

*Chief Clerk
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THE ROAD FUND: Road Expenditure and Motor Car Taxation.

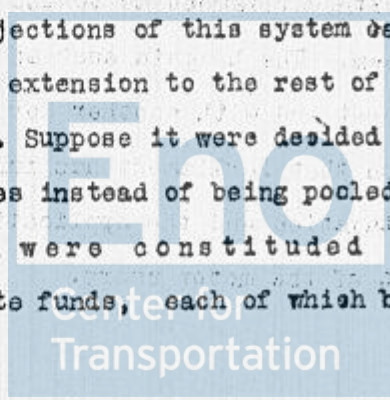
(Memorandum by the Financial Secretary to the Treasury).

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It appears to the Treasury that the time has come when it is desirable to hold an inquiry to determine what should be the national policy in regard to the finance of Road Expenditure and motor car taxation.

The Road Fund is an anomaly in the national financial system. The proceeds of motor car taxation unlike the proceeds of all other national taxes are not carried effectively into the National Exchequer, but pass through it to a Fund, the Road Fund, which is administered by the Ministry of Transport, and expended as to the greater part in grants to local authorities based on a percentage of the cost of maintenance etc., of roads in the areas of the local authorities; the remainder of the fund after bearing certain charges such as the cost of collection, grants to local authorities in respect of the salaries of Surveyors is available for grants for the construction of new roads, the relief of Unemployment etc.

The financial objections of this system can be realised by imagining its extension to the rest of the national financial system. Suppose it were decided that the proceeds of other taxes instead of being pooled in the Consolidated Fund were constituted into a number of separate funds, each of which bore the



charges for the class of national expenditure most appropriate to it - e.g. the taxes on Drink, liquor licenses etc., to bear the charges for Police, Prisons and the administration of Justice; the Income Tax the cost of Defence: the Death duties the Debt charges, and so forth - it is easy to imagine the confusion that would result. Some of the Taxes would produce too much and some too little; the Chancellor of the Exchequer would find it difficult if not impossible to alter the rate of taxation on any one subject with reference to his general financial requirements; some of the services charged on the funds would languish for insufficient funds, some would run riot with excessive sums at their disposal. In short before long the whole system would be reduced to chaos and it is safe to predict that it would not be long before the country would be driven back to the sound plan of paying all taxes to a single fund and of balancing revenue and expenditure on a review of the situation as a whole.

It may be argued that the motor taxes are applied to Roads as a result of a Parliamentary bargain, which could not be set aside without a breach of faith. But it is a preposterous claim that any set of taxpayers are entitled to make binding terms with Parliament as to the application of the taxes levied from them. The bargain such as it was, was made during another Parliament and with another Government; and there can be no question that Parliament has full power to alter the rates of motor taxation and the application of the proceeds without the consent of the motor users.

The situation now arises that at a time when the Chancellor will have the greatest difficulty in balancing his Budget, when essential national Services have to be severely cut, and when the possibility of fresh taxation has to be seriously considered, the Road Fund has an income substantially larger than was estimated, and is able to undertake large works of construction on an unprecedented scale.

Even this exception to the normal rule of economy and restriction of commitments imposed on other Government Departments might be tolerated if the Road Fund authorities were content to live within their income. But as the whole of their construction programme is optional expenditure and there is no limit to the programme of road expenditure for which a case can be made to the satisfaction of road enthusiasts, the Ministry of Transport propose to forestall their expenditure in future years, or to borrow on the security of the future revenue. Instead therefore of being at the least a relief to the National Exchequer by reason of its abounding revenue, the Road Fund will actually be a borrower and a burden.

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relief works - road construction being a convenient way of using unemployed labour. But it is clear that schemes primarily adopted for the relief of unemployment should be schemes which give immediate relief through being set in hand at once, and which should not heavily mortgage the future by continuing into a remote period when unemployment may cease to be a burning question.

The propositions which I suggest ought to be examined by a Committee of the Cabinet are

- (1) that the proceeds of motor taxation carried to the Road Fund should be limited to say 10 millions per annum, any excess being retained in the Exchequer for the benefit of the general taxpayer:
- (2) that the proportion of the annual income of the Road Fund to be devoted to maintenance grants and to new construction respectively should be examined:
- (3) that the proportions devoted to maintenance and construction as between rural and urban areas should similarly be examined. I observe that the Rating Reform Committee in C.U.511 (page 5) suggest that some solution of the agricultural

rating difficulty may be found by an adjustment of the measure of assistance granted from the Road Fund in respect of highway expenditure in rural areas.

J.W.H.

25th January 1923.

