

The Geophilos Interrogation: Taxation & Ideology

A Coming Tax Revolution?



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FOR CENTURIES PAST (and, indeed, today in many developing countries), taxation had a simple and narrow base. Governments taxed imports and commodities, especially luxuries, with excise duties. Property offered an occasional but difficult source of revenue. The growth of organised urban employment in factories and offices changed all of that. Taxation of incomes became much easier to impose and collect, and governments have generally pushed tax receipts as a share of GNP to heights that would have been inconceivable in the 19th Century and would be, today, in much of Africa.

Various factors are, however, eroding the tax certainties on which most Western welfare states are based.

■ First, a much higher level of economic integration through trade and capital flows - the phenomenon of "globalisation" - has hit some traditional revenue sources. Trade liberalisation has eliminated a good deal of customs duty revenue.

Opportunities for arbitrage between different tax regimes has, in practice, set upper limits to higher rates of income and

company profit tax. Smuggling to evade high excise duties has become easier and more widely spread. But, to the extent that "globalisation" has also brought more growth it has widened the tax base at the same time as it is growing shallower.

■ Second, new patterns of employment lend themselves less easily to PAYE (and VAT) disciplines. The growth of flexible, part time, temporary work in industries such as IT has been the cause of one of the most bitter tax battles in this parliament - over IR 35 - as government

tries to plug holes in revenue collection in the face of resistance from people who had chosen to opt out of National Insurance obligations (and benefits).

■ Third, the growth of e-commerce and intra net transaction within the firms has tax implications which can so far only be guessed at but suggest growing difficulties in sustaining the tax base. The lack of a paper trail makes some transactions difficult to trace: VAT on a business to business transaction or foreign holiday booking; stamp duty on share dealings;

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corporate income tax on complex multi-country accounts.

If the hypothesis is true that it will be increasingly hard to sustain the tax revenue base then there are several implications.

GOVERNMENTS will try to utilise novel techniques for revenue raising – selling assets, covert (stealth) taxes or rely on some dependable taxes, beyond political acceptability (petrol duties) and to an extent that makes smuggling worthwhile (cigarettes and alcohol). The UK has seen evidence of all these.

A second option is to scale back the role of state pension; currently a politically unattractive approach outside the US and more easily talked about than carried out.

A third approach is to look ahead to new forms of taxation which may be more buoyant in the new environment. Paradoxically this may involve going back to some old ideas.

In a world of high capital mobility, growing mobility of high earning groups and increasingly porous borders the one factor of production which cannot move is land. Taxation of property values or land values is difficult to evade – though it may involve a complex valuation process – and has the additional benefit of counteracting regional and other spatial inequalities.

Land in the economic sense means a lot more than *terra firma*: it is all resources produced by nature. Broadly defined, land includes such physically finite resources as the wave band spectrum used for communications; oil, gas and minerals under the sea bed; landing slots at busy airports; land fill sites; road space and multi story work place parking; visual amenity; the atmosphere.

Governments have begun to appreciate that these resources have scarcity value which can appropriately be

captured by the community at large through taxing use or auctioning exploitation rights.

Revenue is only one reason for taxing these resources. Another is conservation. Failure to reflect scarcity in prices will lead to congestion (roads; airports; wave band interference) or over use of finite resources (the atmosphere and climate change).

Revenue maximisation and conservation may, however, suggest different levels of tax. Nonetheless, the potential of this new approach is illustrated by the enormous revenue from third generation mobile phone licenses; the growing interest in road user pricing (to supplement or replace less well targeted taxes like petrol duty) and carbon taxation.

It will be some years before the structure of tax receipts shows major changes. Income tax and VAT will be the mainstay of the Treasury for a long time. But, an interesting and important shift to resource taxation is gaining momentum.