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The Tax Dodge

THE FINANCIAL TIMES calls it "A little local difficulty".

In fact, Britain's row with Europe over tax policy might turn out to be the beginning of the end for the political consensus that has held the European Union together.

Chancellor of the Exchequer Gordon Brown is championing Britain's right not to impose a 20% tax on the interest from savings held abroad.

The French, German and Italian governments claim Britain is exaggerating the potential effect on the London bond market. And German finance Minister Hans Eichel has accused Mr. Brown of undermining confidence in the falling Euro.

The proposal for a withholding tax is part of a package which also includes plans to iron out what European governments claim is unfair tax competition between member states. But a majority of countries say the package will fail unless the withholding tax is also agreed.

GORDON BROWN'S reasons for jeopardising fiscal consensus in Europe are sound.

The problem is that those reasons need to be valid in all circumstances, if Britain is to avoid the accusation that it merely wishes to champion the interests of the Fat Cats in the City of London.

Mr. Brown offers two major reasons why he resists this tax.

- First, "we will not agree to anything that is against the British national economic interest".

This is a principle that challenges the basis of many EU policies which favour some countries (most often those of Germany and France) against the interests of the others. Britain has to decide whether Europe is a cherry-picking opportunity or not.

- Second, says Mr. Brown, they would not "put at risk the competitiveness of Europe or jobs within Europe".

The chancellor here declares that a tax on capital imposes a deadweight loss on the economy by reducing competition and destroying jobs. In this he is correct, but where does he draw the line? For all forms of taxation on people's wages, their savings and consumption reduce competition and destroy jobs. Is Gordon Brown the champion of the Fat Cats, or of every citizen in Britain?

> 'The harder it gets to tax mobile people and businesses, the bigger the burden that will have to be borne by the immobile. Land taxes, which used to be one of the most important revenue-earners, may regain their former pre-eminence ... local environmental taxes – say pollution taxes, or road pricing – may well come to look attractive to tax-starved governments'
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> \- *The Economist*, Survey: Globalisation & Tax, January 29, 2000, p.18

TONY BLAIR'S government is being accused by the Tories of increasing the overall level of taxation.

Mr. Brown defends his record by pointing out that they had kept promises not to raise the basic or top rates of income tax and to introduce a ten pence starting rate of tax.

This debate about the overall level is based on spurious reasoning. It ignores the fact that the principle problem lies not with how MUCH is raised by government to fund public services, but HOW the revenue is raised.

US economists have demonstrated that the structure of taxation is depriving Britain of goods and services running at more than £440 billion every year (see L&L Spring 1998, p15).

This is a criminal loss of economic opportunity that is wilfully inflicted on the people of Britain because Chancellor Brown chooses to retain the bad taxes. In the light of this, his championship of the city of London's interests is exposed as special pleading for the Fat Cats: their bonuses every year run into the hundreds of thousands of pounds, and even into millions.

IN EUROPE governments are being forced to review their tax policies.

The absence of a coherent fiscal philosophy is giving rise to contradictory policies.

In Germany, for example, finance minister Eichel wants to lower the top rate of personal tax from 53% to 45%, and introduce a lower basic rate of 19.5%. He also wants to cut corporate taxation, with the top rate being reduced from 40% to 25%. The reasoning, says the Berlin government, is that this will help to raise employment.

That reasoning is correct. But why, then, seek to make up for the shortfall in revenue by penalising people who seek to reduce their tax burden by despatching their savings to countries with lower tax regimes?

The only reason why German savers send their savings abroad is that their own government penalises them when they elect to save part of their earned incomes.

THE BUREAUCRATS in Brussels are proving to be the progressive thinkers.

The European Commission is coming to realise that Europe needs to step outside conventional fiscal wisdom. It is studying the benefits of untaxing people's wages and savings, and raising revenue from resource rents.

That shift would represent a veritable revolution. To transfer the fiscal obligation on to the use of land in all its natural forms would raise the quality of everybody's life - it is the pre-condition for the inclusive society - and places the use and conservation of nature on a disciplined basis.

The UK government's proposal to adopt road pricing is part of this progressive thinking (*see p.4*). The car lobby has opposed the policy in crude terms, claiming that the government is hostile to car owners. In fact, motorists have the most to gain from an orderly use of scarce peak time road space.

The dead theories that protect existing policies will not wither without a fight. Tax competition between nations is one of the most effective ways in which electorates can be enlightened about tax policies that favour their interests.

But tax competition also humiliates governments, as the row in Europe over the tax on savings has revealed. If Gordon Brown really wants to promote competition and free people to create the jobs they want, he should stand his ground against the EU - and then apply the same principles to all the other taxes which he now administers.