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# SHORT MEASURE FROM WHITEHALL

How CSO Statistics understate  
the British Tax Burden

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# Short Measure from Whitehall

## *How CSO Statistics Understate the British Tax Burden*

Since 1969 the Central Statistical Office's publication, *Economic Trends*, has included a series of annual articles entitled 'International comparisons of taxes and social security contributions'. The latest appeared in November 1976 and covered the period 1969-1974. Figures are based on returns supplied to the Organization for Economic Co-operation and Development (OECD) by national statistical offices and summarized in *National Accounts of OECD Countries*.

In 1973, the OECD published *Revenue Statistics of OECD Member Countries 1965-1971* which has been updated annually (the 1974 edition being published at the end of 1976). This publication represented a notable improvement in terms both of quality and detail on any international tax statistics available previously (each volume is some 250-300 pages long).

In *The Camel's Back — An International Comparison of Tax Burdens* (Centre for Policy Studies, 1976), I used the OECD *Revenue Statistics* to compare the tax burden in the United Kingdom with the burdens in the rest of the OECD. The book included (pp. 34-39) a comparison of the *Economic Trends* figures with the *Revenue Statistics* figures for 1972 indicating why the former understated the United Kingdom tax burden.

The present paper amplifies this comparison and up-dates it to 1974. It shows why the *Economic Trends* figures are sometimes taken to imply that the United Kingdom is not heavily taxed and why this inference is mistaken. The reader is referred to *The Camel's Back* for background material and technical explanations.

## Two different series

Although *Economic Trends* and *Revenue Statistics* both use OECD figures, the figures are substantially different. The United States ratio of taxes on expenditure to gross national product, for example, was 10.5 per cent in 1972 in *Economic Trends*; the corresponding figure for taxes on goods and services in *Revenue Statistics* was 5.41 per cent (*The Camel's Back*, Table 10). The difference for 1974 is of the same order. The series are reconciled, in words though not in figures, in *Economic Trends* and *Revenue Statistics*.

It is remarkable that the *Economic Trends* articles have ignored the appearance of the *Revenue Statistics* figures, despite the large improvement these figures represent over what was available earlier.

## Selection of countries

*Revenue Statistics* covers 22 countries for 1974 (all the members of OECD except Iceland and Turkey) and 23 countries for 1972 (all except Iceland).

*Economic Trends*, November 1976, covers between five and seven countries for 1974 and between six and eight countries for 1972. The countries were apparently selected either at random or because the figures were easily available. I will assume that they were not selected in order to yield a particular result, although this was what, in fact, happened. The United Kingdom 1974 ratio of taxes (including social security contributions) to gross national product is shown as lower than for any of the other six countries in the comparison (Canada, Denmark, France, Netherlands, Norway, Sweden). This led to press comment that United Kingdom taxes were low, not high.

But two can play at games of this sort. *Revenue Statistics* shows the ratio of tax (including social security) to GNP as higher for the United Kingdom than for Canada, New Zealand, Ireland, Italy, the United States, Australia, Switzerland, Greece, Portugal, Japan and Spain. A comparison of the United Kingdom with any or all of these countries would show the United Kingdom as the most heavily taxed of the developed countries, a conclusion diametrically at variance with that of

the last paragraph. (*Economic Trends* acknowledges in another comparison that Italy and Japan are less heavily taxed than the United Kingdom but is silent about the other countries).

## Selection of taxes

Taxes on capital, which are included by *Revenue Statistics*, are omitted by *Economic Trends*. I regard the case for omitting these taxes as totally unpersuasive, (*The Camel's Back*, p.36; *Is Capital Taxation Fair?* Institute of Directors, 1974, Ch. IV). Since capital taxation is more onerous in the United Kingdom than anywhere else in the OECD (*The Camel's Back*, Tables 3 and 5 and pp. 25-27), it is hardly surprising that the omission of taxes on capital understates the relative burden of taxation.

## Measurement of gross national product

Gross national product may be measured either inclusive of taxes (net of subsidies) on goods and services (GNP at market prices), or exclusive of these taxes (GNP at factor cost). This difference is important for the measurement of tax burdens. Tax burdens are measured by comparing tax revenue with GNP: if GNP goes up because it is measured at market prices instead of at factor cost, the measure of the tax burden goes down, even though nothing has changed in the real world. Moreover, this difference varies between countries: a move from factor cost to market prices reduces the measured tax burden most for a country where taxes on expenditure are high and least for a country where they are low.

GNP is reckoned at factor cost by *Economic Trends* and at market prices by *Revenue Statistics*. (*The Camel's Back*, pp. 30-34). The appendix explains how a move from what I consider the inferior method of *Economic Trends* to the superior method of *Revenue Statistics* increases the measure of the United Kingdom tax burden relatively to the burdens in other countries.

## Taxation and gross national product

*Revenue Statistics* shows that the proportion of 1974 GNP taken in taxation (excluding social security) was higher in the United Kingdom than in fourteen other countries of the OECD. (Ireland, Austria, Netherlands, Australia, Belgium, Germany, United States, France, Switzerland, Italy, Japan, Greece, Portugal and Spain). Turkey, for which 1974 figures were not available, can be added to the list on the basis of information from previous years.

Of the seven OECD countries taxed more heavily than the United Kingdom by this criterion, two require further comment. New Zealand (like Australia) pays for social security out of general taxation and levies no separate social-security contributions; this increases the measure of the relative burden in New Zealand if social-security contributions are left out of the reckoning. Luxembourg's high ratio of taxation to GNP owes something to a corporate tax regime that attracts companies from abroad. Only the four Scandinavian countries and Canada are unequivocally more heavily taxed than the United Kingdom by the criterion of tax revenue to GNP. Of these, the four Scandinavian countries, (Denmark, Sweden, Norway, Finland), have and deserve a reputation for heavy taxes. Canada does not, and this suggests a further dimension to the problem considered later in this paper under the heading 'The qualitative burden'.

The ratio of taxation to GNP in 1974 was 29.5 per cent for the United Kingdom as against 25.8 in the rest of the OECD.

## Adjustment for social security

In the United Kingdom although social-security contributions are relatively low (*The Camel's Back*, column (3) in Table 1), taxes are still relatively high even when social-security contributions are taken into account. The ratio of taxation (including social-security contributions) to GNP in 1974 was 35.6 for the United Kingdom as against 33.8 per cent in the rest of the OECD.

Inclusive or exclusive of social-security contributions, the United States is a low-tax country by comparison with the

United Kingdom. As the United States is by far the most populous and wealthy country of the OECD, weighting the average to take account of either or both of these characteristics would increase the measure of the gap between United Kingdom taxation and the lower levels of taxation elsewhere.

## Comparison with 1972 and earlier years

*The Camel's Back* as a whole, and pp. 27-30 in particular, indicates that the situation described for 1974 is also generally representative of 1972 and earlier years back to 1965 when the present figures begin. The relationships are long-term.

## The qualitative burden

We noted earlier that Canada was a high-tax country by the criterion of the ratio of taxation to GNP. It has not, however, a reputation for being one of the most heavily taxed countries in the developed world, which indicates that the measurement of tax burden has other dimensions and requires other criteria.

Other criteria included in *The Camel's Back* are tax competitiveness on home and export markets (Table 6), tax awareness (Table 11), tax politics (Table 12), tax rates (Table 14) and fiscal counter-productiveness — killing the goose that lays the golden eggs (Tables 13 and 15).

The ranking of the United Kingdom tax system for international competitiveness is poor; and by all the other criteria mentioned in the last paragraph the United Kingdom tax system is either very burdensome or even exceptionally burdensome (more burdensome than that of any other OECD country). This is the qualitative burden of United Kingdom taxation. (*The Camel's Back*, p 55). The camel's back is threatened not so much by the weight of United Kingdom taxation as by its structure, which is arguably the least just and least economic of any country in the OECD.

There can be little doubt that since 1974 the quantitative and qualitative burdens of United Kingdom taxation have increased by comparison with the rest of the OECD.

## Conclusion

The Economic Trends articles have consistently under-estimated the burden of United Kingdom taxation by comparison with other countries. It is for consideration whether the Economic Trends articles in their present form have not outlived their usefulness.

## Summary

- (1) The 'International comparisons of taxes and social security contributions' published annually by the Central Statistical Office in Economic Trends do not refute the argument that United Kingdom taxation is relatively heavy.
- (2) The samples of countries in the Economic Trends comparisons are small and unrepresentative.
- (3) The Economic Trends figures omit taxes on capital which are higher in the United Kingdom than in any other country of the OECD:
- (4) The Economic Trends figures omit taxes on expenditure from the measure of gross national product. This understates United Kingdom taxation by some 2 per cent in comparison with the rest of the EEC.
- (5) The ratio of taxation to gross national product is higher in the United Kingdom than in any other OECD country except for four Scandinavian countries, Canada, New Zealand and Luxembourg. Special considerations apply to the last two countries. The ratio for the United Kingdom was 29.5 per cent in 1974; the average ratio for the rest of the OECD was 25.8.
- (6) Even when social-security contributions are taken into account, the 1974 ratio for the United Kingdom, at 35.6 per cent, was higher than for the rest of the OECD, at 33.8 per cent.
- (7) The OECD averages in (5) and (6) above are unweighted. Since the United States, for example, is a low-tax country and Luxembourg a high-tax country, weighting by national income or population would reduce these averages and thus increase the measure of the gap between United Kingdom taxation and the lower levels of taxation elsewhere.
- (8) United Kingdom taxes are especially onerous on work, enterprise and saving and are especially high at the top of the scale. No other country in the EEC or even the OECD imposes such a heavy 'qualitative burden'.
- (9) Comparison with 1972 and earlier years shows that the relationships indicated above are long-term and stable.
- (10) It is for consideration whether the Economic Trends articles in their present form have not outlived their usefulness.

## APPENDIX: Market prices and factor cost

Adjustment from factor cost to market prices reduces the measure of the tax burden. The measure of the tax burden is reduced less for a country where taxes on expenditure are relatively low, so that in comparison with other countries its burden rises. This is the position of the United Kingdom within the European Economic Community; a move from factor cost to the more satisfactory method of market prices increases the measure of the United Kingdom tax burden by over 2 per cent relatively to the rest of the EEC. Similarly for the United Kingdom and Austria. *Economic Trends* shows Austria as more heavily taxed than the United Kingdom; *Revenue Statistics* shows the reverse. (Taxes excluding social security contributions as a proportion of GNP). *Revenue Statistics* would show Austria as more heavily taxed than the United Kingdom if the calculation were done on factor cost instead of market prices.

The United Kingdom is slightly below the OECD average in its ratio of expenditure taxes to GNP. A move to the calculation of GNP in terms of market prices instead of factor cost thus slightly increases the measure of the United Kingdom tax burden relatively to the rest of OECD as well as increasing it more substantially relatively to the rest of the EEC.