

[Our long-nailed mandarins are granting privileges to bakers and caravanners](#) [1]

Written by [JP Floru](#) [2] | Tuesday 29 May 2012



A year ago I attended a seminar on space travel. Some of the libertarians there couldn't wait to leave socialist earth. Sadly, while space travel is still in its infancy, some of us will have to do with a caravan. Is the government's *volte-face* on VAT on caravans good news or bad news? Static caravans will only be taxed at 5% instead of 20%. And the pasty tax has been abandoned altogether. Should we rejoice? Or not?

Governments giving privileges to specific industries or people was very prevalent in the Middle Ages. One of the reasons why the industrial revolution took place is because this sort of preferment went out of the window around the time of the Glorious Revolution. No longer were trade, monopolies and tax privileges in the gift of politicians. Individuals were (at least theoretically) treated equally before the law. The Rule of Law ? with laws the same for everyone, predictable, and not at the whim of politicians ? was one of the greatest export product the Anglo Saxon world ever produced. The insights and choices of billions of individuals began to steer the economy, instead of the preferences of politicians.

One place where this freedom delivered prosperity was Hong Kong. Its landscape, people, and environment were very much the same as the rest of China. Yet it boomed while China remained static. In Hong Kong, the rule of law was applied equally, not in accordance with the whims of long-nailed mandarins or Confucian officials. Occasionally, this equal treatment needed reiterating: in the 1960s, Hong Kong's Financial Secretary John Cowperthwaite (the man behind the Hong Kong miracle) fended off attempts by industrialists to obtain preferment again and again. Two Cowperthwaite quotes on industries seeking preferment:

?I must confess my distaste for any proposal to use public funds for the support of selected, and thereby, privileged, industrialists, the more particularly if this is to be based on bureaucratic views of what is good and what is bad by way of industrial development?.

?I am afraid that I do not believe that any body of men can have enough knowledge of the past, the present and the future to establish ?development priorities? ? which presumably means procuring some developments as being good and prohibiting others as being bad?.

Or, to quote a certain Mr A. Smith from K. (who, sadly, is not a special advisor): *?People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.?*

So the bakers and caravanners have won the day. Good for them: I don't like taxes being put on anyone. But, really, politicians should stop giving preferential treatment to their friends, and stop punishing those

industries of which they don't approve. Either you charge VAT on everything (allowing for a lower rate), or you don't charge VAT at all.

Wasn't this government supposed to fight red tape? Differential VAT rates most certainly add an extra layer of costly bureaucracy upon businesses. An equal sales tax for all goods and services would make clear what the tax is to individuals and dispense with silly side-effects such as having to ascertain whether take-away food is hot or cold to know whether VAT is due; or small people avoiding VAT by buying the largest size at Baby GAP.

But most important of all, equalising VAT would avoid the cringe worthy spectacle of politicians claiming to have bought their sustenance at none-existent pasty outlets. It would be worth it for that reason alone.

[blog comments powered by Disqus](#) ^[4]

Source URL: <http://www.adamsmith.org/blog/tax-spending/our-long-nailed-mandarins-are-granting-privileges-to-bakers-and-caravanners>

Links:

[1] <http://www.adamsmith.org/blog/tax-spending/our-long-nailed-mandarins-are-granting-privileges-to-bakers-and-caravanners>

[2] <http://www.adamsmith.org/taxonomy/term/5887>

[3] http://disqus.com/?ref_noscript

[4] <http://disqus.com>