Agenda for tax reform

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Twenty four years ago Margaret Thatcher inaugurated nearly two decades of reform, designed to restore Britain economically to the low-inflation and dynamic economy it once had been. In 1997 a ‘New’ Labour government obtained power; the distinguishing ‘new’ was added to indicate that Labour would continue along that reforming path. It would, so its leaders proclaimed, use the free market to pursue efficiency while also striving for ‘social justice’. In a number of areas that has been true. In monetary policy the Bank of England was made independent; in fiscal policy the government proclaimed various new rules to buttress fiscal responsibility, though this now looks rather tarnished; in the labour market the tough approach to benefit eligibility inaugurated by the Conservatives was made bipartisan. Thus some progress has been made.

However, in key areas no progress has been made; indeed we have slipped back. In no area is this more evident than in taxation and benefits (now renamed ‘tax credits’). Complexity has proliferated, with a stress on special incentives and special penalties; this has created a complex patchwork of high marginal tax rates. This and how to reform it is the topic of this paper.

What is a good tax system? The Ramsey principle

It is useful to recap on just what, from the viewpoint of economic efficiency, is the best tax system. The key principle is due to Ramsey and is known as the Ramsey Principle of equalising tax across groups, commodities and time. (Ramsey was a brilliant student at Cambridge in the 1920s and this comes from an article in the Economic Journal of 1927). The basic idea is that as you raise the tax rate the extra cost becomes steadily higher (call it the law of increasing dysfunction); the formal reason is that the state is driving a bigger and bigger wedge between what things (eg labour) are worth in the market and the (net-of-tax) return to the people producing them; the latter is the true cost of the effort being expended, the former is the true value to the economy. So as you raise taxes and so lower output the loss of that output is more and more damaging because the loss of value to the economy is ever greater while the reduction in effort gained is ever smaller. Per contra where you lower the tax rate and so raise output, the gain from that higher output is getting steadily smaller because the extra value is getting closer and closer to the extra cost. The corollary of this principle is that when the output responsiveness is the same across different markets (a natural benchmark) tax rates should be equalised; because at this point there is no gain from switching the tax burden from e.g. one commodity to another, as the extra gain on the one would be just equal to the extra loss on the other. The three practical implications are a) the celebrated ‘tax neutrality’ (across goods and different activities, methods of finance etc) principle of the Lawson years- alas much resiled from since-; b) the flat rate tax (the same rate across all groups of people regardless of eg their earnings); and c) the less well-known idea of ‘tax-smoothing’, which is keeping the tax rate for the economy constant over time. The aim of reform should on these grounds of efficiency then be to reintroduce a), to move the system towards b)
and to use c) as the foundation for policy towards public borrowing. We now address each in turn: neutrality, the flat tax and tax-smoothing.

**Practical implications for the UK of the Ramsey principle**

**a) Neutrality across sectors and activities:**

Under Nigel Lawson’s chancellorship a determined effort was made to achieve neutrality so that different activities should as far as possible attract the same marginal tax rate. Capital allowances were reduced so that they reflected economic depreciation rates; stamp duty was largely abolished as were preferential rates of tax for privileged activities such as ‘development zones’. Gordon Brown has reversed this thrust in a bout of unprecedented activism. We now have capital allowances back again, to ‘encourage investment’. Stamp duty on houses (a tax on mobility) has been raised sharply, with a top rate of 4%. Tax privilege is back for ‘derelict zones’. There are special low rates of tax, both income and capital gains, for small and medium-sized enterprises (‘SMEs’) on the grounds that their activity is particularly fruitful. Saving in various forms has been penalised, notably by the abolition of ACT-relief for pension funds but also by the sharp raising of the level of the old age benefit threshold (now called a minimum) and the introduction of pension tax credits for those with pension incomes above this threshold; previously the philosophy was to relieve saving of income tax in most approved (long-term) forms, thus moving the income tax in the direction of a tax on consumption, again in line with the Ramsey principle- in that future consumption is thereby taxed at the same rate as current consumption.

The aim of reform should be to get rid of special treatment. The concept that should underlie the taxation of commodities and services should be that of taxing consumption however it is carried out, at a standard percentage rate. In principle the VAT should be extended as far as possible across all categories of spending, so making possible a reduction in the standard rate of VAT. At the same time income tax should be adjusted onto a consumption tax basis: this means that all saving is deducted from income before it is taxed. This would abolish the mass of saving exemptions as redundant, so also simplifying the system; since these exemptions have much the same value as the total relief of savings via the consumption tax, there is little if any extra cost in the switch from income basis.

The consumption tax base would enable us to get rid of capital gains tax, which is most unsatisfactory in principle (because it taxes saving) and also complicated in application. Consumption is equal to income (including capital gains) minus the difference between end-period and beginning-period asset values. Since the change in assets includes capital gains, this tax base amounts to income (excluding capital gains) minus any net new asset acquisition. The simplification, incidentally, of tax returns would be huge: instead of the present mass of detail it would be just income less any net new assets.

One may note in passing that stamp duty, which is a tax on transactions not on any consumption value, should be abolished. The same applies to a number of recently-introduced taxes such as airport tax and insurance tax. Only if such taxes are related directly to charges for services rendered do they have a justification; in this case it would be better for them to be levied explicitly as charges and then passed on to the
customer in whatever way the commercial operators feel is best; airport charges for example should be levied on airport operators.

Another important point to note is that the consumption tax is levied on all consumption; this includes consumption of all housing which is a long-lived consumer asset. Rented housing is taxed automatically in consumption. However, under a consumption tax saving to buy a house is untaxed; under an income tax house purchase is done out of taxed income. It follows that the consumption of owner-occupied housing is taxed under a consumption tax, in the same way that rent is taxed. In switching to consumption tax this implies that no more tax is paid on owner-occupied housing than now; however it is taxed in a different way.

b) The flat rate tax:

The flat rate tax
It turns out that the total UK tax system (National Insurance, NI, and indirect tax included) produces a top marginal tax rate of about 60% (this is the percent of the wage paid by an employer taken by the state in NI, indirect tax and income tax; i.e. employees get £40 worth of goods and services valued at their true cost for an extra £100 paid for their labour by the employer). For the average worker it is about 43%. The average tax rate of the economy is 40%. In this the average yield of income tax is about 20% - this is the result of an average of bands from 10-40% with presumably some slippage in the theoretical yield on this taxable income. So a flat rate tax of the same yield, assuming none of the indirect effects on revenue discussed later, would be some 25% against the current mixture. (All figures in this discussion are inevitably approximate given the complex detail of the tax system.) This would bring everyone's marginal tax rate to about 45%.

Under the flat rate principle personal allowances are unjustifiable because they imply a rise in the necessary flat rate tax- in effect personal allowances can be thought of as a zero tax band for people on very low earnings which violates the flat rate optimum. Abolishing personal allowances would increase the tax base by about another fifth, allowing the flat rate to drop to 20% for the same yield. This would lower taxpayers' marginal tax rates to 40%.

We will consider later the possible ways in which the flat rate might be introduced in practice; in its basic form it poses a number of practical difficulties and I will argue that its essential gains can be obtained quite simply. But first we consider the question of benefits (negative tax or tax credits).

c) The benefit system

Benefits have now largely been renamed as tax credits and are administered by the Inland Revenue and Customs Department. The problem with the current tax credit system is the very high marginal tax rates created by their means-testing- currently the withdrawal rate is 40% which added to other taxes and NI implies a marginal rate of around 70%. We will deal with pensioners in detail below.
These benefits have various purposes. Family tax credit is intended to increase work income relative to unemployment benefit, so as to make work worthwhile. It is also designed to help poor people with children, to reduce the poverty of families. Housing benefit is intended to help poor people pay for housing with rents set by market forces; thus the idea is to shift subsidies from bricks and mortar (council housing), which stops people moving to find jobs, directly to the people intended to be helped. Finally other classes of benefit are explicitly designed to help with particular situations, such as disability; provided these benefits are dependent on these situations and not on income, they do not create disincentives to acquire income by work.

In themselves, these purposes are worthy; the problem is that they are expensive in taxes- which drags down the welfare and efficiency of the general taxpayer- on the one hand and on the other they create serious disincentives (via those high marginal tax rates) to work and retrain for the very people they are helping. Hence it is important to try to find ways of reducing both their tax cost and their disincentives for the recipients.

One way of reducing the tax burden is to lower the generosity of the tax credits; this is entirely reasonable, given that their objective it to relieve poverty. Unemployment income is designed so that its recipients reach socially-acceptable minimum levels of consumption. Therefore by implication this is also the level that tax credits should achieve as a minimum for families with working heads; they are in fact significantly higher, in the order of 10%. The reason that is given for their being higher is that it provides a monetary incentive therefore to work. However, this makes no sense. The whole idea of unemployment support is that it is only to be paid to those who cannot yet find a job; after a period of search they are meant to take a job and then this support is withdrawn. This conditionality ('no fifth option’ in Labour parlance, in Conservative terms the Job Seeker’s Allowance concept) is now being enforced in a bipartisan manner, as it is generally accepted that people should take available jobs rather than stay on benefits for extended periods. If so the monetary incentive is irrelevant, as once the time is up the unemployment support is withdrawn. Thus we can easily justify this minimum or meanness in the provision of welfare benefits to those in work by the argument that in fact it creates no disincentive to work when benefits are administered toughly so that work must be taken.

A further way of reducing the cost to the taxpayer is to means-test the tax credits for people in work more sharply- that is, withdraw them more quickly as income rises. The age-old problem this causes however is that the poor then face a worse poverty trap since the incentive to retrain for better-paid work is apparently very small. In fact one can argue with some plausibility (I did some calculations to this effect some years back, in 'The Poverty Trap after the Fowler Reforms' Improving Incentives for the Low Paid, edited by Alex Bowen and Ken Mayhew, NEDO, London, p 121-139. 1991, and plainly similar calculations informed UK Treasury thinking for many years before this current government) that it is best to have a short range of income over which the withdrawal rate is very high. The idea of this is that though technically incentives in this range are very bad, nevertheless the range is small enough that most serious retraining would allow trainees to ‘leap over’ it, in the sense that their income after training would be well above the range and hence the marginal tax rate would be moderate across the leap.
This argument would therefore be that the poverty trap does not cause very much
damage to retraining plans but does bring the cost of Family and related credits down
considerably for the taxpayer. The latter, cost, element in the calculation arises from
the shape of the working population distribution; as support is extended up the income
range the number of people involved rises disproportionately.

A further principle originally enunciated by Sir Norman Fowler in his review of
benefits in the mid-1980s- that the state should only support families with children- is
now adopted by the main parties. The idea is that single people can help themselves,
as can childless couples since both can work. Thus the concept of poverty as the
concern of the state essentially relates to families with children. By eliminating a large
class of recipients, this again validly avoids both the cost to the taxpayer and the
disincentives to those assisted.

With the aid of this analysis we can see that the latest moves on Credits by Labour
have been misguided. The withdrawal range for them has been stretched virtually up
to average earnings. Also, in order (mistakenly as we have seen) to create an
‘incentive to work’ they have been raised in amount to some 10% or so above
unemployment support levels. Our principles suggest that the support should be cut
back to the unemployment level and that withdrawal rates should be fast, as they were
before 1997.

Housing benefit is in essence, or should be, another Credit. It can be treated similarly.
Currently it is paid to benefit recipients in respect of their actual housing bills, hence
creating no incentive to economise on housing. It would be better instead to pay them
an amount to the value necessary to reach the same level of housing; this should be
withdrawn as above, fast. Families will then all shop around for housing just like
ordinary unsupported families do today.

d) ‘Tax-smoothing’, the appropriate size of public borrowing and the scope for
tax cuts:

*The constant tax rate calculation*

Tax-smoothing is the principle that one sets the tax rate at whatever constant level
into the indefinite future would pay the government’s bills. What would this constant
tax rate be? It turns out (we will omit the technicalities here but they can be found on
my webpage in the longer version of this paper) that it would be a rate sufficient to
pay for average government spending as a proportion of GDP and also to keep
government debt from rising as a proportion of GDP. This last implies that taxes must
cover debt interest adjusted for inflation and also less an allowance for growth
(because growth reduces debt as a proportion of GDP).

To illustrate the idea of tax-smoothing in a practical way, consider what will happen
under this formula if there is some unexpected shock- say a recession or a public
spending crisis (a war perhaps)- which raises spending or lowers the yield of taxation.
Then the implication is that the tax rate should only change by the implied permanent
worsening of the finances. What is this? Suppose taxes fall by £20 billion for a year
and then are expected to recover completely. Then debt will rise by this amount;
interest costs will rise by £20 billion times the real interest rate of 5% say, ie £1
billion p.a. This is then how much the flat tax rate should be raised to yield—ie roughly 0.2 pence (on our assumed income tax base). The implication of tax-smoothing is that public debt fluctuations are used to ‘smooth tax rates’—and that it should NOT be an objective of policy to pay off debt for its own sake (indeed public debt is necessary for the proper working of the private savings and pension markets.) In practice, one may want to qualify the tax-smoothing principle a bit over the business cycle— for demand or supply reasons — but as a basic benchmark for long periods of time in considering where one should be pushing tax rates, it is highly robust.

Another key practical implication of tax-smoothing is that the relevant cost of public spending is the whole future stream of spending not just the amount being spent today. Hence for example if reform to public services were instituted with the effect of causing economies over a fairly long period of time, then these economies can be counted today in setting tax rates; of course delayed economies in this do not count as much as immediate economies because one has to pay interest on the debt created by the delay. But they do count to some extent. What this means is that borrowing can rise to take the strain of lower taxes until the benefits of spending reforms work through.

The ‘scope’ for tax cuts— the Laffer Curve and growth effects

Another important implication of the tax-smoothing formula is for the extent of tax cuts that can be afforded. Since the formula looks forward to the full path of foreseeable spending and tax revenues, plainly the effects of any policy change on that whole future path is of vital importance to the calculation. It makes no sense to exclude from it anything other than the current situation minus the obvious ‘direct’ effects of the tax cut, as was Conservative policy in the run-up to the last election. It would only do so if there was no theory or evidence available on such effects. However since the Reagan and Thatcher periods in the US and the UK a mass of work has been done on these effects and the consensus has changed within the economics profession to one of cautious acceptance that there are significant effects both on net revenues in the short to medium term and on the growth rate of the economy.

The first, or ‘Laffer effects’ (after Professor Arthur Laffer, their proponent to the Reagan administration, and then at Chicago University), are the fairly rapid (i.e within 2-4 years) effects on the supply of work, effort and tax avoidance of lower marginal tax rates. These effects create a ‘net revenue recovery’ or ‘back flow’ partially offsetting the loss of revenue from cutting tax rates. For example in a study for the UK (‘The Poverty Trap and the Laffer Curve - what can the GHS tell us ?’, Oxford Economic Papers, 43, 1991, pp. 245-279) Paul Ashton and I found that the response to the top tax rate of higher earners’ labour supply was approximately 1% for a 1% cut in the top marginal rate. Using this response we were able to replicate the effect on tax revenues of Nigel Lawson’s cut in the top rate from 60% to 40%. Further down the income distribution the proportional response fell- the average response was about half of 1%. Using that would imply that for example cutting the top overall marginal tax rate by 10% would cause a net loss of revenue of only half the ‘direct’ amount.
The second set of effects, on growth, are potentially more important still. These have come into focus from research in the past decade into ‘endogenous growth’ (i.e. the study of how government policy on spending and taxation can affect growth). A large number of empirical studies have found an effect of tax rates on growth. Empirical evidence alone might be questioned on the grounds that other mechanisms might have raised growth and reduced taxes. However economic theory too has made progress in identifying the causes at work. One is the interaction of the effect of lower tax rates in stimulating labour supply with the effect of higher employment on learning by doing (the more people work the more they learn); this extra rate of knowledge acquisition raises productivity growth. Another effect is on risk-taking and entrepreneurship; lower taxes mean that individuals and firms will take more risks to get extra income which will mean more innovation and so higher productivity growth at the level of the economy (at this level individual risks cancel out; rather like competition which causes individuals to lose out to others while benefiting society as a whole).

If we turn to the quantities involved, the typical response found in empirical studies (for a survey and discussion of these results see my ‘Public Spending and growth’, with Jiang Wang, available on my webpage) is for the growth rate to rise by one third of the proportional cut in marginal tax rates. For example if the marginal tax rate fell by 10% on average across the economy (from 40% to 36% say) then the growth rate would rise by 3.3% (from 2.5% to 2.58% per annum say). This may not sound much; but of course it is compounded from year to year, steadily raising revenue. Or one may look at it from the viewpoint of spending: if government spending programmes are kept the same as before, this higher growth implies that they will fall steadily as a fraction of GDP, thus enabling tax rates to fall. The exact amount can be found from our formula. It runs out that the permissible new tax rate can fall by a substantial fraction. To illustrate the formula numerically, take the case where the average marginal tax rate is cut by 10% so that the growth rate rises to 2.58% p.a.. The average tax rate as a proportion of GDP can now fall by 6% of GDP, which is no less than £60 billion per year! One can think of this as the permissible initial deficit after the tax cut; by implication this will be whittled away by growth until eventually the higher revenues would be sufficient to keep the debt/GDP ratio steady again.

Now of course one might well wish to be more cautious than this but the point remains that there is substantial scope to run deficits prudently in the context of cuts in marginal tax rates. One of the main worries of those who have discussed a flat tax is that it would require raising taxes on those on lower than average incomes, in order to keep the direct tax yield constant. However, there is no need for this under our perspective here. In effect all the key benefits of flatness can be introduced simply by cutting the top income tax rate down to the desired flat rate and leaving the lower rates (including the tax credits as reformed above) alone. Much of the lost tax revenue would be recouped quickly via the Laffer effect; the rest would be financed by borrowing against the higher growth effects.

**Taxes other than income**

National Insurance is not actually in its entirety a tax but a payment in return for an entitlement, viz the second supplementary pension and insured unemployment benefit. Furthermore one may ‘contract out’ of part of it in respect of this second pension- as we have seen all those over average earnings should logically do.

It is nevertheless in respect of what cannot be contracted out of in essence a tax since it is a compulsory payment in exchange for general government spending. Notice however that it is very close to flat rate on ‘earned income’. There is a ceiling on the amount of contributions the employee pays but none on what the employer pays. There are thresholds to both. Applying the flat rate principle (but keeping thresholds) means that the employee rate should be uncapped. NI would not be ‘rolled into income/consumption tax’ because it is paid only by the non-retired as a contribution to pensions (which may be contracted out, a principle that should be retained)

VAT, Customs and excise are all consumption taxes. Excise taxes are large imposts on items in highly ‘inelastic demand’ (i.e where higher prices cause little reduction in demand); as such they do not violate the Ramsey principle because this refers to items with the same general elasticity of response. In fact it makes sense to levy taxes on inelastic items because they yield extra revenue without much altering people’s spending patterns, which is what causes economic costs. As for VAT it is not all-inclusive at the same rate which it ought to be to match up to the flat consumption tax principle. It would be best if it could be extended and the rate levelled. However it is not that far from matching up.

Capital gains tax is part of the income tax that would essentially disappear on moving it to a consumption basis, as explained earlier. Only if capital gains were partly spent would they be taxed.

Inheritance taxes would go. Only if inherited wealth was spent would it be taxed just like other consumption. The reason is simple: the fact that wealth is inherited makes no difference to the point that taxing it implies overtaxing consumption of it, just as the taxation of income on savings does. Taxing assets on the accident of death is in some ways an even worse tax than taxing the income of savings because it is unpredictable. Uncertainty can be a severe disincentive to investment and enterprise.

Corporation tax was, before the abolition of ACT, a rough approximation to an ‘imputed tax’ on dividends. This meant that when profits were distributed to shareholders any corporation tax paid on them that year was returned to those shareholders. The main exception was foreign shareholders whose treatment varied with double tax agreements. Since the abolition of ACT, corporation tax has become simply a tax on company profits, with foreign companies being able to claim back certain amounts via double tax agreements. Because of these agreements this tax has become a lawyers’ paradise. However the tax itself is economically damaging because it penalises the return on capital. Because capital is free to flow nowadays across borders without exchange controls this in practice means that it has to recover this cost from consumers and so it is passed on in prices. But the relative cost of capital and labour is distorted by the tax, creating a wasteful incentive for firms to use less capital and more labour. So corporation tax can be thought of as like an inefficient sales tax.
Lawyers mesmerised by the sums they get back for companies via double tax agreements from foreign Treasuries argue that corporation tax should be kept in order that the Treasury can obtain corporation revenues from those foreign Treasuries instead of their clients paying. This is a doubtful argument. True; eliminating corporation tax would eliminate these receipts from foreign Treasuries. But it would also stimulate activity by withdrawing a distorting tax. One way forward would be to keep the tax as one paid by corporations and thus eligible for double tax agreements; but to levy it as a value-added tax which would retain its revenue qua consumption levy while eliminating its distortionary impact.

Finally, those miscellaneous taxes like stamp duty and airline tax. We discussed these above. Taxes on transactions are in general poor taxes since they do not correspond to consumption values. If they caused no change in behaviour patterns they could be justified on the same basis as excise duties like the beer one. If they corresponded to economic costs (as with the environment), that could be another justification. However in the absence of these they should be converted into consumption-based taxes- e.g. to tax housing consumption the imputed rent value of housing could be incorporated into VAT in place of stamp duty.

What we have seen in this review of the tax system is that existing taxes can be made to conform with the flat rate consumption principle with some modest ‘tweaking’. We have also noted that some could be left alone without much damage to the flat rate principle.

The bottom line of this discussion is that it is nonsense to think about tax reform as if every change must be balanced in its direct tax effects by other changes. This nonsense which has governed recent Conservative thinking might unkindly be termed Micawberist Myopia. It is a needless concession to the enemies of reform because of course it makes reform almost impossible in practice. What I have argued here is that a cautious application of the tax-smoothing principle, in conjunction with allowance for Laffer and growth effects, would allow wide-ranging tax reform to be both practicable and responsible.

**Practical steps- how do we get from here to there?**

We wish to see the application of the flat rate consumption principle. However this can be done by a process of successive approximation hinted at in our earlier discussion. Existing taxes can be tweaked or left alone. The main effort can be directed to reforming income tax. Probably the most important element in the flat rate tax is the shift to a consumption base which includes the elimination of capital gains and inheritance taxation and the inclusion of imputed consumption of owner-occupied housing. The second most important concerns the abolition of the top rate; this could at once be cut from 40% to 22%. Equally important is a rise in thresholds to cover the existing lower rate band, together with the reform of tax credits; the main impact on the incentives of poor people comes not from taxation but from benefits discussed above.
There will plainly be an immediate loss of revenue from the cut in the top rate from 40% to the standard rate of 22%. According to the standard 2005/6 tax ready reckoner (IFS Green Budget, January 2005) the cost of this would be £21 billion, about 2% of GDP. However there would be large offsetting gains in revenue from bringing imputed owner-occupied housing into the tax base. In addition the Laffer effects discussed earlier are likely to recover much of the lost income tax revenue, if we remember that top rate taxpayers had the highest elasticity. Furthermore, to calculate the growth effect we note that this cut in the top marginal tax rate of about a half would reduce the top marginal rate from overall taxation by about a third. Top rate taxpayers contributed 55% of total income tax revenue and 37% of income in 2005/6. This in turn implies that the effect on the (income-weighted) average marginal tax rate is a cut of about 12%. The permitted fall in revenue due to the growth effect would therefore very easily cover even the direct loss of revenue as discussed earlier.

The sticking point for discussions of tax reform has invariably been: how can we pay for it without upsetting numerous people? However, as this discussion reveals, it turns out to be far less problematic than is usually made out. The following table sets out the key changes and their costs in revenue.

### Table of key changes in revenue

<table>
<thead>
<tr>
<th>Change</th>
<th>Cost (£ billion)</th>
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<tbody>
<tr>
<td>Switching to a consumption tax base</td>
<td>-15</td>
</tr>
<tr>
<td>Abolition of CGT, IHT, stamp duty</td>
<td></td>
</tr>
<tr>
<td>Tax at 22% on 6% yield from owner-occupied housing</td>
<td>+33</td>
</tr>
<tr>
<td>(0.22x 0.06x £2500 billion)</td>
<td></td>
</tr>
<tr>
<td>Reduce income/consumption tax rate to 22%</td>
<td>-21</td>
</tr>
<tr>
<td>Raise income tax threshold to cover 10% band</td>
<td>-6</td>
</tr>
<tr>
<td>Uncap NI employee rate</td>
<td>+8</td>
</tr>
<tr>
<td>Cuts in tax credits</td>
<td>+1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>-</td>
</tr>
<tr>
<td>Laffer effect</td>
<td>+12</td>
</tr>
<tr>
<td>Growth effect (equivalent cut in average tax as percent of GDP of 6%)</td>
<td>+60</td>
</tr>
<tr>
<td>Cut in basic consumption tax rate (by 7%) to 15%</td>
<td>-25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>+47</strong></td>
</tr>
</tbody>
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(permitting gradual further reductions in flat tax rate and other taxes over succeeding years)
The main point that comes out of this is that tax reform would be extremely popular in all social groups. It would be paid for effectively by the rise in employment rates and in growth.

Conclusions

Principles of reform can suggest quite clear paths ahead for tax reform without cutting the planned growth of state spending. Tax can be simplified, made neutral across time and activity, and turned into a flat consumption tax. Benefits can be targeted closely to those in need at much reduced cost to the general taxpayer and so to the workings of the economy. All this can be done in a way that is also highly appealing politically.