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Two Shocks and One Change: Global tax competition and public service crisis may prompt vital tax and spending curbs for UK to flourish, says Politeia's new pamphlet.

Politeia's latest pamphlet *Taxing Matters** explains that the high public spending into which Gordon Brown has ensnared all three political parties can and must end. Though the Budget did little to tackle the problem, if the UK is to survive and compete with the emerging global economies, it must change course.

Professor Lal considers how the state, by nature predatory, today absorbs more than 40% of what the nation earns. Governments, he explains, maximize revenue by reflecting the interests of the median voter who becomes a ward of state. Welfare bureaucracies thrive in the system of indirect and discretionary transfers. Politicians and officials also succumb to pressure and focus groups: as a result the UK is changing from being a representative to a participatory democracy where MPs sacrifice judgement to the opinions of the electorate.

Lal explains that the three functions of the state recognised by the classical liberals – security from external and internal oppression and providing for public goods – remain central to reform. But over the 20th century socialism and its successor, social democracy have promoted state enterprise, central control and dirigisme. Today we live with the latest twist, 'capitalism with a human face', where 'rights' based law has tended to undermine the Common Law tradition and a new dirigisme is the order of the day. 'New Labour's legacy is a burgeoning nanny state based on moral and social paternalism and ...[a] web of stealth taxes...'

Now this state of affairs is under threat as 'predation' on such a scale 'can no longer continue': the prey will and can flee. Tax reform is in the air and the UK must seize its window of opportunity. In particular, as Lal explains:

- *Tax systems based on consumption not income are now seen as the way forward.* Flat tax systems are increasingly favoured by new economies. They limit fiscal predation by Government; they are comparatively simple and transparent; they make for faster economic growth; and they remove disincentives and distortions in tax systems. Consumption taxes also stop governments 'carrying out politically inspired redistribution'.
- *Competition from overseas, especially tax competition, will promote change.* The successful emerging economies are low tax and spend. China, e.g., has undertaken the largest unilateral trade liberalization since the 19th Century Corn Law repeal. Competition from lower tax economies (which attract capital and investment globally) will serve as a catalyst for change.
- *The crisis of the welfare state may lead to the abandonment of dirigisme.* The failure of greater spending to bring the improvements needed in health and education may prompt a crisis: as the crisis in nationalized industries in the 1970s compelled reform, so that of the nationalized public services may do likewise.

As Professor Lal concludes: 'When that happens...the state must then denationalize and allow the winds of competition and freedom to blow'.

**Taxing Matters: Moving the UK from Predator State to Global Economy* is available online at http://www.politeia.co.uk/pub/lal_final.pdf and a printed version is available on request to Politeia at secretary2@politeia.co.uk