

Hon. Julia Goldsworthy: Fairer, Simpler, Greener

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Taxation is a subject not universally greeted with enthusiasm. But while it commands 43% of economic activity it cannot be ignored by anyone seriously concerned with either social justice or environmental stewardship. Gladstone Club members tend to be, and that concern manifests in an appetite for economic principle at least as keen as their interest in party politics.

Consequently when Julia Goldsworthy came to discuss the recommendations of Vince Cable's LibDem tax commission she may have been a little surprised at the enthusiasm and penetration with which her subject was met. Elected MP for Falmouth and Camborne in 2005, Julia is now Shadow Chief Secretary to the Treasury, or more simply Dr. Cable's number two.

Four Canons of Taxation

Members praised the document for reasoning from first principles. It confidently opens with four universal principles of taxation. The first and obvious principle is: government needs revenue to do the things like defence, law, money which cannot be left to the private sector. But there are three others: redistribution, influencing behaviour, and collecting the economic rent.

Quality not quantity

Left-right politics has tended to reduce the canons of taxation to an argument of quantity: 'more' (left) or 'less' (right). Responding to the first of the four principles, Dr. Cable argues that the quantity, the level of taxation is 'about right'. Some may spy here a pragmatic retrenchment but fixing the proposals 'revenue neutral' sends an important signal. It says: think about quality instead of quantity, about what you tax, how you collect it and the effects when you do.

Fairer: no tax on the poorest

What is the effect, for instance, of taxing incomes that are already below the poverty line? The poorest pay a higher proportion of their income in tax than the richest. On the second principle (redistribution) then the policy is to completely remove the 10p bottom rate so that the whole of a minimum wage of £7kpa would be tax free and the poorest need pay no income tax at all.

Simpler: two rates only

The 22p rate goes to 20p leaving just two rates. A welcome simplification joined by others to National Insurance Contributions. A later intention is to merge NIC and ENIC in recognition of

that in fact the employer already pays both.

Greener: tax bads not goods

With the third principle (influencing behaviour) comes the adage 'what you tax you discourage'. Hence the rationale for 'sin taxes' on cigarettes, alcohol and petrol rests in large part on the encouragement to avoid the tax by reducing consumption of these 'bads'. It is well established that the approach works. Although demand for petrol is relatively inelastic (ie. does not diminish proportionately with increase in price) nevertheless enough of a rise does get results and the nations with higher taxes on petrol have lower per capita consumption.

Extending this principle to reduce carbon use is surely the way forward and the tax commission's plan is to fund cuts elsewhere in this way. The first target is air traffic which contributes disproportionately to greenhouse emissions and in many instances pays no tax at all. It is interesting to reflect what distortions must arise in markets, for instance farm produce, where a delivery locally pays more in fuel tax than imports travelling 1000 miles by air.

Miss. Holdsworthy was asked whether such taxes would be self defeating in proportion as they were successful. Would people simply stop flying abroad? She confirmed that the approach would be sensitive but cited the London Congestion Charge as an example. It suffered from lost demand initially but later the price was increased as congestion gradually returned.

Encouraging unemployment?

Another brilliant insight under the 'tax discourages' thesis is to recognise Income Tax and NIC as taxes on employment. Who wants to discourage employment? Or make it artificially cheaper to use machines and fossil fuels in place of men? Or artificially to diminish our international labour competitiveness? The most radical future aim is to shift these taxes onto usages which we do want to discourage: particularly energy use but importantly also property speculation.

Public commons

Here the fourth principle comes in. Again for those interested in pure economics, the LibDems have recognised the concept of commons – air, water, land, North Sea oil, radio spectrum etc. Things of universal value in relatively fixed supply, also called natural monopolies. Here was one



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of the remarkable statements of principle, rarely encountered even in economics text books, that these belong in common to all. The market solution then is to permit them to be owned or leased and harnessed by firms but to share the benefits widely through taxation.

Tony Vickers

Throughout the report clearly displays the hand of someone who really understands the theory and application of taxation of land values. Included were references to the Vale of Oxford study and the funding of Crossrail, so it was no surprise to find Tony Vickers, former head of the Henry George Foundation and chair of ALTER, listed among the collaborators.

Policy Exchange?

Was there also a debt to our speaker in April of this year? Both the title and the mix of local and national income tax bear some resemblance to Dr. Oliver Marc Hartwich's paper 'Bigger Better Faster More' in praise of the Swiss and German local government systems. The commission's astute observations on the accountability link between revenue, local population change and planning decisions also reflect Dr. Hartwich's.

Localism

There is a very strong flavour of localism in the paper. Devolve more power to Local Authorities by allowing them to levy and retain their own incomes. This would introduce a new era of political accountability which would in turn revitalise local politics as different packages of tax and spending priorities would compete on real differences to residents' pockets. Struggling boroughs would compete to make their packages attractive to new residents to bring in extra local revenue.

Why this need be tied to last year's Local Income Tax policy is perhaps the remaining anomaly. While Business Rates transfer to Site Value Rating, consonant with the overall aims, residential taxes go the opposite way. Perhaps this is the one concession to politics over economic principle: the Council Tax is popularly abhorred and policy U-turns lose cred.