CHAPTER 4: THE QUESTIONS POSED BY THIS BOOK

Summary

In this chapter, we define five major questions that this enquiry seeks to answer. They are as follows:

1. What would an economy fit for our children look like?
2. What are the economic conditions for sustainable and widely-spread prosperity?
3. What economic phenomena or issues can taxation address?
4. How can we effect change?
5. What improvements would a principled taxation and social security system allow?

4.1 What Would An Economy Fit For Our Children Look Like?

This book is addressed to a wide readership: Economists, scientists, politicians, professionals, and the public alike. Everyone, in fact, who cares about two issues not usually understood to be intimately connected: Establishing a fair economy which rewards contributive merit in proportion to contribution (tempered by compassion for the elderly or disabled), and preventing catastrophic climate disruption.

In fact, these two issues are indeed intimately linked. If we simply add the dimension of time, we quickly see why fairness is grotesquely betrayed in a world which ignores catastrophic climate disruption caused by human economic activity. If we fail to stop pumping garbage into the atmosphere, our children and grandchildren will be unfairly burdened by living in a chaotic world of crisis and destruction. It's that simple. Just add the dimension of time, and climate safety becomes a matter of fairness - profoundly so.

Across the social spectrum, people are starting to lose hope. The poor are losing hope because of their precarious economic situation; the wider public because of a lack of certainty that society can fix critical issues such as preventing radical climate disruption. Even the wealthiest in society are showing signs of fear, building bunkers and preparing for the worst. But with careful design and application of policy, and sufficient political will, all is not lost.

What would an economy fit for our children look like - a society and economy that promotes the wealth and happiness of its citizens? Such a framework would define, create, preserve, and equitably distribute wealth, both natural and human-made. To build an economy that enables and fosters happiness, we will need different metrics than those economists conventionally use today - metrics encompassing both economic security and satisfaction of needs, as well as measures of free time, manageable stress levels, and social stability. A thriving economy is one that is good for people and for the planet. Gross domestic product (GDP) is only one among many relevant measures.

4.2 What Are The Economic Conditions For Sustainable Widespread Prosperity?

To define a desirable economy and society, we need first to determine the economic conditions that would be necessary for sustainable and widespread prosperity.

Adam Smith wrote what is probably one of the two most famous books on economics, *The Wealth of Nations* (Smith 1776), more than two centuries ago, at a time when three revolutions were underway: The political revolution in America and France, the nascent industrial revolution in Britain, and the intellectual revolution that he himself played a part in. The world has seen tremendous technological progress and economic growth since his time. Yet major problems persist to this day - including widespread economic insecurity and existentially dangerous forms of pollution.

Why, given two and a half centuries of remarkable technological and economic progress, do these issues persist? Why, despite the growth in global wealth, are many people still existing in precarious circumstances? Why is there environmental pollution, even though humanity has the wealth and technological ability to prevent it? The 19th-century reformer Henry George tried to answer these questions in his seminal text *Progress and Poverty* (George 1879). He argued that it was the exploitation of the private ownership of land that caused poverty. This is not the sole reason for the issues that society currently faces, but we can draw from his analysis a few lessons that shape our recommendations. The very structure of our economic system is at fault: It does not place explicit value on the well-being and happiness of people. Our economic system has not allowed us to take full advantage of the technological progress we have made in ways that serve human happiness, fairness, safety, and environmental sustainability. To come to grips with this reality, we must fight fire with fire - i.e. we must adapt the tools of the current system to combat its weaknesses. What we seek is instruments of economic policy that will re-orient human efforts in desirable and necessary directions. This quest is in the tradition of what used to be called *political economy*.

Evolution of Political Economy

Economics is the study of activities that are, at least in part, motivated by financial gain. Economics comes from the older term *political economy*, which itself comes from Koine Greek, the *lingua franca* of the Eastern Roman Empire from the fourth century BCE onward. *Polis* means city-state, the main form of political organisation in ancient Greece. 'Economy' comes from two Greek words: *Oikos*, meaning household, and *Nomos* meaning law. Thus *Oikonomos* means household management and the root of *political economy* is 'household management of the state'. Classical political economy treatises include the works of Thomas Malthus, Adam Smith, David Ricardo, John Stuart Mill, and Karl Marx.

Classical political economy considered how the economy's production was distributed amongst participants in the system. A question at the very heart of political economy has been that of just distribution. Taxation is a way to pay for public goods, but it is also a means to remedy distribution when it is inefficient or unfair. Thus, the study of political economy, or economics, is powerful, as economics has implications on the income, wealth, and well-being of all individuals. One can believe an economic theory for 'scientific' reasons, but one might also support a given theory because it furthers his own interests or ideological preconceptions. This makes economic discourse somewhat fraught - indeed political. Self-interested parties with deep pockets can influence (and have influenced) the public to assume the veracity of certain economic theories which are in reality normative ideologies, and lead them to be considered authoritative, by simple expedients such as generously endowing professorships of economics at leading universities, funding think-tanks, and owning newspapers.

Theories of political economy often have questions of taxation and property at their heart. The efficacy of a particular taxation regime can be considered on two grounds: The extent to which it incentivises efficiency, and the extent to which it promotes fairness. These questions depend not only to economic processes (regulatory and infrastructural frameworks for production and competition) but also on the structures of taxation and private property ownership. What assets can be owned, who owns them, and how much tax should they pay for doing so? These questions are at the heart of economic management. Desirable economic outcomes depend not only the structure of economic activity but also on the taxation system and the system of property rights. Our starting point is Adam Smith's model, since his work has helped to define the predominant economic view of the two centuries that followed the publication of his seminal work.

Adam Smith's Model

In *The Wealth of Nations*, Smith set out a model of how economic growth comes about, and how it can lead to widespread prosperity. He argued that the division of labour leads to higher levels of productivity, giving the example of a pin factory, where dividing the process of manufacturing pins into discrete steps and assigning workers to become efficient specialists in a single step leads to more pins being produced for the same total number of hours worked. By focusing on a single task, a worker can do this task more quickly than if he has a multitude of different jobs to do. This differentiation of jobs takes place not only in a single enterprise but also across the whole economy. By specialising and trading, we can get more work done in a given number of hours. The productivity of the economy rises.

If an entrepreneur improves the production process, she can lower her cost of production and still sell at the same price her competitors charge. In other words, she can make a higher profit. In the short term, the advantages of the improvement accrue to her. Thus, the profit motive provides an incentive to make improvements. Her competitors may notice the improvement that she has made and replicate it. To retain market share, they will lower their prices towards the new cost of production. A price-war to capture customers may result. After the competition has taken its course, we will be left with a different situation. The price of the goods concerned will have fallen to just above the new production cost. The long-term beneficiary of this technological improvement will be everyone who purchases the product.

This combination of technological progress, the profit motive, and competition can lead to widely spread prosperity. While the initial profit from the improvement accrues to the entrepreneur, the long-term beneficiary from the reduced cost of production is the customer. If this picture is correct, profit is a necessary but temporary phenomenon. It is competed away, and as this occurs, society as a whole becomes richer.

4.3 What Economic Phenomena Or Issues Can Taxation Address?

Phenomenon 1: Rent

The simple model just described relies on certain assumptions. One assumption is that a production process, once improved, can be replicated. There must be enough market participants for competition to work. If there is only a single monopolist, or if market entry is prohibitively expensive for entrepreneurs not already established in the particular line of business, then competition will not work as described. If I own a big monopoly with no competition, I can also own a continual flow of profits that competition will not touch. The beneficiary will be the owners of the monopolist incumbent firm. Their earnings, untouched by competition, are termed 'rents.'

Similarly, if the process relies on some factor of production that cannot be replicated - for example, land - then the beneficiaries of improvements will be the landlords. Imagine I own some land with buildings on it. I can let the buildings, sit back, and enjoy the flow of income, without having to work. This flow of income is also called 'rent.' Now, suppose that for reasons that have nothing to do with me, regional wages increase. I respond by jacking up the rent that I charge my tenants, taking away the improvement in their living standard. I can do this if I am a monopolist property owner, or I collude with other property owners, or even if other property owners and I merely respond to rising demand for better properties by raising our prices. Rent goes up as wages increase.

We term these two forms of property income 'generalised rent.' Generalised rent is a permanent flow of revenue associated with an asset that cannot be replicated. It is received by the owners of properties in valuable locations and the shareholders of market-dominant companies. We argue that generalised rent leads to expensive housing, stagnating wages, and unmerited wealth gains for the already rich.

Phenomenon 2: Wicked Externalities

So what about the problem of pollution? Damage to other people or their interests is usually illegal. Examples could include injury or theft. However, some economic activities which damage others are legal. Driving a petrol car, which pollutes the environment, is legal and normal, but harms others' interests. Small indirect damages from many independent sources can add up to a significant total. Imagine driving into a major city at rush hour. Each car adds only a little congestion and pollution, but together they add up to gridlock and unhealthy air.

When one person or company's behaviour damages another, it is termed by economists as a 'negative externality.' Negative externalities are a form of economic theft if they have not been appropriately regulated. For example, if I throw my plastic waste into the ocean, it can then damage fish and other marine life. My careless action has stolen from the future of the ocean. If I play loud music late into the night, I damage the interests of my neighbours, robbing them of sleep, making them tired the next day, reducing their performance at work, getting them into trouble. I am, in effect, stealing their tranquillity.

Moreover, externalities that seem acceptable when societies are small may prove problematic as they grow. For example, Newfoundland fishermen could fish without constraints when their boats were small and their numbers low. There was plenty of fish. But then the industry grew in size. Fish stocks are not unlimited. If too many fish are taken, the fish don't get a chance to reproduce, and fish stocks collapse. This is what happened near Newfoundland. Fish used to be so plentiful that the sea teemed with life and business boomed. The exhaustion of these stocks through overfishing led to a collapse in both fish numbers and opportunities for the fisherman to earn livelihoods, leading to problems ranging from depression and divorce to community outmigration. This complex of overuse, collapse, and attendant harms could be termed a 'wicked externality.'

Climate change is among the wickedest of externalities. Wicked externalities such as climate change are damages caused by our actions that affect others remote in time and space, without adequate governance systems to constrain them. For the planet as a whole, this model is catastrophic. But there is a route out of this kind of economic situation. Economic growth needs to be dematerialised or physically circular. In other words, we need to decouple the impacts that economic growth has on natural resource use and on the natural world - or even, in some cases, make growth generate positive environmental externalities, by seeking activities that are regenerative of ecosystems (rather than degenerative) and setting financial incentives (through regulated financial mechanisms) that make regenerative actions remunerative and profitable. If in the past we've rewarded companies for clearcutting forests, in future, we can pay companies to replant deforested areas. We can rejig the system so that it's more profitable to generate low-carbon electricity (nuclear, wind, or solar power, for example) than electricity generated by burning fossil fuels. And so on.

Which Policy Tools Can Affect Change?

This discussion of the problems of pollution and precariousness has led us to identify the two fundamental phenomena of rent and negative economic externalities. The issues are coming into focus. This leads on to the grand-challenge question: What should be done? In governance terms: Which policy tools can be employed to effect change?

Taxation is vital in our economic model not just because it alters the distribution of income, but also because it can be used to set finely tunable financial incentives for the private sector. Classical political economists, from Smith to Ricardo to Karl Marx Arthur Cecil Pigou (Pigou 1924), have argued that the taxation system or redistribution of property are the two basic categories of corrective tools for these issues. In short, economists have argued to tax rent and negative externalities such as pollution.[1]

Economists have been aware of the phenomena of 'rent' and 'externalities' for many decades, and yet taxes which would correct these economic distortions have only been imposed only occasionally and partially.

[1] Because this book is about taxation and welfare in the context of nthe real economy and the global environment, it inevitably overlaps with other systems, including systems for providing energy, housing, and finance. Our focus is mostly on taxation in relation to the problems seen in these systems. Nevertheless, we do not intend to exclude specific policy changes that are not related to tax. Smart taxation can make enormous contributions toward solving our social and environmental problems, but it is not the only mechanism for so doing.

4.4 How Can We Effect Change?

Political feasibility is, it seems, a crucial barrier to these changes. Prioritisation of strong policy communication and smooth implementation are critical tenets of any successful public policy. A policy that's poorly communicated or implemented, even if well-conceived, will soon be rejected by outraged citizens, and political opponents may persuade voters that the plan was a bad idea in principle even if it was merely badly executed. That can take a good policy idea off the public agenda for a generation. Developing a *theory of change* for successful policy communication and implementation is, therefore, a key priority.

Here, we make a case for a simple 'change equation,' in which the perceived benefits of any policy must overwhelm the perceived costs. Dannemiller (1992) describes a formula created originally by David Gleicher. For change to take place:

$$D * V * F > D$$

- *D: Dissatisfaction with how things are now;*
- *V: Vision of changes proposed;*
- *F: First concrete steps that can be taken towards the vision.*
- According to the model, the change will only happen if the product of these three factors is greater than *R: Resistance*.

The Beveridge Example

Dissatisfaction with our taxation and the economic system seems rife, but is there enough of a vision for a better future? Can that vision be implemented by actors motivated to do so and with concrete steps available? Can we make a sufficiently passionate and positive case for these taxes, and therefore overcome opposition? Alternatively, can we reduce the perceived costs of the proposed changes, and hence the political resistance to them?

Let's consider one example of revolutionary change in the UK's social security system. As we noted earlier, a significant milestone in the history of social end economic progress in the UK was the Beveridge report (Beveridge 1942). Over seventy years ago, in 1943, liberal economist William Beveridge presented a report proposing a whole new welfare state. It laid the basis for greatly expanded public services and benefits in the United Kingdom after the Second World War. Its objectives were to banish 'want, ignorance, squalor, disease and idleness.' Before the Second World War, these social evils ravaged the lives of the poor in Britain.

The war itself destroyed many buildings, homes, and businesses,

and increased the national debt. Moreover, the post-war government managed to create a comprehensive welfare state where none existed before. It included: the National Health Service; a system of social security (welfare benefits); a state education system; public housing; and a policy toolkit for 'Keynesian' macroeconomic management that aimed to achieve full employment. In this book, we'll focus on the social security system.

Three principles guided the Beveridge report (Beveridge 1942).

- *Radical*: Policies were designed from first principles, without fear or favour to social class or other interest groups.
- *Comprehensive*: It dealt with poverty, disease, inadequate housing, unemployment, and a lack of education.
- *A liberal social contract*: No means-testing and so no stifling of incentives; cooperation between the state, individuals, and firms.

Here, we adapt and expand these principles to the modern context in which they now operate, through outlining our four-fold framework for successful political change.

Principle 1: A Fundamental Review

Beveridge argued that the Second World War and its aftermath was 'a time for revolutions, not patching.' He offered a radical approach, informed by the experience of the past, but not restricted by excessive devotion to the interests of one group or another. In short, his report would be *radical* (working from first principles) and prioritise the *common interest*.

We also aim to look at tax and welfare from first principles. We will then apply those first principles without fear or favour. But are we at a revolutionary time? Can we change a complex system like tax and welfare from first principles, or is 'patching' the only realistic possibility? We will assert that change is possible if it is beneficial, practical, and fair, and communicated well so that these qualities are evident.

One does not make fundamental progress without thinking about what a system should *do* and what it should *be*. We address this in the 'Tax in Principle' chapter. We need to be passionate about the benefits that reform will bring. We consider these in the next section.

Principle 2: Solving Great Social Evils

Beveridge argued for a *comprehensive* solution to the five 'giant' social problems of the poor. His report dealt primarily with want (poverty) and disease (poor health). The other three 'giants' were ignorance

(lack of education), squalor (poor housing), and idleness (unemployment). As we mentioned before, his report laid the basis not only for the UK's post-war social security system, but also the National Health Service, public education, housing policy, and a system of macroeconomic management aiming for full employment.

We still have Beveridge's giant social issues to some degree, but we are also faced with new problems. This book, like Beveridge's report, is devoted to several great societal challenges which we face now:

- *Excessive Concentration of Wealth and Income*: How can extreme inequality of income and wealth - especially inequality caused by arguably unfair means, exacerbated by the context of increasing automation - be reduced, and incomes and accrued wealth brought more in line with individuals' real contributive merit?
- *High Rent on Land and Resources*: Can can the radical and increasing unaffordability of renting or purchasing homes be countered?
- *Tax Evasion and Avoidance*: How can a tax system be designed that is both simpler and more difficult to evade?
- *Debt and Economic Imbalance*: How can the economy be rebalanced away from high debt and asset inflation, and towards balanced growth and wealth formation?
- *Pollution and Other Environmental Damage*: How can we deal effectively with the problems of climate change, ocean acidification, plastics pollution, over-fishing, and habitat and biodiversity loss, issues that impinge on all of us and which all of us contribute to causing?

It's not enough to imagine top-down plans that might, in principle, solve these problems if they were applied. We have to do so in a competent way that involves everyone, or they won't, in fact, be implemented. We cover this matter in the next section.

Principle 3: A Social Contract Aligning Reward and Contribution

Our new welfare system should not discourage work. It should encourage service and contribution. We will study in detail Beveridge's third principle (a liberal social contract, with no means-testing) to see if and how a better welfare system might be created. This suggests the case for a system with a universal component: We call this a 'citizen's dividend' (a form of basic income).

Such a system of universal benefits has practical advantages too. It involves the *integration* of the tax system with the benefits system, so there is not a separate system of 'means testing'. Means testing is merely taking money away from individuals and families as they earn more. This function can be most naturally and efficiently carried

out through the tax system. Rewarding people for full and gainful employment should be a priority for any successful system. Furthermore, we argue for an integrated skills-training and work-experience system, not unlike that which has long been standard in the German-speaking countries of Europe.

Principle 4: Minimising Barriers To Change

To Beveridge's three principles we add a fourth. Proposed changes should be designed to maximise benefits and minimise resistance. In short, we need to reduce barriers to change.

One barrier is the worry that some people have that they will be made worse off by any changes. Firstly, there is the question of transitional justice; secondly, political realism; and thirdly, the need to transform the interests and specialisms of large companies, without provoking resistance from them. We deal with these in turn.

Firstly, there is the matter of transitional justice. We need to ensure not only that the final state is fair, but also that the transition between the current system and the new is also decent. Resistance to taxation changes is typically associated with concentrated losses imposed on specific groups. These groups can quickly mobilise to resist new taxes. We need to ensure that no politically salient or vulnerable group is made notably worse off. One example of politically savvy change is from Iran. When Iran eliminated a subsidy on transport fuels such as diesel, it compensated individuals and companies with regular monthly payments. The payments were sent to frozen bank accounts, and each individual and company was given a letter with the frozen bank account balance. The people could see the direct financial benefit of the reform, and they realised that to achieve this economic benefit, the fuel tax subsidy removal had to come into effect. This reduced the resistance to the reform, and it went through.

Let's focus now on corporate lobbying. Companies have the means at their disposal to defend their current financial and regulatory interests. Oil companies have successfully lobbied against policy actions to conserve the stability and safety of the global climate. Taxes change the nature of what activities are profitable. Taxes could change the nature of these agents (for example, converting an oil company to a renewables producer). But these cannot be imposed because these very same companies resist the taxes, which they perceive as opposing their interests (even if the reality is that they need not harm these companies' long-term interests at all - they merely require a transition to a new business model, and a re-investment of resources in new technologies).

We have a catch-22 situation. We can't change the companies with-

out changing the tax system. But sometimes, we can't impose the new tax system without changing the company, since they can effectively resist policy changes. So instead, we need forms of tax that don't face such resistance, but which lead to the transformation of companies in a positive direction. We describe one option, the feebate, a little later on.

4.5 What Improvements Could A Better Taxation and Social Security System Bring?

There are four important benefits to wider society of a better taxation and social security system. We call these the four realms of value: households, communities, nations, and the world. We argue that our proposals can enhance true wealth at the level of the individual, community, nation-state, and planet. For each of these four realms, we also define a notion of social entrepreneurship.

These forms of entrepreneurship imply a new growth model for everyone - one that is not based on increasing financialisation and debt issued on limited assets, but rather on the development of productive industries tasked with solving our collective problems. There's an overarching concept too, which we term *policy entrepreneurship.* That is, we should break out of the monopoly of thought imposed on us by neoclassical economics and neoliberal economic ideas, and instead conceive of and try out practical solutions to our problems, without ideological blinders.

Improvement 1: Power to the People

The current social security system is highly insecure: Benefits are taken away from people when their conditions change, sometimes leading them to go into arrears with their rent or other payments, and often leading them into debt. The current social security system also discourages work, since benefits are withdrawn as income increases (in the Universal Credit system at a rate of 61% for every £ increase in income).

We argue that the UK government should simplify the existing income and means-tested benefits system. Rather than the current system of means-testing benefits, there would be a single system of basic income and taxation. There would be a 'simplifying' basic income payable to everyone in society. There would also be a simplification of the system of income taxation. A standard rate of 40% is applied to all income up to the point when someone reaches the top 1% of incomes.

An optimal social security system would involve some funding from sovereign wealth funds, as well as the creation of personal accounts with shares in these funds, so that the people accumulate assets to support them in hard times, and the state gains improved leverage of companies in the service of directing them to engage in socially useful production. So there would be citizen wealth funds, and assets would be granted to individuals based on how much tax they had paid. There would be a 'target minimum level' of wealth

and individual's tax would build up their wealth up to this target level.

Our improvements would, we hope, lead to skill-based personal and social entrepreneurship. A better system in which benefits would not be withdrawn so rapidly as income increases, would: - encourage people to increase their skill level,

- be well integrated with the taxation system and - support those who enhance their communities in ways other than merely earning money (for example, by caring for elders or raising a child). It would also allow division of labour with minimal taxation between individuals in communities (so eliminating the tax advantages of being a company relative to an everyday citizen).

Case Study 1, Income and Corporation Tax: the USA in the period 1945-1980: The United States in the post-war years showed the advantage of redistributive income taxation, including high tax rates on companies. The top rate of income tax was often over 70% in that period, and taxes on companies were also higher than at present. Because everyone's incomes were not as widely different, this not only meant that ordinary people could afford consumer goods; it also meant that everyone had a chance to buy a share of limited positional goods such as land. Since the top rate of tax was high, and since income tax is the largest and most significant tax, this meant that the tax rate paid by people with average earnings was lower. We discuss this is Parts 6 and 7.

Improvement 2: An Affordable Home in a Prosperous Community

The second priority is an affordable home for all. British governments have massively mismanaged the taxation of housing and business properties. By appropriately taxing the value of the location (land) in a way that is convenient and fair for all, we can make it possible for most people to enjoy the economic benefits of owning their own home. An optimal tax system would encourage community action, so that 'community entrepreneurship' allows communities to develop their value and capture the fruits of development improvements. How could we achieve this, given how expensive homes already are in Southeast England?

The first priority is to capture location-rent increases that occur as a result of public causes. What does this mean? This means that the property taxes: Council taxes, business rates, and stamp duty, should be rolled up into a single tax on the value of the land. Another way to measure this is: It is a tax on property, with the value of buildings deductible. A Land Value Tax could be payable in cash or deferred until property-sale or death.

Taxing property values rather than property *per se* would stabilise current property values. Where land value increases, this increase would be allocated between the local community, the municipal authority, and the central government.

Case Study 2, Land Value Capture in Singapore and Hong Kong since independence: Singapore has been termed a 'property state' (Haila 2014). Its example shows what is possible when there is a 'prosperity loop' between investment in public infrastructure and public rent collection. In a nutshell: As the government makes infrastructure improvements, those improvements increase the rental value of the land. Those land value increases then accrue to the government. Hong Kong also shows the advantages of this approach. Before a new metro line is built, land near the new stations is purchased at pre-announcement cost. When the metro station has been established, the property value and rent will increase. In this way, society captures the land value benefit of the new infrastructure [Purves]. We discuss this in Part 8.

Improvement 3: A Prosperous and Wealthy Country

The third priority is a prosperous and wealthy country. The current taxation system does not encourage productive wealth formation. It supports the sorts of companies that *extract* wealth from the country and discourages those who want to invest productively and regeneratively in society. A better system would encourage people who invest in *real assets*, but discourage purely financial investment. In short, a sound tax system encourages a balance of trade.

A sound tax system discourages foreign investment in a financial sense (speculation on paper assets) while encouraging investment in a real sense (in building factories, for example). An optimal taxation system would involve collaboration between the state and the private sector, so the gains of research and development investment are shared between both.

For this, we need to provide an incentive for companies like Dyson to locate into the UK. We would simplify the corporation tax system so that it is progressive, but allows real investment to be deductible. We suggest the following: a *higher* corporate tax but calculated as a percentage of the following net quantity:

$$Cashflow = UKSales - UKWages - UKInvestment$$

In other words, the tax should *encourage* UK companies to invest in the UK. We call this a *Dyson Tax,* after the British Inventor and manufacturer James Dyson.

Moreover, commercial banks should be encouraged to lend to real-economy productive businesses.

Case Study 3, Financial 'Repression' in the UK in the period 1945-1980: One great anxiety is about *debt*. There are two forms of debt that concern people: public (or government) debt and private debt. High public debt pressures governments to 'cut the deficit' through 'austerity.' Yet in the past, the best way to reduce the burden of public debt has been to not worry much about it - i.e. to use different strategies than cutting expenditures to reduce the debt-to-GDP ratio. In the three decades after the Second World War, the UK reduced its public debt to GDP ratio from over 250% of GDP to 70% of GDP. It did this not through austerity, but rather through growth, inflation, monetisation of some debt, and low interest rates. We consider the fiscal benefits of such strategies later in this book.

Improvement 4: A Clean and Safe Global Environment

The final priority is the environment. We are facing several significant environmental problems: climate change and ocean acidification, plastics in the ocean, habitat destruction, road congestion, overfishing, over-hunting, and conventional air, water, and land pollution. Environmental taxes have a few challenges: they can be unpopular, hard to design, encourage 'off-shoring' of dirty forms of industry, and bureaucratic.

Since demand for damaging products can be unresponsive to price, a high environmental tax may be necessary. But high environmental taxes may be unpopular, disruptive, or politically unrealistic.

Individual country actions are not enough. Instead, we need global action. But there are no functioning global institutions. Thus, we must look for solutions that can be implemented at a national level, yet designed to encourage other countries to follow suit with similar policies. Such solutions should fit within existing international treaties and rules (e.g. GATT).

Since protecting the environment is so essential, the main priority is not to raise additional revenue. Instead, it is to ensure that the private sector has the correct incentives. Accordingly, we propose a carbon tax. However, if we want people to switch away from fossil fuels, there needs to be an alternative to them. We achieve this with a tax on carbon inputs, complemented by a subsidy on clean electricity production. Simultaneously, we also provide low-cost loans from the public loan board. There will be prizes for the rapid roll-out of new clean technologies and national targets for the roll-out of low-carbon electricity.

Case Study 4, Environmental Taxes in Scandinavia, Switzerland and the UK: Three European countries show that a carbon tax can work as intended. Sweden, Switzerland, and the UK all have a carbon tax of some description. Sweden was one of the first to introduce its carbon tax. The per capita emissions of Sweden are now among the lowest in Europe. Switzerland has also introduced such a tax. The UK introduced its 'carbon price floor' more recently, and it has seen a substantial fall in emissions. Most notably, the UK has seen a drop in the use of coal in electricity generation. Other environmental taxes include charges for plastic bags, urban traffic congestion charges, and deposit return schemes.

4.6 Conclusions

The central concern of the book is the use of the tax system for public benefit. The challenge addressed is how to pay for public services and social protection in a world characterised by 'wicked externalities,' 'generalised rent,' and (as we will deal with later) international flows of money and assets. We want to solve the critical challenges facing our societies, including climate change, poverty, and the phenomena of complexity, avoidance, and evasion in our taxation and welfare systems.

We aim to propose a system of actively beneficial taxes. Good taxes would shape the profit motive towards the needs of people, communities, and the living planet on which we all depend. We seek a tax and social security system that is not only fair and practical, but also beneficial to ordinary people, our country, and our world.

What do these analogies mean for modern government policy on a large island that harbours the lives of 65 million people? A multitude of factors influence the functioning of the UK tax and welfare system, and those factors interact to determine the impacts these controls have on society.

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