

Brown's tax and spend would have stunned the Soviet Union

TUESDAY, DECEMBER 12, 2006

THE DAILY TELEGRAPH

Facts are the enemy of truth. If you doubt that Cervantes had it right when he put those words into the mouth of Don Quixote, consider Gordon Brown, who last week unleashed an outpouring of facts – every one correct – to

create an impression of a nation meeting the essential needs of its citizens, the most basic of which are national security and safety on the streets. The truth is that he has so starved the military that General Sir Mike Jackson finally felt compelled to complain that the nation's soldiers are ill-equipped to fight the wars to which the Government has sent them, and that criminals roam the streets because Brown refused to fund enough prisons to contain them – and all to feed a bloated and unreformed NHS. The facts in the Budget conceal the truth of the priorities of the Chancellor.

Last week I participated in two events – a bit of television commentary on the pre-Budget report, and Politika's launch of my pamphlet *The Limits to Tax*. The back-to-back nature of these events combined to make me think beyond the usual niggling criticisms of the Chancellor's data prebiddigation.

In my pamphlet, I made the usual arguments about the danger that high and poorly constructed taxes can stifle incentives to work and take risks. I neglected to mention a stunning example, concealed in the Chancellor's figures: a combination of a loss of benefits and high tax rates claims 70 per cent of the added income of a low-wage office cleaner who decides to put in a few extra hours

of work. If ever a tax system created an insupportable poverty trap, Britain's surely does.

I also pointed out in *The Limits to Tax* that the growth of the low-productivity public sector, at the expense of the higher-productivity private sector, is eroding Britain's economic performance and dooming it once again to become the sick man of Europe. Which is why my greatest surprise and disappointment came when I realised that a man of the Chancellor's intelligence had made two errors that bode ill for the nation when he assumes even more control over its future than he now has. He did not link his prescriptions to his diagnosis; and he failed to create a sensible linkage between tax and environmental policy.

First, the Chancellor diagnosed Britain's ailment as the emergence of China and India as competitive forces in the world, for which his prescription is a large dose of new taxes and a steady diet of more government. Brown believes that by raising the threat of international competition, he created a justification for his decision once again to expand the role of the state. Just as China and India are unleashing the productivity and ingenuity of their billions of people by creating more space for individual effort and entrepreneurship, and other international competitors are lowering and simplifying taxes, the Chancellor has decided to move in the opposite direction. Every increment in Britain's wealth will go to the public sector, to be used to implement a series of long-term plans the scope of



Irwin Stelzer

which would have been breathtaking in the Kremlin of the old Soviet Union. None of this new wealth, generated by the private sector, will be used to lower Britain's increasingly uncompetitive tax burden, as he has announced to the cheers of his backbenchers, most of whom have never been associated with a wealth-creating, rather than a wealth-redistributing, enterprise. There is to be a long-term plan for transportation, another for land use, another for constructing new school buildings designed to enable teachers operating in a non-reformed system to educate the disruptive children fostered by the nation's anti-family benefits system, and still another to upgrade worker skills. The skills programme is to be administered by a host of agencies, with a new Commission for Employment and Skills to be added to the Sector Skills Councils, a Higher Education Funding Council, a Train-to-Gain Scheme, and others too

numerous to list. Why employers such as BT, BA, IBM and Jaguar must rely on taxpayers to cover the cost of training their future staffs is a question not even addressed by the Chancellor, whose first instinct is to solve every problem with more government and a more heavily burdened private sector.

The second error the Chancellor made was also one of which I warned in my Politika pamphlet. Although I am less certain about the dangers of global warming than others, I do deem it prudent to buy some insurance against the possibility that the Earth is indeed warming, and that human activity is the cause. This means creating the carbon-trading system that the Chancellor is sensibly trying to persuade recalcitrant nations to establish. And it means green taxes. But not of the sort that Brown has concocted. He plans to force travellers to bear the cost of their emissions by imposing a tax on each airline passenger. But it is planes, not passengers, that generate emissions. The Brown plan would have passengers packed into a tourist flight each pay the same as passengers in a luxurious, spaciouly configured plane. Both planes will produce equal amounts of emissions, but the passengers on the crowded flight will together pay at least twice as much for the privilege of polluting as those on the more comfortable flight.

Even more important, in my pamphlet I said: "Taxes on 'bad' things should not be in addition to existing taxation, but a replacement for taxes on 'good' things, most notably economic

growth and job creation." It was encouraging to see the shadow chancellor make the same point in his response – it might be the first hint that George Osborne is en route to a lower-tax regime. Now if he would only understand that tax cuts and economic stability are not polar opposites... but that's a battle for another day. Meanwhile, we should be thankful for small favours. When the Chancellor delivered his pre-Budget report, he seemed not to have seen Robert Turnbull's report in *The Spectator* of November 18 that Shanghai's schools have 40,000 students aged five and up who are taking piano lessons. Brown will be concerned that these highly trained students will some day be competing for bookings with under-skilled Brits. Rather than conclude that many of these students will become star performers because their parents are making sacrifices to fund their children's education, and closely supervising practice sessions, Brown would see here still another job for government – to counter the efforts of the parents of students in communist China. Perhaps a new subsidiary of the Commission on Employment and Skills or an independent Concert Pianists' Training Scheme would do the trick.

Labour MPs can't wait to approve Brown's new taxes, some of which they hope will fund £100,000 salaries; they might consider that an increasingly uncompetitive economy will have less and less wealth to tax.

Irwin Stelzer is a director of Economic Policy Studies at the Hudson Institute