should be deducted before remitting the premium, especially as in another part of their paper they suggested that family allowances should be paid without deduction of tax. They suggested payment of the rebate by coupon against proof of deduction of tax. If the one-sixth of income restriction were removed, which he did not think would be open to much objection, the administration of his suggestion would be extremely simple. No doubt the 7% restriction would have to be retained, to prevent the use of the Government allowance for investment purposes and for tax evasion, but that would be quite a simple matter; all that would be required would be for the office to issue, very much as it did at present, a certificate stating what amount of tax might be deducted when remitting, and then for the office to bring it into account when it made its tax

return to the Inland Revenue. That would seem to be a small service which the assurance companies could offer in exchange for the retention of the 2s. 6d. tax concession.

With regard to the deterrent effect on incentive to effort, it was suggested in Appendix A that 'It is the excess of income which is the legitimate field for the application of compulsory saving', and that 'In general, compulsory savings should not be charged upon personal and family allowances'. The £10 and £15 allowances which were deducted from the single person and the married couple respectively might, however, be regarded as a 20s. in the £ tax on the final £10 or £15 of income, and if looked at in that way the authors' hypothesis was being carried out to its highest degree.

On the question of incentive to effort, a man did not consider so much the rate of tax he would suffer in comparison with the rate of tax which he suffered on his basic income, but what the net purchasing power of his overtime would be after tax had been deducted. Incentive to effort would be secured by decreasing the rate of taxation at the higher levels; in fact, the graph on page 99 would then become a curve convex to the base, and the limiting case would be a straight line at 45° to the base. That was the position with regard to some overtime pay in Germany, where the overtime was free of tax; but possibly there was more concern with incentive to effort in Germany than in the United Kingdom.

He agreed with the authors' objections to the poll tax introduced in connexion with the Social Security scheme. A contribution graded according to income was a feature of the New Zealand scheme, and was also one of the points in the paper by Lady Rhys Williams in which she put forward a scheme very similar to that suggested by the authors. She suggested that the contribution should be replaced by an addition to the rate of tax deducted from salaries. Apart from anything else, that would mean a considerable saving in administration. Incidentally, Lady Rhys Williams's paper dealt at some length with the social aspect of the suggestion for a co-ordinated scheme.

In conclusion, it appeared that most of the suggestions put forward by the authors would require to be deferred until the Beveridge plan was an established fact, if the full benefit of the advantages claimed was to be obtained. The relating of Income Tax to present rather than to past earnings, however, was a step which should be taken forthwith. He suggested something on the lines of the American Ruml plan, which had been adopted in Canada in a modified form.

**Mr F. M. Redington** said that Part III of the paper was not so much a proposal for future action as a recognition of the position which had been brought about, or very nearly brought about, by past action. Stages such as the present in the developing relations between the individual and the community, when successive improvisations led to the emergence of a coherent principle, were suitable occasions for reviewing the process as a whole.

The paper was a logical development of the present financial relationship between the individual and the community. As such it was good, and to some extent inevitable; but it ought to be recognized that it was only a financial transaction, and that it was to operate in a society which had not yet developed, and which perhaps had not yet had time to develop, a sense of mutual responsibility and solidarity. He thought that under the authors' co-ordinated scheme the irresponsible employer would tend to feel that the responsibility for the welfare of his workers had been removed from his shoulders and was a matter for the State. The urgent sense of the consequences of reducing wages would disappear, and the employer would be able to reduce wages without any of those twinges of conscience which might restrain him now. On the other hand, the irresponsible worker would be likely to feel that the State was a vague, benevolent entity prepared to cherish him no matter how perfunctory an attitude he might adopt to his work. There might therefore be exploitation on the one hand and malingering on the other.

Perhaps the major effect of social irresponsibility—an effect which was not mentioned in the paper or by Mr Kirton in his introductory remarks—was that 'the State' and 'the community' were far from being synonymous terms. In any society in which the citizens were apathetic and had not a lively sense of their responsibilities to the community, the State was, and effectively could be, only a certain temporarily dominant section of the community. The authors had spoken of the relations between the individual and the community, but in fact they had considered only the relations between

the individual and the State. The distinction between the State and the community was highly important, and it was certain that it was continually overlooked. For example, the desire for common ownership on the one hand and the fear of State control on the other hand were two perfectly compatible emotions which could be held at the same time. A clear recognition of that distinction might simplify the discussion, and would certainly go a long way towards removing the political differences which so frequently hampered social development.

**Mr H. Tetley** remarked that the greatest potential danger at the moment was the time lag, but it must not be overlooked that the Government were tackling that question, and it was very likely that legislation would be introduced in the near future to deal with it.

It seemed inevitable that any broad suggestions for sweeping changes, such as the authors had made, must introduce at any rate minor hardships, and it had to be considered whether the advantages which would flow from the revision were sufficient to outweigh the objections to it. He thought that the greatest argument in favour of the plan was that individual assessments would no longer be necessary, but there were one or two points which seemed to have been overlooked.

In particular, there was Schedule A. Before the war, the building society movement had been growing very rapidly, and it was likely to grow still more after the war and to be encouraged by any Government, whatever its political colour. That meant that tens of thousands of working men would be in the process of purchasing their own homes, and would have to be assessed under Schedule A, which immediately raised the question of charges on income. The authors' suggestion of replacing the reduced rate of tax by a flat allowance would simplify the question of charges on income, but it would still have to be dealt with, and he could not see any method other than individual assessments.

The reduction of the surtax limit, in effect, to £1500 would bring into the net a large number who at present escaped the ordinary surtax starting at £2000.

In his view, however, the greatest objection to the scheme in Part I was the difficulty of applying it in practice. In the first place, the tax certificates would almost certainly be lost in large numbers. There had been some experience during the war of people losing coupons and certificates, and it must be remembered that a great many of the coupons for allowances would be of fairly large denominations. A 10s. note was a comparatively complicated document, yet 10s. notes were forged in considerable numbers. That raised at once the question of the extent to which the coupons could be forged, and also of the extent to which there might be collusion and fraud in the issue of tax certificates. Again, unless the coupons could be cashed promptly and easily, he could see the danger of an extensive market arising in discounting coupons. So far as prompt payment was concerned, there were great sections of the country where the people went to a town probably only three or four times a year, and some of them only to be married or buried.

In considering the hardship which would be caused, he had taken as an example the case of a married man with three children who was earning £5. 10s. a week—not by any means an extreme case. Under the existing law, such a man would pay no tax, apart from post-war credit. Under the proposed plan, he would receive £3. 4s. 2d. only in his pay envelope, and his wife would then presumably have to spend hours next day recovering the deduction. The man would be justified in complaining that money taken from him one night was given back to his wife the following morning, and, if he were told by an official that it was done to simplify tax collection, it was doubtful whether he would be entirely convinced. It seemed to him that if the cashing of the coupons could be done satisfactorily, it would be by the employer only, but that might well lead to fraud and collusion.

With regard to Part II of the paper, it appeared that the authors, with Part III in mind, were determined to simplify whether it was essential or not. The biggest objection to the proposals was the payment of full pensions to all, irrespective of contributions in the past and irrespective of the number of years to elapse before the pension began. Whatever might be said about that on general grounds, he thought that the chief objection to it would come from the working men themselves. A large number of them had already paid for nearly 17 years under the present Government scheme,

and if they were told that they would receive exactly the same pension as someone who had drawn twice their wages and had not contributed a penny, there would be considerable dissatisfaction.

Part III seemed to be the best part of the paper, and there many of the objections to the earlier parts disappeared. In particular, there was no question of tax deduction certificates, except for relief from Income Tax in respect of life assurance premiums, expenses and so on. With regard to the actual payment of the coupons under the simplified system in Part III, the precautions against fraud would not need to be unduly elaborate. If the book of coupons were to contain a specimen signature, loose coupons not being honoured, and if sufficient offices were available, it would be a simple matter to make everybody register at an office and have a card such as an identity card stamped when doing so. Then if anyone obtained a forged book of coupons or received a duplicate set he would not be able to register again, because his card would have been already stamped, and duplicate allowances would be difficult to draw.

With regard to the question of incentive to effort, it seemed to him that under the revised scheme everybody would be practically certain of drawing a fixed income, with the knowledge that every penny he earned by his own efforts would be taxed at the full rate of (for the sake of argument) 8s. 4d. in the £. The authors had drawn attention to the danger that people would not work, and had suggested that the work must be 'approved work'. There was the case of the casual worker, and he thought that the principal difficulty would be not so much with men who would not work at all but with men who worked short time, or with casual workers on small incomes. The incentive to work in such cases, with tax on the first £ of earnings at 8s. 4d., would be so small that there would be danger of wholesale malingering, and a really satisfactory way of encouraging work would be very difficult to devise.

**Mr D. Critchley** said he wished to speak on the Social Security side of the proposals rather than on the Income Tax side, because he believed that in its present form the authors' scheme would not be acceptable to the Government, but that a slight amendment would make it vastly superior to the schemes fathered by Sir William Beveridge and others. His reason for suggesting that the authors' scheme would not be accepted as it stood was that the cost for the 'gap' mentioned in the paper was something like £700,000,000 to £800,000,000 or even £900,000,000 a year more than the Beveridge scheme, as the group termed the 'gap' consisted in peace-time of roughly five-sevenths of the earning population of the country, who paid no Income Tax or Income Tax on the reduced scale only. His figures were based on information from Cmd. 6347 that roughly 6,000,000 people were earning over £250 in 1938-39, while Table 16 of the Beveridge Report showed that 21,000,000 people were profitably employed; in other words, 15,000,000 were earning under £250 a year.

£900,000,000 was actually three times the figure given by Sir William Beveridge for the cost of his old age pension scheme, which was the section of the scheme which the Government had so far been unable to approve on account of the financial burden involved on the producer population.

That difficulty could be overcome, and the present tax on employment abolished, by a scheme which had recently been submitted to the Chancellor of the Exchequer. It was that payments be made to the whole population, as in the authors' scheme, but that the cost be raised by authorizing the employers to make a deduction of pay from the employees of 4s. 3d., which would in turn be collected from the employers by higher Income Tax. Thus, the employee who paid no Income Tax would receive 4s. 3d. less than before, but he would receive the full Beveridge benefits. The employer would be put in the position of being 4s. 3d. richer for each man in his employ, and also of being responsible for a sufficiently high Income Tax to pay for the scheme. That high Income Tax would also apply to employees with salaries above a certain level, and the problem would then arise of how to raise that tax in the most equitable manner. In whatever manner it was raised, the total net income of that class of the population would have to remain the same as under the Beveridge scheme.

A solution of the problem was to be found in a form of excess profits tax, until such time as the lower wages to be paid by the employer, together with competition, reduced those profits to the old level. Thus the country would be paying a net amount equal to the amount under the Beveridge plan, and all the advantages put forward by the

authors could still be retained. In addition, when a man was taken into employment the employer would not have to relieve the Exchequer of his unemployment expenses, but would have to produce only the difference of pay. The scheme in such a form would, therefore, vastly increase employment.

**Mr W. G. Bailey** said that he proposed to deal with the question of persuasion to work and financial incentive to effort. In the first sentence of Appendix C, the authors said: 'The necessity for persuasion to work arises in any society where the citizens are given benefits when not working.' He preferred to regard that statement as one of opinion rather than fact, and he thought that what little evidence there was pointed in the other direction. Willingness to work was more a matter of habit than anything else. It was a function of a man's earlier training and of his environment; in fact, it might be said that a man worked, or rather sought work, because he had been brought up to expect to have to seek work. He thought, therefore, that, except in a few psychopathic cases, the problem was, not to devise a method by which the community could ensure that a man would go to work, but rather to ensure that he pulled his weight when he was working.

The authors had an answer to that. They said in Appendix B that the answer was to apply the financial incentive; but in his opinion they overrated the importance of it and the extent of its application. The effect of it certainly varied from individual to individual, and from income group to income group, but at quite a low level of income workers tended to prefer leisure to additional income.

In considering the plan outlined in Part III of the paper, he agreed with Mr Redington that there was a danger that employers might take the opportunity either of reducing wages or at any rate of failing to increase wages in those occupations where wages were already too low.

Mr Redington had also referred to the inculcation of a sense of responsibility. He gathered that the authors were under the impression that by relating tax to Social Security benefits, i.e. by relating the individual's responsibility to the community to his rights in the community, they might hope to inculcate this sense of responsibility. He did not agree with that view; he thought that the attitude of the individual worker would be to ignore the tax altogether, and to regard his net income as his gross income. A more intimate relationship was necessary between the employee, and the employer for that matter, and the services which he rendered.

He thought there should be a direct link between the place of work and the administration of the Social Security benefits. It should be laid down that every factory employing more than a certain number of workers should have an independent trained industrial welfare worker, and that that worker should have a committee formed by the representatives of the workers themselves as an advisory committee, working hand in hand with the production committee. He suggested that an organization similar to the Citizens' Advice Bureau, staffed by a trained industrial welfare worker, would be of inestimable value in factories. Moreover, such an organization could maintain intimate contact with workers who were sick, and it could investigate cases of malingering and of low individual production. One difficulty was present, however; it could not investigate the question of unemployment, because naturally if a man were unemployed he was no longer connected with the factory.

The object of the employment of the industrial welfare worker would be to dispel that impersonal atmosphere which surrounded the work of the average factory worker, and to give the workers some idea that they counted in the organization. The object of the committee, of course, would be the same as that of the production committee, i.e. to encourage the workers to think of their responsibilities for the well-being of the factory, which would be a good introduction to their assuming responsibilities for the larger community outside.

**Lady Rhys Williams** (a visitor) said she regarded it as a great honour to be asked to join in what was a very interesting discussion. She had studied the problem put forward in the paper for some time, and had made some suggestions of her own, along very much the same lines. She had studied the problem from the social rather than from the financial angle, and she felt that in the discussion many of the important social

implications of the scheme had been overlooked to some extent. She wished to mention briefly some of the points which had impressed her when looking at the matter from the social point of view.

One such point was the importance of the State being even-handed in its dealings with the citizen. There was a tremendous and, she thought, growing feeling of bitterness in the country to-day inasmuch as the lazy fellow received great benefits from the State, and under the Beveridge plan would receive even greater benefits, while the hard-working citizen who was continuously at work and doing his best for the community received absolutely nothing except taxation. There was a bitter feeling growing up, which would perhaps ultimately result in unfortunate relationships, that the taxpayer never received anything from the State, while the beneficiary of the State never had to pay any taxes. She thought that it was unfortunate to divide the country into taxpayers and beneficiaries in that way, and the linking of the two under the proposed scheme would make everyone a taxpayer and everyone a beneficiary, and so would be a very good thing.

The next point, which she thought was very important, was that the Beveridge plan had some serious gaps in it, and under it a great deal of want would persist. The independent worker, for instance, would pay his 4s. 3d. a week, and in the case of those who were poor it would be a heavy burden, but he would receive nothing in return except funeral benefit and health services; he would not receive unemployment pay or sickness benefit. There were other serious hardships, and it meant that the Poor Law had to remain under the Beveridge scheme, like a trapeze net, to catch the unfortunates who fell through this much-vaunted scheme of Social Security.

Under a scheme on the lines outlined by the authors, no one would fall through the net; everyone would have ample Social Security, and it would be possible to do away with the Poor Law altogether. Living in an area where a very large proportion of the people had been on out-relief for long periods, she could testify that the evils of the existing system were so great that almost any plan which would facilitate the abolition of the existing out-relief system should be welcomed with open arms.

Another point was that the lower income groups would be enormously assisted by the proposed scheme, quite automatically, without any special machinery having to be introduced. The will to work was, she believed, preserved very much better by the proposed scheme than by the Beveridge scheme. For instance, the £3 a week worker—the agricultural worker and lower-paid worker in the towns—would benefit under the Beveridge scheme by only 7s. 9d. a week by working; there would be a difference of only 7s. 9d. a week between doing a hard week's work and no work at all. Under the other scheme—and she had worked it out in some detail—such a man would benefit to the extent of 36s. a week by working, so that the financial incentive to the lower-paid worker was very much better preserved than it was under the Beveridge scheme. There was a serious danger under the Beveridge scheme of a breakdown of the will to work, such as she had seen occur in the distressed areas. She believed that that might occur on a large scale after the war if the difference between wages and unemployment pay was as slight as it would be under the Beveridge scheme.

Another important point was that the proposed scheme would not prevent the unemployed from undertaking any work which they could obtain. One of the greatest troubles in districts where there was unemployment was that the man on unemployment pay could not supplement his allowance in any way at all; he could not even sell vegetables out of his garden, and his wife could not go out to char, or they would lose their allowances. The intense idleness, the fact that a man was not allowed to use his ingenuity to better his position, was one of the worst features of the scheme. If, however, the scheme of State allowances to everyone were introduced, the old difficulty of the competition between those who received State benefits and those who did not would be removed; everyone would receive them in equal amount, and so the part-time worker could undertake all sorts of work, and someone who was working short time at his factory could do other work in his spare time without there being any difficulty about his receiving his allowances in the ordinary way.

The position of women would be greatly improved by the scheme, and quite automatically, without the need for any special provisions. It would mean that the woman herself would receive an income; the married woman would receive her £1 a week, and though, no doubt, she would be responsible for contributing to the household out



of it she would be in an enormously improved position. There was a growing feeling in the country—it had shown itself in connexion with the recent judgment in the Co-operative Society case, which was in favour of the money belonging to the husband, though saved by the wife—that the present situation was not satisfactory.

Those were some of the advantages of the proposals from the social point of view. From the financial point of view she thought, subject to correction, that under the scheme there would not have to be any taxation of industry. She felt that the Beveridge scheme, by its taxation of industry, did introduce an unfortunate principle; a poll tax on the one hand and taxation of industry on the other seemed very poor ways of getting the money. It was better to face the issue and find out what it did cost, and then meet it by a fair, graded tax. There would be no increase in the cost of the scheme owing to unemployment or the increasing age of the population, as in the case of the Beveridge plan. Since all the population would be covered at once, the scheme would cost no more in the future than it would immediately, and that was another point in its favour. The children's allowances could also be made adequate, and 10s. was suggested. The 5s. of the Government proposal was quite inadequate, particularly in view of the slight degree of inflation, which would probably continue.

She believed that if the scheme were put on the basis of an 8s. tax, in lieu of the existing Income Tax, it would be entirely self-supporting, including the cost of a free health service, and would still yield approximately the same amount for the general purposes of the Exchequer as the present Income Tax. An interesting point was that when she started to work it out she thought that the scheme would penalize the higher income groups, in comparison with present taxation plus the Beveridge 4s. 3d. a week, but in fact it did not; it merely served as a sort of bachelor tax. She had a table showing that at the £2, £3 and £4 a week levels it would mean pure benefit, and quite substantial benefit. At £5 a week the single man would be minus 1½d. a week, as compared with his position under the Beveridge plan. At £6 a week the single man would be minus 2s. 9d. as compared with the Beveridge plan, but the married man would be substantially better off. At £7 a week the single man would be minus 2s. 8d., at £8 minus 2s. 7d., and at £20 plus 1s. 8d.—it happened to work out in that way, which was curious, because most people would imagine that the incidence of the proposed tax would rise as against the present position, but on account of the grading of the existing Income Tax rates it did not. If the tax were more than 8s. it might do so.

She felt that it would be a big moral step forward towards the idea of a contract between the individual and the community, which he could enter into or not as he wished. If he did not join he would have to pay the tax, but he would not have to work unless he wished to. If he did join, he would have to work, but then he would receive the benefits.

In conclusion, with regard to medical certification she thought that the present idea of trying to turn the doctor into a policeman was most disastrous to the medical profession, and, with the tremendous amount of medical certification necessary to receive the health benefits under the Beveridge scheme, that was the position which would arise. Under the other scheme, medical certificates would have to be given only at the end of the month; the money would come in just the same every week, and so the medical certification difficulty would not arise in the way that it did to-day. Absenteeism would be controlled by loss of wages, and not by State interference or insistence upon medical examination every time a worker stayed away from work.

**Mr J. D. Robinson** said that in view of the controversy aroused by the paper he would emphasize that whatever tiresome delays there might be in adopting the plan as a whole there was one part which could be adopted in the next Budget, and that was the reform of the compulsory saving system proposed in Appendix A.

It was suggested in the paper that the books for securing the weekly subsistence payments would be similar to the present ration books by which people obtained their main foods each week. If the food coupons were monetized so that surrender of the coupon alone was sufficient to buy the appropriate article of food, a great part of the subsistence allowance would be paid automatically in the form of free food. Revolutionary though that might sound, food would be by no means the first commodity, even among consumption goods, to be provided free. He knew that the answer to that was that it was considered better to let people handle the money, and to educate them in

the use of money, but that principle was not applied, for instance, to education. The proposal was to give an allowance of 8s. for a child, but he had not heard anyone suggest that that should be increased to 20s. a week for each child, and 12s. taken away immediately as compulsory school fees. Towards the end of the paper there was a warning about the risk of greatly increased spending. The system of providing basic foods free in the way he suggested would to some extent ensure that what was granted for subsistence would be used for subsistence.

**Mr G. H. Maddex** suggested that in the discussion what might have been regarded as the natural order of things had been reversed. In the ordinary way people had set out to change the social order and ended by altering the Income Tax, but in the present case the authors had set out to remove what were really administrative defects in the Income Tax and involved the meeting in a discussion of political theory, and he doubted whether the training of actuaries equipped them to deal with that subject adequately. From that point of view, he thought that the authors had gone either a little too far or not far enough. For their limited objective in Part I, it would seem that some much less radical amendment, such as other speakers had suggested, would do what was required. It was, of course, most important that well in advance of any increase in unemployment or any fall in wage levels the Government should have decided on a practicable plan.

With regard to the major objective in Part III, he thought that the authors had started on a new route, along which they could not stop where they had tried to stop, and that they had established that route on rather uncertain foundations. The interrelation of Income Tax and Social Security in Parts II and III seemed to him to depend on the purely accidental and, it was to be hoped, temporary equality between the cash equivalents of the Income-Tax allowances and the rates for the Social Insurance benefits proposed under the Beveridge plan. If the heavy increase in Income Tax in the war years had been required to pay for increases in Social Insurance that might have been an acceptable idea, but, that not being the case, it seemed to him a very doubtful premise, and he suggested that it was a case of spurious co-ordination.

Another ground on which the co-ordination of the schemes was proposed was the rejection by the authors of the validity of the insurance principle in Social Insurance, and their insistence that these benefits were really met from taxation. He knew that it was a difficult and delicate point on which to speak, and it was arguable, but he did not think that that proposition should be accepted without a good deal more consideration. He felt, however, that taxation was usually general, that it conferred no specific benefits on the taxpayers as such, and that it was not related at all to the incidence of the Government expenditure which it met. On the other hand, insurance, even Social Insurance, gave specific benefits which were dependent on, and related more or less directly to, the payment of specific contributions. It might be the right way or the wrong way to do it, but he did suggest that that could properly be regarded as a system of insurance.

Further, the fact that social insurance contributions were not funded did not seem to him to negative the insurance principle. The Government could begin to accumulate contributions in a national fund and this would have the effect of adding gradually to the national debt, but precisely the same result would be achieved if the estimated liabilities under the present schemes were shown as an addition to what was ordinarily known as the national debt. That, it seemed to him, was the sole difference; really the only guarantee for future benefits in a State scheme was the maintenance of the credit of the State. Ultimately there was nothing else, and that was equally the governing factor whether it was said that the contributions had been accumulated, and the national debt thereby increased, or whether some other method of Government finance was adopted.

Specific accumulative funds had their defects; the fate of the Road Fund would be remembered. It was also of interest to note the American experience with the Social Security Act of 1935. That started with a system of benefits very closely related to the contributions paid, but gradually the benefits were improved, until the close relationship typical of private insurance had now very largely disappeared. Secondly, when the scheme started provision was made for a full funding of contributions, but in a very few years it became evident that this would lead to an impossible position and would

have most undesirable effects on the economic structure of the United States; he believed that, while the Americans had not yet abandoned funding, they had already receded very far from full funding.

It seemed to him that the point of Part III of the paper was best described in Lady Rhys Williams's pamphlet, in which she said that the principle (of the 'social contract') was that 'the State owes precisely the same degree of assistance to all of its citizens'. He was not prepared to say whether that was a good or a bad idea, but it was an entirely new definition of Social Security, if it could be called Social Security, in the generally accepted meaning of that phrase as the maintenance of income by payments during unemployment, sickness, old age, etc. Whilst it was true that special payments in such circumstances were in some ways undesirable, so far no satisfactory way of avoiding them had been found. If a level allowance were to be paid to everybody it seemed to him that—since subsistence levels were rather relative, and changed from time to time—the gap between the income of the worker and the income of the non-worker would still appear too wide. There would therefore be a tendency to reduce it by increasing the allowance to the non-worker, and the old problem would recur of loss of stability by stepping up and up, with the result of disturbing increases in the cost of living for everybody and perhaps difficulties in relation to the national income.

He did not wish to enter into the question of incentive to work, which was arguable, but it was, of course, absolutely of the first importance in relation to such proposals, because if the incentive to work was not fully maintained the national income might be very seriously affected, and then, of course, the whole conception of Social Security would go. He thought, however, that there—as in Part III of the paper generally—the question of the reorganization of society rather than that of the most satisfactory form of Social Security provision was involved.

**Mr F. J. C. Honey**, referring to the authors' suggestion that the proposals in Part I of the paper could and should be put into effect at once, said that the extension of the Income-Tax system to large numbers of manual workers in recent years had brought that question into special prominence, and a number of schemes had been put forward for relating tax to current earnings, but so far none had been really satisfactory. While he regarded the authors' plan as most ingenious, and while it avoided some of the difficulties, he did not think it overcame enough of the difficulties. Some of them had already been mentioned, but he wished to say a word from the point of view of the employer and his wages staff.

At the present time, the employer was notified twice a year of a certain sum which he had to deduct from the pay of those of his employees who were subject to tax. He had to divide the amount due from each by 24 and deduct a level sum each week. There might be alterations in the assessment, but the point was that in general he made a calculation in advance which stood for a number of weeks, and he could enter in advance in his wages sheets the amount of the tax to be deducted from any weekly payment.

Under the authors' scheme, that would not be possible. The employer would have to wait until the wages for the week had been determined before he could ascertain the amount of tax to be deducted for that week, and with piece rates and overtime that was often a complicated matter. It was a common system in industry to make up wages to Wednesday night and pay them on Friday, and a concentrated effort by the wages clerks was necessary on Thursday to complete the work. The authors' scheme, which required the calculation of the amount of wages, the deduction of 8s. 4d. in the £ from each amount, and the issue of a certificate for the amount of tax so ascertained, would involve a tremendous increase in the work put upon employers and their staffs. It was not only the increase in the total amount of work which was important but the point of time in the week when it had to be done, a point when time could least be spared.

With regard to the incentive to work, he did not think that it mattered at all from the national point of view whether, say, a leading barrister decided that it was not worth his while to accept another thousand-guinea brief, but the effect of Income Tax on the productive worker was important. There had been allegations that the present system operated so as to encourage a man to avoid overtime, and indeed so as to encourage actual absenteeism. There were many factors affecting absenteeism and failure

to work overtime, of which Income Tax might be one, and he thought it was impossible to say how far the present system did in fact have that effect, but he would suggest that the authors' system would make the position worse.

Under the present system, there was no direct and obvious relation between working two or three hours' overtime and the amount of Income Tax which would be thereby attracted, but under the authors' system the connexion would be manifest, and, if the payment of Income Tax on earnings had any effect at present, he suggested that that effect would be considerably increased.

Some of the difficulties were inherent in any system of relating tax to current earnings. He thought that such a system was most important, and would ultimately have to be adopted. He feared, however, that none of the schemes so far put forward, including that of the authors, overcame some of the psychological difficulties which would have to be overcome if the new scheme was to have the support of the workers of the country, who formed the largest group of taxpayers and who had the largest voice in determining whether it should be adopted.

**Mr G. H. Recknell** said that the authors' major premise in Part I of the paper was that the present system of personal allowances and assessment was unsatisfactory and cumbersome. Contrary to the general trend of the discussion, he wished to enter a plea for the existing arrangements, to suggest that those arrangements, as they had stood the test of time for nearly a hundred years, must have more to commend them than the authors had allowed, and to add that the criticisms which did exist of the present arrangements were due as much, if not more, to the high level which the tax had reached than to the system by which the tax was collected.

There would be general agreement that the principal reform in Income Tax needed to-day was some system of 'Pay as You Go', and some reference had been made to the scheme already introduced in Canada, and the scheme about to be introduced in the United States. Under existing arrangements the weekly wage-earner paid his tax by deduction with a time lag of 10 months (for the salary earner, 7 months). Consequently it followed that on cessation of employment or on death, the abolition of the time lag would necessarily imply the forgiveness of those arrears of tax. That was a formidable difficulty to overcome, and one to which the authors had not alluded; unfortunately, it was also one probably impossible of quantitative measurement outside the walls of Somerset House.

The system which the authors proposed was to tax current earnings at a flat rate, and to provide for the refund of the allowances through a system of coupon books. Thus they overcame, ingeniously enough, the time lag, and they maintained, in his view ingeniously, that their system would do away with the need for individual assessments. He challenged that statement. It seemed obvious that the necessity for proving marital status, number of children, life assurance premiums and other matters would involve, just as much as at present, the need for individual assessments under their system, and the simplification of the machinery which the authors claimed was, therefore, largely illusory.

Again, the authors' plan involved a very considerable measure of over-deduction of tax. The flat rate of tax would be 40% of income, and wage-earners of £4 a week, who would ultimately be liable for no tax at all, would suffer a deduction of 40% of their income, only to be allowed repayment afterwards through coupons. A man with £500 a year and two children, whose ultimate liability was not more than £50 a year, would have something like £200 a year deducted from his income in the first instance. It was likely that the reaction of people who would be subjected to such a reduction in their current income would be forceful, and he could not think that the Post Office, and still less the employers, could be expected to cope with the encashment of millions of coupons each week.

**Mr E. William Phillips**, in closing the discussion, said it was his impression that the feeling of the meeting was in opposition to the authors' suggestion.

Beveridge had said that there were two types of person, those who had read his Report and those who had not, and that the former were a very small minority. There was a third type, those who, like himself, had read it and were still not quite sure that they understood it in its entirety, and who therefore had a great

admiration for those people who did understand it and who had unreservedly approved every word of it, even before it was printed. He could not help wondering, however, when he read a letter in *The Times* saying, 'What we want is Beveridge, all Beveridge, and nothing but Beveridge', whether Beveridge did not feel a little embarrassed, seeing that he had not himself claimed to have said the last word that could ever be said on the subject.

He welcomed the paper the authors had submitted, as he was sure Sir William Beveridge would have welcomed it had he been present, because it showed that it would never be assumed in Great Britain that the last word had been said about the improvement of social conditions. He hoped that there would be others who would come forward with suggestions, some of which might ultimately prove to be improvements on what was largely the work of one man.

He confessed that, staunch supporter as he was of the authors' Part III, which was to him the most entertaining and important part of their paper, he had been a little worried by the purely fortuitous similarity of security benefit and Income Tax relief; and therefore he had been most encouraged when he found that Lady Rhys Williams had previously and independently arrived at so similar a suggestion, approaching the problem without coincidence's adventitious aid, but purely from the angle of a sociologist. It was extraordinary to find two such different approaches arriving at the same result, and for that reason alone he commended the result for further consideration. He hoped that the authors would forgive him for saying that, in supporting strongly the suggestions made in Part III of the paper, he had been largely influenced by the arguments advanced by Lady Rhys Williams.

**The President**, in proposing a vote of thanks to the authors, said he was sure they must feel very pleased at the interest and criticism which their paper had aroused. The Institute was very grateful to them for submitting it.

**Mr A. T. Haynes**, in reply, said that in the first place he would like to express the authors' thanks to Lady Rhys Williams for her presence, and to say how much they valued her remarks in support of the co-ordinated scheme from her own social angle, which had thrown a great deal of new light on the matter.

He emphasized that Part I was only a half-measure; it was stated at the end of Part I that certain defects still remained and could be removed only by proceeding to Part III. The authors did not claim that the reform set out in Part I could by itself cure all the defects. Part I had been written largely as a prelude to Part III, and the authors fully realized that if the reform of the Income-Tax system were dealt with separately and not as a prelude to the co-ordination of the two systems, then there were a great many practical details which had to be settled. There was also the very big subject of fiscal policy, especially as it related to Income Tax, and with that they had not attempted to deal in Part I. Part I simply set out to reform the mechanical side of the present Income-Tax system, and it strove (though he did not think that in saying that he had the agreement of all the members) to introduce a simple conception and to achieve above all the abolition of time lag. That was the thing that mattered most in Income Tax; it outstripped in importance all the other defects of the present Income-Tax system.

He agreed that Part III was simpler; it was designed to be. Part I went only half-way; there were very many details to be filled in if Part I alone were to be adopted. The discussion had raised questions as to the treatment of domestic servants, house-keepers and dependent relatives (which incidentally they had ignored merely for the sake of simplicity, and not because there was any inherent difficulty), life assurance rebates (which one speaker had suggested might be dealt with at source, and which he thought might quite well be treated in that manner), charges and expense allowances, and, above all, the difficulty of loss, forgery, fraud or collusion in connexion with coupons and tax certificates. He did not believe that those difficulties were insuperable. The cashing of coupons, as the authors conceived the operation of the reform, would be conducted largely through the employer. Precautions would most certainly have to be taken to prevent abuse; but it was necessary to keep a sense of proportion. A large proportion of the wage-earners of the country worked for the larger firms, who were already trusted with a great deal of work on behalf of the Revenue, and who in

many cases produced certificates of tax deduction for interest and other payments, so that it would seem that a considerable simplification could be introduced without any great possibility of fraud.

As to the weight of the machinery, he imagined that individual returns would have to continue; only a very small part of the Income-Tax return dealt with Income Tax deducted at source, and the remainder of it would have to be made in its present form. He imagined that for some time the Inland Revenue would want the present return to continue, but the taxation of salaries and wages would not have to wait for that return to be made; the taxation would be based on current earnings and deducted from those earnings.

Part II was the controversial part of the paper, and, while the authors regarded it as a logical introduction to Part III, the non-acceptance of the controversial portions of Part II did not in any sense invalidate Part III. The co-ordinated scheme could quite well stand on its own feet whether Part II was accepted or not; but interrelation represented to them an interesting line of argument leading to the co-ordinated scheme.

Their non-acceptance of the insurance basis of the Social Security proposals had been challenged in the discussion. That question could profitably be discussed at great length, but it seemed to him that 'insurance' was a term which implied in the public mind a guarantee or assurance of a specified benefit in certain specified contingencies; in the case in point the benefit was subsistence. Such a scheme could be funded only if subsistence could be funded. The term 'insurance' was a term which was of considerable importance to actuaries, and it was perhaps important also that they should consider very carefully any possibility of that term being misused.

The co-ordinated scheme, as he had said, stood on its own merits, whether interrelation were accepted or not; and the authors were interested in Lady Rhys Williams's experience of the reaction of working men to taxation and Social Security. He thought that that reaction in itself could be taken as some justification for the manner of approach in Part III of the paper. The virtues of the co-ordinated scheme were simplicity, incentive, and equity; and those virtues would not be achieved nearly so easily if the introduction of the co-ordinated scheme were to be deferred until the Beveridge plan had first been put into effect. That would accentuate all the defects, and make the work of rectifying them much harder.

He could not help feeling that in many ways the simplicity of the co-ordinated scheme might be obscured by difficulties which were not of its own making. Those difficulties were connected in many cases with the systems which it set out to supersede, and in many cases belonged to the realm of social or economic policy. The social problems and the economic problems to which attention was directed by study of the co-ordinated scheme were most vital problems; they affected the future well-being of the country to a very great extent, but they were not tied up with the co-ordinated scheme. They only impinged upon it. While wise and broad planning along those social and economic lines would simplify the operation of the co-ordinated scheme, that planning would not in any sense be interrelated with the scheme itself.

The co-ordinated scheme merely combined two sets of allowances and removed anomalies, leaving a simple Income Tax which would be controlled by fiscal policy. With a fair system of taxation, the co-ordinated scheme would produce a much simpler and more equitable relationship between the individual and the community.

The following communication has since been received from the authors:

After further consideration of the discussion, the first point we would make, one which has been borne in upon us both by the discussion and by private conversation, is the need for keeping clearly in mind the distinctions between the ideas set out in Part I and those set out in Part III—we do not think that we need elaborate this point.

Part I was drafted mainly as an introduction to the second and third parts of the paper, and only incidentally as an indication of a possible solution to the problem of 'Pay as You Earn'. In a memorandum drafted for private circulation, which, in fact, was published *in extenso* in the *Financial News* of 30 July 1943, we developed a more detailed solution of 'Pay as You Earn' by expanding the proposals made in the first part of the paper. In this solution the reduced rate concession was transformed from a cash allowance to a post-war credit, and the normal cash allowances were restored to their full immediate amount instead of being partly included in the post-war credit.

The result was to leave unchanged the ultimate position of the taxpayer (tax less post-war credit), but to increase his immediate liability to some extent—in no case by more than £15 per annum.

Since the date of the meeting at the Institute the Government have published a White Paper (Cmd. 6469) putting forward their scheme for 'Pay as You Earn'. The basic principles underlying this scheme are the same as those which we propounded, but the Government proposals follow the criterion of meticulous adherence to the existing basis of assessment, whereas our proposals gave more weight—rightly we think—to the criterion that they should be simple and capable of being easily understood by the public. We feel that any detailed criticism of the White Paper scheme would not be appropriate here.

Mr Maddex in his remarks—which we have considered carefully and with much interest—accused us of 'spurious co-ordination' in respect of our views on the inter-relation of Income Tax and Social Security. We drew attention in the last paragraph of section 8 to the *nature* of the similarity between the benefits proposed in the Beveridge plan and the cash allowances under the reformed Income-Tax system. Whether an allowance of £25 p.a., granted to an Income-Tax payer for a child, is or is not similar in character to an allowance of the same amount granted to an unemployed man for a child, may be open to a philosophical argument; we still consider such allowances to be of essentially the same nature.

The White Paper scheme for 'Pay as You Earn' provides for refunds of Income Tax during periods of sickness and unemployment, and these refunds are, in effect, the cash allowances incorporated in our suggested reform of the Income-Tax system. The position will therefore arise in the near future that in times of sickness or unemployment two sets of allowances may be claimed in many cases—being the 'overlap' to which reference is made in our paper—unless some co-ordination of the systems of Income Tax and Social Security is brought about. The dangers of the overlap as a deterrent to effort are apparent and should be avoided. This is, however, only the most obvious of the anomalies, inevitable in the operation of two separate and distinct systems, which the co-ordinated scheme would remove. Each system controls in a most complex manner the financial relationship between the individual and the community, and each strives to do so with regard to the same or similar considerations, e.g. family status, employment, etc. It seems to us that the two systems must be merged and simplified if the ordinary man is to understand his financial relationship with the State—a relationship which becomes more complex with every new measure enacted. The time has surely come when the development of personal Income Tax and of Social Security should be consolidated in a logical manner.