

# Rolls Royces and Canned Carrots

True stories of  
the absurd  
consequences of  
government's  
meddling  
in business

BY  
**JOHN BLUNDELL**

**G**ood evening. I'd like to hire one of your cars for a wedding."

"Certainly, sir. Can I have your address and so forth, and I'll give you a quote."

"Well, I live in Dartford, and I—"

"Sorry, sir, we can't do any jobs in Dartford!"

"But my daughter Linda has her heart set on having one of your lovely Rolls Royces for the big day!"

"Well, if you lived anywhere else, sir, we could help, but not in Dartford, sir."

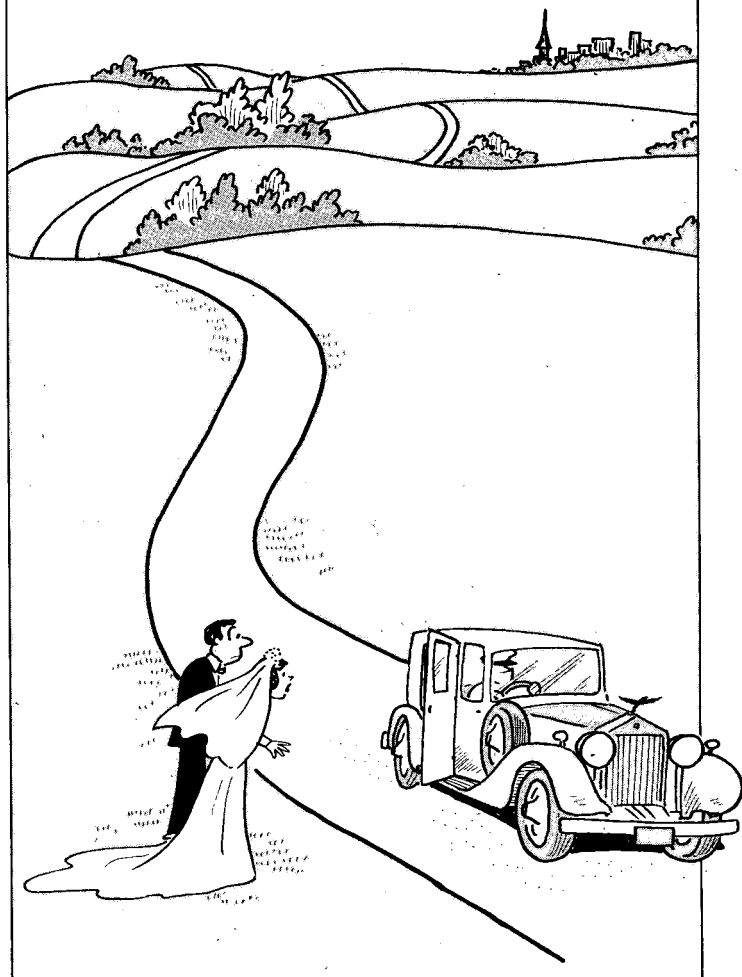
"This is ridiculous—what do you have against us in Dartford? If you're worried about being paid, we'll let you have the relevant amount in advance."

"No, sir. It's nothing personal, and I've nothing against Dartford. We used to have a lot of good jobs down that way."

"It's like this, sir. Some time ago, Parliament passed a bill giving local councils the power to make very strict rules about private hire (car rental) firms. Now, in this area, only Dartford has chosen to bring in such rules."

"First, Dartford authorities told me that if I wanted to do any jobs in their borough, my drivers would all have to take a medical. Now, we only have three cars, but I use about 20 part-time drivers in a year. At £10 per man for the medical, that's 200 quid!"

"Next, they said that my cars would have to be inspected by one of their mechanics, and could they all be driven to their garage? Well, sir, all my cars are Rollers and the warranty on the engines says that only Rolls Royce-trained mechanics can touch them—or the warranty's no good. Do you think that Dartford has a Rolls-trained mechanic?"



"But the real killer was the next one. The council decided that no car more than five years old would be allowed to do private hire work. Well, sir, as you know, all our cars are veteran and vintage white Rolls Royces...."

The conversation continued for some time. Eventually, the proprietor said to his would-be client, "If your Linda's so keen to have one of my cars, I'll come and do the job myself—for free. The regulations only cover jobs that are 'for hire and reward,' so it'll be okay if I don't charge."

His offer was gratefully accepted, and a few months later he did indeed do the job at no cost to the bride's parents. However, the story of his kindness in the face of such bureaucratic nonsense had spread, and on the big day the national press turned up to cover the "free ride." "Rolls Bride Cuts Red Tape" was just one of the subsequent headlines, and the press reports detailed precisely why the car-rental proprietor could not charge for the job.

Naturally Dartford's council took quite a beating, and it retaliated. A few days after the wedding (in late 1978), Dartford legal officers began a court case against the car-rental proprietor, claiming that his actions had generated substantial publicity for his firm and that this publicity was so valuable that it constituted "for hire and reward."

The case eventually fizzled out. And by listening to solicitors and others who know how to interpret and advise on the regulations, the proprietor learned to avoid such future legal confrontations. He was told that as long as a job *starts* outside the borough and is one continuous job, with no breaks to pop off and do another quick job elsewhere, then he may accept weddings in Dartford. Consequently, when contacted by potential clients in that area, he now starts off by saying: "Yes, we can do it. But I'm afraid you'll have to bring the groom to the borough boundary and drop him off a few yards this side of it!"

So if you are ever in Britain's Dartford area one Saturday and see a groom getting into an old white Rolls Royce a few yards before a sign that reads, "Welcome to Dartford," you'll understand what's going on.

**A**s a private economist from 1976 to 1982, with Britain's National Federation of Self Employed and Small Businesses (NFSE) as my main client, I saw dozens of cases—like the one above—of government interference with small businesses. And from my observations in the United States, there are few major differences between the position of small businesses here and in the United Kingdom.

Founded in 1974, NFSE—Britain's equivalent of, in the United States, the National Federation of Independent Businesses—grew almost overnight to its present membership level of about 50,000. Though the organization was established just as Labour swept back into power—and much of its spectacular growth can be attributed to a fear of socialism—its creation was prompted by a proposal of the outgoing Conservative government, Edward Heath's, to introduce an extra 8 percent tax on the earnings of the self-employed.

For the most part, the federation takes a fairly principled position. Its membership overwhelmingly favors competition, free entry to the marketplace, and denationalization and opposes subsidies, tariffs, high taxes, marketing boards, and bureaucracy. Occasionally the federation is beguiled into an interventionist position—more through naivete than a conscious decision—but such lapses usually are promptly rectified.

From its earliest days, NFSE not only acted as a pressure group but also as a troubleshooter sorting out members' prob-

lems. This latter role was adopted somewhat reluctantly—after all, what were self-employed accountants and solicitors in business for? Partly, of course, to sort out problems. Nonetheless, cases keep flooding in from members.

While I worked for NFSE, hardly a month passed when I didn't see some small business victimized by government meddling. Planning regulations, licensing laws, value-added tax, wages councils, employment-protection laws—all these created a continuous stream of cases that, if they had not caused so much worry, aggravation, and expense—not to mention several suicides—would have been a great source of mirth. The following few tales further illustrate the personal and economic havoc governments end up inflicting upon small-business proprietors when they get into the business of regulating business.

**B**ill Bedward is a former Guards officer and Dunkirk veteran. In 1964 he opened a restaurant on the outskirts of Bournemouth, Hampshire. It was a family business; his wife helped, as did his son.

In 1973, Britain's Conservative government introduced the value-added tax, and Bill duly registered with the tax authorities as required. Despite the complexities of the VAT—which is a tax assessed on each mark-up of a good at the various stages of production or distribution—Bill managed for several years to comply with all the requirements.

In 1977, however, VAT inspectors began to inspect his premises, both overtly and covertly. One group of inspectors began calling officially to go through Bill's records, while a second group started coming regularly to eat at Bill's restaurant, without identifying themselves.

After a few months' work, the VAT inspectors claimed that Bill had underpaid his VAT by £8,000 (about \$40,000 by today's standards), a considerable sum of money for a small business. Slowly but surely Bill's professional advisers began to chip away at this claim, managing to bring the figure down to £4,000, and eventually to £1,500 (about \$7,500 today). But the VAT officials refused to go any lower.

Knowing that he was innocent of tax evasion, Bill decided to appeal to the VAT Tribunal in London. Not only was he moved by his belief in his own case and by the money in question; he was further motivated by the attitude of the VAT officials. At one interview, for example, Bill had asked, "Are you calling me a thief?" only to be told, "Yes!" And on another occasion, officers attempting to work out the mark-up on every menu item asked such petty questions as this: "How many prawns do you put in a vol-au-vent?"

At the two-day tribunal, Bill was once faced not just with the three official members and their clerk but also with a team of six VAT officers. One by one, Bill knocked down the remaining VAT claims on his business.

Typical of these was the claim that Bill's records showed a high percentage of wastage on steak (the value of which Bill was permitted to deduct from his VAT liability). However, Bill pointed out that he bought untrimmed steaks, which he then trimmed himself. The VAT officers had assumed that he bought trimmed meat, despite Bill's inviting them to witness a meat delivery and his trimming, an invitation that the officers had refused. Indeed, it was not until *during* the tribunal hearing itself that Bill was given a chance to demonstrate his steak trimming.

Another demonstration followed. Bill served carrots with many meals. The officers had determined that an average por-

tion of carrots weighed 5 ounces—Bill concurred. From this point, however, their claims diverged. The VAT men claimed that since a can of carrots weighed 19 ounces, Bill should get at least three portions from each can. This, they said, would mean a mark-up of 428 percent. Bill claimed he only got two portions out of each can, working out to 230 percent mark-up. Fortunately, Bill had come well prepared and defiantly produced a can of carrots.

Lord Grantchester, the Tribunal's chairman, halted the proceedings to send a VAT officer out to buy a can opener and scales. On his return, the scales were set up, the can opened, and the carrots weighed.

On the face of it the VAT men had a good case: the contents



did indeed weigh 19 ounces. But the officers had forgotten to account for the preservative solution—as the tribunal witnessed, the carrots weighed 10 ounces (Bill's two 5-ounce portions) and the solution 9 ounces.

In his report, Lord Grantchester found for Bill on all counts. He went on to award full costs to Bill, costs that the VAT lawyer opposed most strenuously.

Victorious, Bill returned to Bournemouth to pick up the reins at his restaurant, The Crooked Beam. That night he collapsed and was immediately admitted to the hospital. A year of investigations, slanders, claims, worry, and aggravation had taken an inevitable toll.

Some weeks later I took Bill to see his M.P., David Atkinson, at the House of Commons, to ensure that the matter was pursued further. Bill was still shaky, the lines on his face so deep that John Wayne would have looked like a fresh-faced baby in comparison.

"It doesn't matter to VAT officials," he said, "if costs are awarded against them, because it is not their own money. But if I had lost the appeal, it would have bankrupted me. I want to make sure this sort of nightmare does not happen to anyone else."

Bill was stronger than many, and he survived. Others did not. Each year, during such investigations, there were a few suicides.

There was the pub owner who had a dispute with the tax authorities over the correct percentage of beer wastage to use in figuring his tax accounts. He was found in his beer cellar, gassed, with a plastic bag over his head.

There was the antique dealer in North Wales who, during a tax investigation, blew his head off with a 12-bore shotgun. At the inquest the coroner called him "Mr. Honesty."

And there was the elderly businessman who had fled to London from Nazi Germany. One night when he was sitting down to dinner with his children and grandchildren, VAT officers raided his home. While the place was ransacked, the family was separated and held for hours, not even allowed to visit the bathroom alone. After the VAT officers left, the family went to bed. The old man stayed up, and in the early hours he hung himself. A few days later, several hundred self-employed businessmen demonstrated outside the main London VAT office, on Shaftesbury Avenue. Some of the VAT staff responded by leaning out of the windows and making obscene gestures.

**I**n the late 1960s, Harold Wilson's Labour government attempted to move employees from the growing service industries into the declining manufacturing industries. To this end it introduced a new tax, the Selective Employment Tax (SET). All service-industry employers were to pay the tax on every employee every week. Wilson's reasoning was that it would make the service industries shed laborers, who would then move to manufacturing.

The SET had a peculiar effect on the building industry. Until the SET was passed, construction workers tended to be "on the cards"; that is, they were employees. Since the new tax did not apply to self-employed people, however, many contractors told their men to "come back Monday on the lump"—that is, as self-employed workers receiving lump-sum payments (leaving it to the now self-employed workers to pay their own taxes, rather than having them withheld). This device, while not strictly legal under contract law, enabled the contractors to avoid millions of pounds in tax.

Many of these newly self-employed men, however, did not realize the implications of their change in status. All they knew was that they had more cash in their pockets every Friday night down at the pub. So after a year or so had passed, a number of them began to get into trouble with the Inland Revenue, Britain's version of the IRS. Some disappeared back to their native Ireland, and some began to use false names and addresses.

The Heath government eventually abolished the SET in the early '70s, but by then self-employment had already become the norm for many building workers. The Revenue fretted over losing out from unpaid taxes and in the mid '70s persuaded the Labour government to act. A draconian scheme was introduced: All "reputable" self-employed builders who were up to date with their taxes were to be issued with photo-identity cards, known as 714s. Contractors were to make no payments without such a card being produced. If a self-employed laborer couldn't show a card, the contractor had to deduct 35 percent of the worker's pay and forward it to the Revenue. Naturally, a worker not up-to-date with his tax would not receive a card.

When Adrian Alderslade, a young builder from Gosport, Hampshire, applied for a 714, he had a beard. He had his photo taken, filled out the papers, and sent them off. A few months later he was called to his local tax office to pick up his card. At some time during those few months, however, Adrian had

He returned home, stopped shaving, and two weeks later went back to the tax office sporting a beard. The Revenue issued the card; Adrian then went home and shaved off his beard!



To begin with, everything went well. Joe had a number of inspection visits and passed with flying colors. Then one day in

Joe lost, but his efforts were not entirely in vain. The obvious injustice of the situation had attracted much press and parliamentary attention. And within the year, Parliament amended the VAT legislation to give more authority on VAT matters to local tribunals and less to VAT officers. So while small-business owners are still subject to the VAT, there is likely to be less injustice in its administration.

Barrie Tinker owned a tiny cafe on Bodmin Moor. Over a single year it had lost £3,369, so in the spring of 1981 Barrie decided to close it down. His sole employee, Jean Webber, was very upset. She liked her job, and in a remote area like Bodmin, with already high unemployment, she would be unemployed for the foreseeable future. However, she had an idea. Prime Minister Thatcher and Mr. Tebbit, the Employment Secretary, were forever telling people to "price yourself into a job." So Jean went to Mr. Tinker and offered to take a

wage cut sufficient to allow the business to stay open. He agreed to her plan, not realizing that it was illegal. Under legislation first introduced by Winston Churchill in the early '20s, about 20 "wages councils" had been established to set minimum terms and conditions for some 2.5 million employees in industries dominated by small firms with little or no trade-union presence.

Jean and Barrie's agreement was discovered by the authorities, and Barrie was prosecuted by the Wages Inspectorate. Fortunately, however, he appeared before sympathetic magistrates who imposed the minimum possible fine and ordered him to pay Jean the legal minimum wage for only one week (thereby, in essence, leaving any future arrangements entirely up to Barrie and Jean).

Then there was the Liverpool pub owner, James Shinner, who ran The Sportsman. In this case, the VAT men caused their mischief by using a method of determining Shinner's turnover that is both inaccurate and all-too-common in the case of pubs and restaurants. As with Bill Bedward above, they started by making secret visits. Their main concern was the lunches he served as a sideline. Two meals were available: chicken and chips, or scampi and chips, both with peas.

From their visits, the VAT officers determined that 60 percent of the patrons ordered chicken and 40 percent scampi. They also discovered by lunching at The Sportsman several times that there were 30 chips in a typical portion, that a typical chip was  $2\frac{1}{2}$  by  $\frac{1}{4}$  by  $\frac{1}{4}$  inches, and that a typical portion of peas numbered 70. They knew the prices of the respective dishes and, from the accounts, the total tonnage of potatoes and amount of peas purchased in a year.



All they needed to do now was to work out the weight of a typical portion of chips. With this, they could calculate the total number of such servings and, from this figure, the turnover of the food side of the business. They could then presumably double check by dividing the total number of peas purchased by 70!

Returning from the pub one day, the VAT officers purchased a bag of potatoes and a potato peeler. In their office they cut 30 chips of the appropriate size, weighed them, and got busy with the calculators.

Let me illustrate. Say the portion of chips prepared by the VAT officers weighed 4 ounces and the pub had bought one ton of potatoes. The calculators showed 8,960 portions; 5,376 (60 percent) with chicken and 3,584 (40 percent) with scampi. If

the chicken dish cost £1 and the scampi £1.50, then the turnover must equal £10,742.

On the basis of this exercise, the tax authorities asked Shinner for an extra £746.93 in VAT. Shinner appealed and took his case to the VAT tribunal. The tribunal selected 30 of his chips at random and found that they weighed not 4 ounces but 8 ounces. The VAT officers' whole case against Shinner had been built up like a pyramid on one figure. Fortunately, the cornerstone was rotten and the whole structure came tumbling down.

**M**any, if not the vast majority, of the problems Britain's small-business owners face are caused by government interference. The same could probably be said of American proprietors of small businesses. Such interference is of itself bad enough; but matters are made even worse by the fact that the politicians and bureaucrats who enact and enforce the regulations are, for the most part, completely and utterly ignorant of what it is like to operate a small business and ignorant of the sort of people who do so.

In the United Kingdom, small businesses are run, on the whole, by people who are very good at doing one thing, say plumbing or book binding, but are not necessarily competent to deal with paperwork and handle complex rules and regulations. Educational statistics show them to have far less formal education than their employed counterparts. They may be very bright and very good at their jobs, but that is not the same thing necessarily as being good at filling in forms, keeping spotless records, and so on. An illiterate employed bricklayer can go through life without any trouble from the authorities, but an illiterate self-employed bricklayer soon ends up in trouble.

On some issues, British small-business regulations seem to be more draconian than those in the United States, and on others the American laws seem more damaging. Product liability is certainly more of a problem in the United States. Martyn Hopper, chief lobbyist in Sacramento for the National Federation of Independent Businesses (NFIB), tells, for example, about a lady who put her wet cat in a microwave oven to dry it. The cat exploded, the lady sued, and the microwave manufacturer lost! On the other hand, British employment laws on matters such as redundancy payments and unfair-dismissal compensation are more excessive than anything I can find in the States.

The American small-business community seems better organized to defend itself and to promote the conditions necessary for enterprise. Take the NFIB. Its level of funding, its sophisticated lobbying and propaganda, and the extent and impact of its work exceed those of its UK counterpart, the NFSE, by a long way. The sole area where the NFIB is perhaps not as advanced is that of legal protection for its members. For several years now, the NFSE has insured every single one of its members for professional costs in fighting VAT and Inland Revenue investigations and employment, health, and safety cases.

As in America, Britain's self-employed and small-business proprietors are often depicted as tax-fiddling, slave-driving, consumer-swindling, profit-raking scrooges. That politicians and bureaucrats do not live with the same degree of ignominy is an unfortunate circumstance—on both sides of the Atlantic. □

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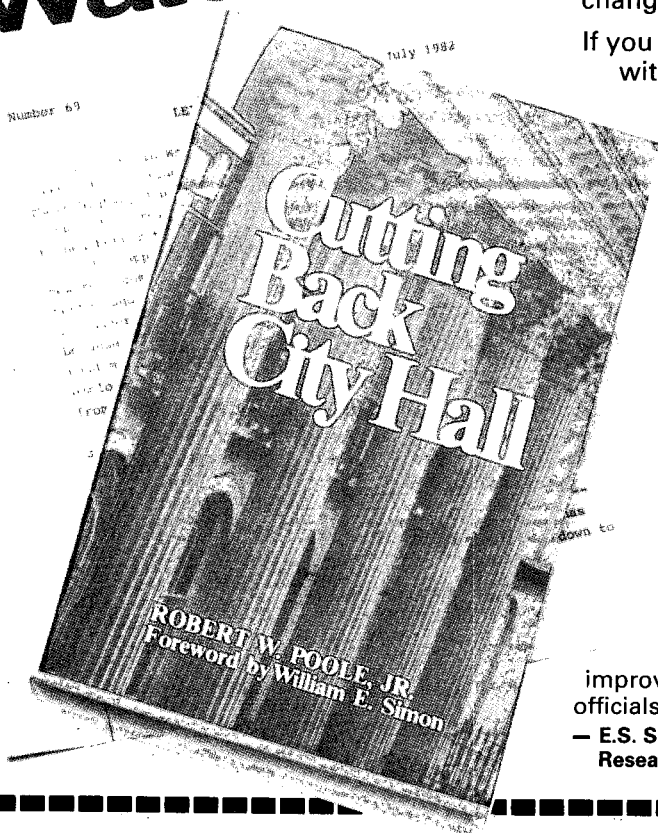
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# Freedom's Fair Weather Friends

BY TOM BETHELL

In the aftermath of the Grenada liberation—"invasion," the networks called it—one sensed that the news media slipped in public esteem because they kicked up such a fuss about being excluded from the military operation. More of the public than not supported the Reagan administration in this decision, which mimicked Prime Minister Thatcher's restriction of the press during the Falklands War. As Irving Kristol said in the *Wall Street Journal*, "It is generally advisable to have one's troops confront only one enemy at a time." If *New York Times* editors want to know why their reporters were initially excluded from Grenada, they should take a look at their own editorial page some time.

I know that some of my conservative friends are pleased with this increased public skepticism about the press. (I gather that both CBS News and the *Washington Post* received a lot of critical mail, post-Grenada.) Nevertheless, I would urge those who are fed up with the press to proceed with circumspection in this touchy and important area. Because the press is increasingly unpopular, there is bound to be increasing sentiment to bring it to heel in coercive ways. Some well-known New Right figures have already shown a fondness for media regulation by arguing that the Fairness Doctrine (applicable to radio and TV only) should not be rescinded, as has been proposed.

The twist I want to add is that many on the liberal left, now occupying influential positions within the media establishment, are not particularly enthusiastic about an unregulated press either, their frequent brandishing of the First Amendment notwithstanding. Exhibit A might well be Ben Bagdikian's recent book, *The Media Monopoly*, which calls for the breakup of media companies in much the same way that the Federal Trade Commission tried (unsuccessfully) to break up the cereal companies. An alumnus of the *Washington Post*, Bagdikian is not some fringe figure. A book reviewer in the *Washington Journalism Review* identified him as "this nation's best press critic."

Many in the news media today enjoy the illusion of being advocates of press freedom because their main critics are

the same New Right figures who like the Fairness Doctrine. In defending against the New Right, the liberal left appears to be defending the principle of an unregulated press, when in fact it is defending the current reality of liberal control of press content. If the liberals ever begin to suspect that they are losing this control in influential places (currently main-



tained by peer pressure more than anything else), I believe they will not hesitate to invoke government intervention to shore up their sagging position.

Here is one rather dismaying illustration of this point. Recently I addressed a conference of well-known pollsters and journalists—the people who do the polls for the main newspapers and networks and those who write the stories based on these polls. After speaking—fairly critically of polls in general—I stayed on for the next session, which indeed was interesting. It turns out that pollsters and media are greatly exercised about the use of phone-in polls by ABC-TV. (Normally, pollsters call you.) After the Grenada operation, for example, *Nightline* conducted such a poll, and it measured public sentiment in favor of Reagan's action by a margin of eight to one.

The polling and media folk charge that these polls are not "scientific." (Those who phone in are "self-selecting," and

they have to pay 50 cents for the call.) But I think there's something else. I believe the pollsters see their control of the response sample, the questions, thence the answers—and ultimately of public opinion itself—slipping out of their grasp.

And here's something else about these phone-in polls. The public opinion that they purport to measure is consistently to the right of that elicited by the professional pollsters, with their "scientific" samples and carefully worded questions—questions that in 1980, for example, represented the American people as being hostile to tax cuts.

Anyway, it became clear at the conference that phone-in polls have a number of media people unhappy, too, not just the pollsters (who understandably don't want to lose "market share" to new competitors). A *New York Times* reporter quite openly suggested that one of the ways in which to bring pressure to bear on ABC would be for the pollsters to sue for equal time under the Fairness Doctrine every time ABC does a phone-in poll. Not much enthusiasm for an unregulated news media from that corner of the press.

My point is a conventional one but needs to be stressed. Segments of the US press have developed markedly anti-American tendencies, and as a result the press is increasingly unpopular. The liberal left will favor press freedom as long as they control its content, but not a moment longer. Elements of the New Right leadership would like to muzzle the press right now. So the constituency for an unregulated press may be shakier than we think.

A few days after the US operation in Grenada, a Reuters story told of a political prisoner, Leslie Pierre, whom US marines had freed. He had been in jail for two years, but now he was hoping to "reopen the *Grenadian Voice*, a newspaper he published for two issues in 1981 before his arrest." On the same day, our media heroes were howling that now we were no better than the Soviets in Afghanistan.

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