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Green Policies can lead to new tax debate, says Politeia's next pamphlet. Irwin Stelzer shows that cutting tax must return to the political agenda.

The Chancellor's Pre Budget Statement this week gave one clear message: he remains an unrepentant tax raiser. Yet, as Dr Irwin Stelzer explains in Politeia's next pamphlet, Labour, like the other political parties, is wrong on tax. The case for tax cuts is strong: they help both the economy and civil society. Besides, a lower tax economy is likely *and* it is possible. Change is in the air as green policy sparks a far deeper tax debate. Tax in a growing economy could take a smaller share of GDP. Competition may shrink the state and bring better public services; vouchers could give patients and parents greater freedom.

The Limits to Tax: Efficiency, Equity and International Competition takes on the political consensus against tax cuts: a Labour party wedded to tax and regulation; Liberal Democrats intent on raising the marginal rate, and Conservatives who see lower taxes as the enemy of stability. Tax cuts do not need to lead to shrinking revenues for the Treasury. Nor do they benefit solely 'the rich'. Rather, as the author explains, they give the incentives to work harder and to take risks. They stimulate economic growth and tax receipts and, other things being equal, inbound investment. Lowering tax on corporate profits makes it more attractive to own shares and less attractive to incur debt; they encourage higher equity: debt ratios.

Despite the negative political consensus, tax horizons are changing. Stealth taxes, notably retroactive taxes may increasingly be seen for what they are: a threat to entrepreneurial economic behaviour. For instance companies are reluctant to invest in North Sea oil. For the future, the omens are good for a new and smaller state.

The author explains that the nature and size of the state could change with tax as a percentage of GDP shrinking. At present the state claims 42% of GDP. But efficiency and competition in the public sector could improve service. Parents could be empowered with vouchers to flee bad schools and encourage the expansion of good ones. Patients too, says Dr Stelzer, should have freedom 'to choose their doctors and…treatment' and put the bad ones 'out of business'.

The state can also shrink. If the economy grows at 3% and public sector growth is held below that figure, then levels of public spending as a proportion of GDP can decline. For that tax policies are need to help, rather than stifle, economic growth. And here there are signs for optimism.

Green policies could help re-open the tax debate. Green taxes may change behaviour and mean fewer funds flowing to the oil nations that fund terrorist attacks against the west. But beware, says Dr Stelzer,

> Such 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. So raise green taxes and lower NICs.

Dr Irwin Stelzer is Director of Economic Policy Studies at the Hudson Institute in Washington and a columnist both in the US and London where he writes regularly for *The Sunday Times.*

The Limits to Tax: Efficiency, Equity and International Competition, by Irwin Stelzer, is published by Politeia, 22 Charing Cross Rd, WC2H OQP at £5.00. Enquiries to Daniel Griffiths, Press Officer on 0207 240 5070/ 0795 220 5036, e-mail, info@politeia.co.uk or to Dr Irwin Stelzer at stelzer@aol.com or 020 3043 4224