

Hit the polluters where it hurts

We should tax bad things (greenhouse gas producers) not good things (risk takers)



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AT LAST — a sensible argument about taxes. Until now the issue has been framed around the level of taxes that might take Britain sailing prosperously into the future. Now we may be getting into a more serious discussion of the structure of taxes.

Since there is no substantial difference between the Tories and Labour over the tax level, the debate until now has varied between uniformity and vapid. Gordon Brown has made clear that he is a high-tax man — one who will squeeze until just before he thinks the pips will squeak. David Cameron is also a high-tax man — he thinks that lower taxes are the antithesis of "stability".

Both men plan to have the funds extracted from British taxpayers: rise with the growth in the economy; neither recognises that the economic growth on which they are counting to fund their planned expansion of the public sector will be inhibited by the increased taxation they have in store for Britain. No one knows just how high Mr Brown, unrestrained by Tony Blair's concern for middle England,

will take taxes. And no one knows for certain whether Oliver Letwin's "unambiguous commitment to the growth of the public services" in effect a pledge to expand the public sector about as quickly as Mr Brown would, will survive John Redwood's counter-attack. But the betting is that Mr Letwin has Mr Cameron's ear while Mr Redwood has — well, some interesting pamphlets.

So much for the bad news. The good news is that more serious voices are being heard as the question turns from the level of the tax burden to just who should bear that burden. First out of the blocks was the anti-Brown faction of new Labour. Stephen Byers, a Blairite "outsider", decided that inheritance taxes are iniquitous, and should be repealed.

His argument is that with the rise in the value of houses, more and more heirs face the prospect of paying tax on the inheritances they receive from their parents. This is somehow "unfair".

The economic case for elimination of inheritance taxes is non-existent. Why new Labour, until now a voice favouring work over idleness, and a broadly egalitarian agenda, should fall for such foolishness I cannot imagine. The owners of houses that have risen in value because of a rising property market have not worked hard to increase those values. Rather, they have gone about their daily lives and profited from the confluence of low interest rates, rising demand for housing and a healthy economy. Their heirs, who will have to pay the death

duty, have done even less to earn this increment in wealth.

Surely, their unearned gains should not be the first place to which any party looks when seeking to lighten the tax burden. After all, reducing inheritance tax will not have any positive supply-side effects: it will not give people an incentive to work harder, as a reduction in taxes on wages would do. If academic studies of the recipients of windfalls are to be believed, the end of inheritance taxes would probably have the net effect of inducing the beneficiaries to work less hard and retire earlier. Nor will an end of inheritance taxes add to the speed at which the hoped-for entrepreneurial class emerges in Britain: windfalls are a reward for "being there", not for risk-taking.

So much for the silly ideas. The better ideas on how to structure taxes came first from the Liberal Democrats, and then from George Osborne, the Shadow Chancellor. The basic premise is simple and economically correct: tax bad things, not good things. Pollution is bad, work is good. So raise taxes on polluters and pollutants, and lower taxes on work and risk-taking.

The advantages of such a restructuring of the tax burden are obvious. At present, Britain taxes energy production and consumption regardless of the "greenness" of the specific generation source. This is an unnecessarily crude form of tax on pollution — a kind of pale green tax, since electricity generated in nuclear plants, which do not produce greenhouse gases, is

taxed equally with energy produced using fossil fuels, which do.

If it is the case that the earth is warming, and that such warming is due to human activity such as the production of carbon dioxide, a tax on such activity makes sense. By making the consumption of greenhouse-gas-producing goods more expensive, it reduces consumers' taste for such goods and services. And by generating revenues to sate the Treasury's rapacious appetite for funds, it makes possible reductions in taxes on wages and profits — producing the desired supply-side effects of more work and greater risk-taking.

Of course, God is in the details. It is sheer elitism to want to tax only cheap airplane flights which, after all, crowd so many passengers into each plane that the per-traveller greenhouse-gas production is lower than is the case with less densely populated aircraft. It is mere nastiness born of class envy to tax Chelsea tractors based on their size, rather than their use: an SUV that is driven relatively few miles is less of a polluter than a small auto driven a much greater number of miles. And it is social engineering of the worst sort to levy green taxes in excess of the costs polluters impose on society.

So it is important to get those details right. But let's not cavil, and instead welcome the fact that the debate over taxes has taken on a new, and important, dimension.

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