

Lower, simpler, fairer: a plan to reform tax

George Osborne is the man who provided Gordon Brown with the gun with which he shot himself in the foot. Never mind that the shadow chancellor had it wrong when he announced that, given the opportunity, he would reduce taxes on windfall inheritances – the bounty of the winners of the sperm lottery – and raise them on wealth-creating foreigners who are in a position to pull up stakes and create jobs in friendlier jurisdictions. Brown, nevertheless, decided to adopt a version of the Osborne plan, making himself look a panicked copycat and tarnishing his credentials as a master of tax policy.

Then we had the fiasco over plans to raise taxes on poorer people so as to provide tax cuts for the middle class, and the £2.7 billion compensation plan, to be paid for at a later date. That eliminated any doubt that a serious debate about taxation is needed if we are to avoid lurching from one quick fix to the next.

Unfortunately, we cannot look to the usual, partisan Punch and Judy show for a solution. The Leader of the Opposition and the Prime Minister agree on too many things. Both want to maintain the current overall level of taxation, at least in the near-term. Both want to increase spending on public services. Gordon Brown at an annual rate of something like 2 per cent, David Cameron by carving out a portion of future

economic growth, likely to amount to the same thing. Both want to lower taxes on lucky inheritors of the wealth accumulated by their harder working parents. Both want to tax foreigners (the writer is a non-dom) who have hitherto found Britain an attractive place to work and build businesses. Both plan to raise taxes on a variety of activities, allegedly in pursuit of a greener Britain.

So there is a gap in the market for ideas about tax policy, one that must be filled by scholars and scribblers searching for ways to render unto Caesar that which is Caesar's, while at the same time stimulating economic growth and job creation.

Alastair Darling has one thing right. "Economics and politics are inextricably linked," he said when he announced the £2.7 billion package to compensate some of the 5.3 million low-earners hit hard by the elimination of the 10p rate. This linking of politics and economics is a healthy thing. In a democratic society the hissing of the geese being plucked should be heard. Taxation is about economics, but it is also about society's sense of fairness.

One might make an economic case for the continuation of special treatment of income from private equity operations, or continued exemption of overseas income from UK tax, but if such features are widely viewed as unfair, their continuation will undermine confidence in the entire system, and encourage non-compliance by masses of

taxpayers. The policy rethink must also give weight to the often unheard majority. Big businesses and can make their concerns known, often backing them up with threats to seek more welcoming jurisdictions. Recipients of the state's beneficence are also well represented, some by MPs sympathetic to their plight, others by the Left-wing scholars who dominate the academy. So, too, trade union members, whose leaders match business moguls threat for threat.



Cameron and Brown agree on too much, says Irwin Stelzer

Less is heard from small entrepreneurs and "Middle England", especially when a Labour government is in power. Unlike highly paid executives, these middle-level workers cannot flee the taxman, and unlike lower-paid workers, they have incomes high enough to tempt the tax collector. These vulnerable voters are easy pickings for the taxman in the short-run, but no tax policy will

long survive their dissent from its major features. Nor will it survive if it ignores the fact that the nation's resources have become increasingly mobile. As I point out in a pamphlet recently published by Politeia, the declining cost of communication has made it possible for capital to move across borders at the touch of a button; the market for highly skilled labour is international in scope; with the exception of many public service workers and local service providers, workers at the middle and lower ends of the income scale compete with their international counterparts for jobs; and even land to be used to house the wealthy or the factories of international companies must compete with similar accommodation overseas.

This is not to say that the tax authorities have been neutered by globalisation. But there comes a point at which mobility begins to constrain policy, and Britain becomes what David Cameron this week called "a high-tax, uncompetitive backwater". Some non-doms have already fled. Shire Pharmaceuticals, United Business Media, Experian, Hiscox, Invesco, Omega, Shell, Diageo, WPP and other major companies have either announced their departures or are considering such a move. Some are bluffing, others are not. It is, therefore, not unreasonable to assume that taxation has reached or is approaching counter-productive levels. Throw in uncertainty about policy, and the complexity of the

tax code, and you have a serious threat to economic growth.

So the first goals of policy must be to recognise that increasing the tax burden, stealthily or otherwise, might stifle incentives to work and invest; that complexity is costly, and confers arbitrary power on the man from Inland Revenue; and that stability is more important than tinkering. Get policy right, and leave it alone for a long time thereafter.

The second goal must be to concentrate the burden on "bads" not "goods". Tax pollution to discourage it; lower taxes on work and risk-taking to encourage them. Tax consumption in excess of necessities, not the work that drives economic growth.

The third goal must be to improve the efficiency with which public services are delivered. Cameron is right to call for "more choice, competition and non-state collective provision", reforms about which the Gordon Brown-Ed Balls team is, shall we say, ambivalent. But Cameron's willingness to carve out a share of economic growth to fund more public spending unfortunately puts him on the side of the spenders, not the tax-cutting reformers.

So, a serious debate about policy can only be had in the think tanks, the universities and on pages such as these. Efficiency moderated by fairness might, just might, be the result of such a debate.